

Huaqiao in the Middle Kingdom

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Key Market Indices

	Value	1M	YTD
HSI	21,109	(0.6)	(3.5)
HSCEI	12,181	(1.7)	(4.8)
HSCCI	3,997	(2.5)	(1.5)
MSCI HK	9,245	(3.0)	(0.9)
MSCI China	62	(2.6)	(4.0)
FTSE-Xinhua A50	9,977	(9.4)	(17.0)
Shanghai Comp	2,871	(7.7)	(12.4)
CSI 300 (SHSZ 300)	3,067	(8.3)	(14.2)

	P/E (x)		EPS (chg %)	
	10E	11E	10E	11E
HSI	14.7	13.0	18.6	12.9
HSCEI	13.3	11.7	21.2	13.3
HSCCI	15.8	13.4	29.9	17.6
MSCI HK	16.7	15.2	12.3	9.8
MSCI China	14.2	12.9	20.7	10.1
FTSE-Xinhua A50	16.3	14.2	15.2	14.5
SHSZ300	18.2	15.4	24.6	17.6
SHCOMP	18.5	16.3	24.5	13.6

Sources: Bloomberg, BOCI Research

After more than eight years at BOCI, this will be my last issue of HQMK, and I thank everyone for their kind support over the years. I take a final look at the outlook for markets, which I think will be very poor over the next two months, and examine the future of China's economy. I predict the "bao ba" or "protect eight" target for GDP growth will become "wei wu" or "maintain five" by 2012.

■ China-HK recommended stocks:

In – China Green, Huabao.
Out – China Oilfield Services, Poly (HK).

■ HK-HK recommended stocks:

In – Sa Sa International.
Out – SCMP Group.

■ China-A recommended stocks:

In – Beijing Capital Tourism, Silver Plaza.
Out – Poly Real Estate, China Vanke.

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Alberta Bound

"I'm Alberta bound, this piece of Heaven that I've found. Rocky mountains and black fertile ground, everything I need, beneath that big blue sky. Doesn't matter where I go, this place will always be my home. Yeah I've been Alberta Bound for all my life, and I'll be Alberta Bound until I die" – Country singer Paul Brandt, "Alberta Bound", 2004.

As many of you have heard through the grapevine by now, this will be my final installation of *Huaqiao in the Middle Kingdom*. I wish that someday, it may be worth as much as a near-mint condition #1 issue of *Superman* (US\$440,000). In reality, it will probably fade into obscurity like most investment banking research. As there is little resale value, I will spend this issue reminiscing about my 16 years in Hong Kong, the investment business and give my final thoughts on markets and China. Truth be told, I can hardly believe it myself as I have been at BOCI now for over eight years, which represents half of my investment banking career. There is a surreal aspect to my day-to-day routine now as I come to terms with the fact that this stage of my life is nearly at an end. But let us not think of this as the end of a long road, but the beginning of a new and infinitely more interesting journey.

The global finance and investment industry is, in my opinion, one of the most interesting and financially rewarding on the planet. It is also one of the most stressful and time-consuming; sell-side investment banking simply eats people up and spits them back out. Many pay the price through poor lifestyles: divorces, a lack of a family or social life outside of client dinners and excessive drinking, which often leads to ill health. Some, including a 28-year old colleague of mine in Taipei 15 years ago, paid the ultimate price. The Japanese have a word for this called *karoshi* (過勞死) which literally means "death from overwork". In the early years of my career, I thought that my suffering *karoshi* was a distinct possibility.

I used to have a tongue-in-cheek test to see if prospective employees were hardworking. The lobby of Exchange Square in Hong Kong has a long escalator leading to the main foyer that is flanked by a waterfall on both sides. Most casual observers would say that the bricks on the walls are brown. They are in fact orange, but unless you went home in the wee hours, you would not know this as it takes several hours for the wall to dry after they turn the waterfall off late at night. Anyone who has worked in Exchange Square and answered the question "what colour are the bricks behind the waterfall" with brown was clearly guilty of never having plodded home well after midnight. But I survived and somehow managed to build a career while maintaining some semblance of a work-family balance. For this, I am eternally grateful to my wife and two daughters who have stood by me through thick and thin. In fact, there was a *SCMP* article in September 2001 following 9/11 that chronicled my cancellation of a roadshow to New York because my second daughter was born on 5 September. Nomura's offices are across the street from Ground Zero.

A month later, I was unemployed and nearly ended my investment banking career early. But three months after that, I arrived at BOCI after prodding from several friends who sold me on the concept that China needed its own world-class investment bank and that they needed people of my background. It was possibly one of the best career decisions of my life as we have managed, in a short span of eight years, to build one of the top three investment banks in Hong Kong (whether measured by secondary trading or primary offerings). I have no real regrets as the investment banking industry has been good to me despite the fact that I have managed to suffer through not one, nor two, but three financial crises during my career. That is an amazingly bad track record considering that someone who has worked on Wall Street for the past 30 years likely enjoyed 25 years of bull markets before the post-Lehman Brothers disaster hit in 2007. Experience does matter, but it cannot be measured in number of years alone. As Warren Buffett said, "Can you really explain to a fish what it's like to walk on land? One day on land is worth a thousand years of talking about it, and one day running a business has exactly the same kind of value."

Bill Gross of Pimco echoed similar thoughts in March when he commented that, "What I think is close to unique about investment management is that it's really about the stewardship of capital markets, and that time weeds out the impostors, leaving the aging survivors to appear as wise and capable of guiding clients through the next crisis – whatever and whenever it might appear. That assumption has some logic behind it, but critically depends on the investor truly enjoying the game and – of course – holding on to at least a few billion brain cells that keep him from being obviously senile or at least being accused of having 'lost it.' An investment manager at 65 fears both. I remember having met John Templeton on the set of *Wall Street Week* nearly 20 years ago. I was a young buck and he was – well – on the downside of his career. About the only thing he could tell Rukeyser, it seemed to me, was to cite the rule of 72 and proclaim that stocks and the Dow would be at 100,000 by 2030 or something like that. Now, approaching that same age, I'm a little more understanding and a little less young-buckish. If that was his only lesson, then it was a pretty good one I suppose – Dow 5,000 and the New Normal notwithstanding. And despite the strikingly premature departure of Peter Lynch and the transition of George Soros to philanthropic pursuits, there are some great examples of longevity in this business. Warren Buffett, of course, comes immediately to mind, as does Dan Fuss of Loomis Sayles, who may wind up as the Bear Bryant or Adolph Rupp of the bond business. Peter Bernstein, who passed away but a few months ago, was a brilliant writer and commentator on the investment scene well into his 80s. So there's hope for you still, James Carville, and, I suppose, for me as well. It's quite a privilege to be a 'steward of the capital markets,' to have done it well for so long and to still be able to walk up to the plate and face a 95-mile-an-hour fastball. Or, is it a curve? Time will tell."

This raises a very important point; namely, “do I truly enjoy the game?” I still remember stepping off the plane in 1994 and often looking across the harbour from Kowloon to Hong Kong’s high-rise skyline and thinking to myself, “I only want a tiny, tiny small piece of this; that would be enough.” But there were times when I seriously questioned my career choice; notably during a particularly bad stretch at my second job as regional banking analyst at W.I. Carr when a nasty boss combined with the Asian Financial Crisis made my life hell. I remember one weekend, shortly after the birth of my first daughter, when I spent a few hours cleaning the air conditioning grills in my home only to come to the conclusion that this manual labour gave me more satisfaction than my work. In hindsight, it was the company (particularly the politics) that gave me such a strong reason to pause; not the job itself. Warren Buffett has a similar view when he said, “If you gave me the choice of being CEO of General Electric or IBM or General Motors, you name it, or delivering papers, I would deliver papers. I would. I enjoyed doing that. I can think about what I want to think. I don’t have to do anything I don’t want to do.”

I have also been blessed to have an active and ever-developing career. From the first week that I began looking at Hong Kong banks, I had reason to question just how efficient capital markets were. At that time, I did not know a thing about banks, financial modeling or forecasting. The *Wall Street Journal* called me asking for an opinion on Union Bank which was about to release its results. This fine publication then proceeded to quote me in the article as an “industry expert” when I clearly had no clue what I was doing. But I did learn fast, and my career encountered new challenges as I moved to looking at the whole Asia-Pacific region and then finally to focusing on China and writing strategy. I think that if I had spent the last 16 years only analysing Hong Kong banks, the job would have gotten boring really fast.

Thus, I have led a very fulfilling career and have many “war stories” to tell; some of which are investment-related but many just interesting. I have flown all over the world numerous times and have visited many places that most people only dream of seeing. In fact, I am writing this in the lounge at the Grand Hyatt Hotel in Shanghai with its panoramic view of the Bund and the Shanghai skyline while watching a fireworks show to celebrate the start of the 2010 Expo in the city. For these experiences I am thankful, but at the same time, I am also weary of spending so many hours at 30,000 feet in an aluminium tube flying near the speed of sound.

I hope that readers who have followed my missives over the years have benefitted both from my experiences and insight. At the very least, I hope you have found my stories and analyses entertaining and thought-provoking. And for those of you who find that they really miss the monthly meandering thoughts of the *Huaqiao in the Middle Kingdom*, tell the powers that be at BOCI that you want him back, as I could possibly be convinced to keep doing it part-time – but do not forget to tell them that they should pay him as well...

When “Bao Ba” becomes “Wei Wu”

“In short, it is still a big question whether we can prevent the economy from going downhill and quadruple the GNP by the end of this century. I am afraid that for at least the next ten years this question will keep us awake at night. If China wants to withstand the pressure of hegemonism and power politics and to uphold the socialist system, it is crucial for us to achieve rapid economic growth and to carry out our development strategy” – Deng Xiaoping, 3 March 1990

Amazingly, while most investors in China know of the concept of “bao ba” or “protect eight”, almost nobody knows where this phrase originated. In fact, the theory that China needs to maintain GDP growth of 8% to ensure employment and social stability comes from Deng Xiaoping, who made these comments in 1990 following the events of 6/4 in Beijing. “We should pay particular attention to the question of the drop in the economic growth rate. I am worried about this. If our economy grows at the rate of only four or five per cent a year, it will be all right for a couple of years. But if that rate continues for a long time, it will represent a decline compared with the growth in the rest of the world, especially in the East Asian and Southeast Asian countries and regions. Some countries have problems basically because they have failed to push their economy forward. In those countries people don’t have enough food and clothing, their wage increases are wiped out by inflation, their living standards keep dropping and for a long time they have had to tighten their belts. If our economy continues to grow at a slow rate, it will be hard to raise living standards. Why do the people support us? Because over the last ten years our economy has been developing and developing visibly. If the economy stagnated for five years or developed at only a slow rate -- for example, at four or five per cent, or even two or three per cent a year -- what effects would be produced? This is not only an economic problem but also a political one. When we work to improve the economic environment and rectify the economic order, we should therefore try to quickly attain an appropriate growth rate. What rate is appropriate? An appropriate rate is one that will enable us to redouble the GNP in this decade. To calculate the target GNP for the year 2000, we have to use constant, unexaggerated 1980 prices as the base and take into consideration the anticipated population growth. That will tell us how much the economy has to grow every year. Is this method of calculation correct and reliable? We must calculate honestly whether we can quadruple the GNP with an annual growth rate of six per cent. After all, the actual increase in GNP will be reflected in the standard of living. The people can tell very well what their standard of living is. We leaders can never calculate it so well as they do; their judgment is most accurate.” Simple calculations tell us that for China to double its GDP from 1990 to 2000, the average rate will be somewhere just below 8%. But for the Chinese, eight is a very lucky number and thus the “bao ba” policy was born two decades ago.

Five years ago in June 2005, I wrote about China's growth prospects when I observed, "Hardly a day passes nowadays without some new doom-and-gloom merchant warning of an 'impending collapse' of China's 'overheated economy'. There has always been a tendency for investors to be either overly optimistic or pessimistic about China when the reality has generally fallen somewhere in between. However, we believe that the pendulum of consensus has of late swung decisively in favour of the pessimistic camp, which includes domestic investors, given that A shares have hit a seven-year low... For the record, we believe that there will be a slowdown in the Chinese economy over the next several years. Where we differ is on how severe the downturn will be (we expect it to be modest) and what implication this has for equity investors."

Interestingly, I could write exactly the same paragraph today and it would not look out of place. Overheating and imminent collapse of China are still the topics du jour for many domestic and foreign investors.

I then went on to expand on four points to justify my conclusion that things were just fine. I am revisiting my original analyses and conclusions from five years ago and updating them (and the data) slightly to see what went wrong, what has changed, and what I think the future now holds for China's economy. First of all, it is important to recap my four major points that I observed five years ago:

- There is no Chinese economic "miracle".** Chinese growth is actually in the middle of the pack, being slightly faster than that of ASEAN countries during 1979-97, but slower than North Asian countries during their rapid growth phases.
- Why China cannot use the Asian export-led growth model.** Due to its sheer size, China cannot depend solely on the North Asian export-led growth model to sustain rapid growth. It must develop domestic consumption that, in turn, stems from auto and house sales.
- China's over-leveraged investment-driven growth model.** The high gearing of the Chinese economy is incorrect, while the fragility of the Chinese banking sector is overstated. The health of the banking sector is actually improving and its ability to allocate capital better going forward will be enhanced and result in steadier economic growth.
- Disconnect between stocks and economic performance.** Strong economic performance has not translated into a similar showing in stocks primarily because earnings have historically not followed through, but this has changed since 2000 with earnings rising rapidly. A shares remain in a funk primarily due to a de-rating of the market that was initially overvalued.

For point number one, it has proven to be true, and there is no reason to believe that it will change in the future. China's economic development and growth are not exceptional when put in the context of the Asia-Pacific region. The only thing that separates China from its neighbours is its sheer size. It is one thing for 125m Japanese on a few small islands to develop rapidly. For a country with over 1.3bn people and a land area larger than America, things are more complex.

As for point number two, it is now the mainstream view that China cannot continue to use the export growth model. Five years ago, I used the table below to illustrate my view, and I have updated the figures to 2009. China now exports US\$901 per capita while Japan exports US\$4,553 per capita, with the rest of Asia being even higher. For China to reach Japanese levels, it would have to expand exports five-fold or increase total exports from US\$1.2trn to US\$6trn. Given that total US imports were US\$1.6trn, this seems a rather unlikely outcome. In simpler terms, the export-led growth model does not work for China because while 40m Koreans or 20m Taiwanese can export their way to relative prosperity by selling to 330m rich Americans and a similar number of Europeans, there is no way that 1.3bn Chinese can do the same.

Imports and Exports Per Capita (2009)

	GDP (US\$ bn)	GDP/capita (US\$)	Exports (US\$ bn)	Imports (US\$ bn)	Trade Balance (US\$ bn)	Exports/capita (US\$)	Imports/capita (US\$)
China	4,758	3,566	1,202	1,006	196	901	754
Japan	5,049	39,573	581	551	30	4,553	4,316
Korea	800	16,450	364	323	40	7,472	6,641
Taiwan	357	15,373	204	175	29	8,763	7,514
Hong Kong	209	29,559	330	353	(23)	46,672	49,920
United States	14,266	46,443	1,057	1,604	(547)	3,441	5,221

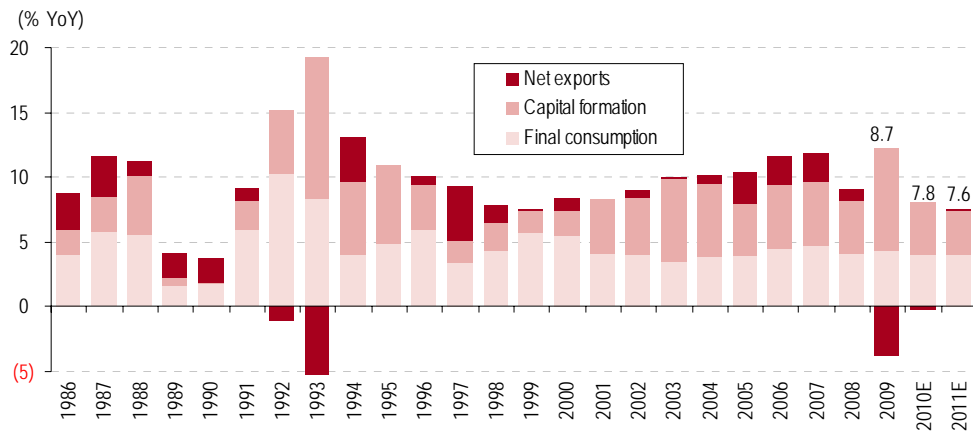
Sources: CEIC, BOCI Research estimates

Point number three about the sustainability of China's over-leveraged investment growth model still remains valid, although it is weakening. It is interesting to see how all those expert economists who claimed that China's dependence on investment-led growth would lead to collapse five years ago have been proven wrong by history. My argument that urbanisation (now at only 45% and rising at 1% per year still) was the key driver continues to be valid to this day. My other claim that there was little debt and the banks were much healthier following their restructuring and recapitalisation around 2005 also remains true, although this is starting to get worse as time goes on and as the asset bubble continues to grow bigger. But at 13-14% of GDP, mortgage lending in China is by no means excessive yet.

The last point about the disconnect between the stock market and economic performance remains valid to this day, although the correlation between the two is starting to get better as financial markets gradually mature. Moreover, the massive over-valuation that led to the five-year bear market in A shares between 2000-05 does not really exist today. While stocks in China may not be dirt cheap at this point in time, neither are they ridiculously overpriced. However, that may change quickly given how rapidly markets have been selling off over the past few weeks following the announcement of aggressive new policies to reign in the property market.

So what do I think about China's future? Well, let us examine the three drivers of China's GDP: trade, investment and consumption.

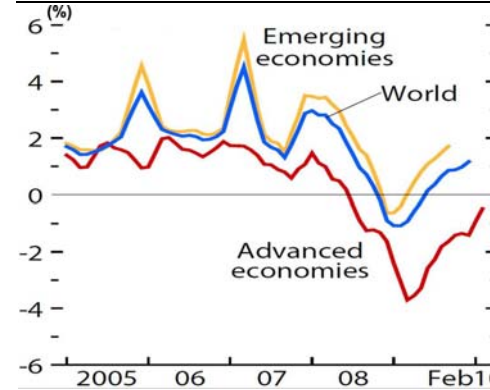
Historical GDP Growth Breakdown for China



Sources: NBS, BOCI Research

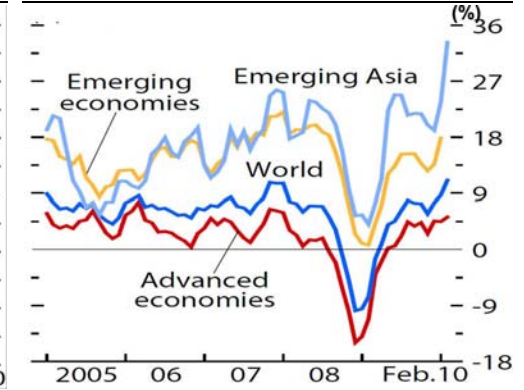
For the trade side, as I discussed earlier, I believe the era of export-led growth for China is already at an end. Given that China is already the largest exporter in the world, having overtaken Germany last year, it is doubtful that rapid growth can be sustained for much longer. Moreover, with the developed economies in recession (or in a very weak recovery if you want to be optimistic) with soaring public debt levels and high unemployment, it is clear that the old model of America borrows money from China to consume is gone. It is also interesting to note that consumption in the emerging markets, especially in Asia, are surging, although the base is currently too low for it to pull overall global demand independent of a recovery in the West. Thus, I expect net exports to be zero going forward, and this is an optimistic view given that they could very well decline.

Changes in Employment



Source: IMF

Retail Sales Growth



Source: IMF

As for fixed-asset investment (FAI), the underlying driver of this is urbanisation, and this trend continues unabated. Five years ago, I had this to say about FAI, "While most investors think of people buying beer and soap as domestic consumption, in reality the two most significant consumption items are housing and autos. This is why, in the US, statistics on housing starts and auto sales are widely followed and are separately reported from general retail sales data. Strangely, high housing prices and an over-stretched consumer seem to be reason for celebration in the US ('consumer confidence and spending is high'), but, for China, it seems that increasing home ownership is a 'bad thing' because the economy is FAI-driven and not consumption-driven. Call me an economic heretic, but I consider housing to be the single biggest 'consumption' undertaking of any individual, but economic nomenclature says that it has to be classified as an investment."

Urbanisation Ratios

(%)	China	Korea	Japan	UK	US	Thailand	Malaysia	Philippines	Indonesia	India
1950	12.5	21.4	34.9	79.0	64.2	16.5	20.4	27.1	12.4	17.3
1955	14.2	24.4	38.9	78.7	67.2	18.0	23.4	28.7	13.5	17.6
1960	16.0	27.7	43.1	78.4	70.0	19.7	26.6	30.3	14.6	18.0
1965	17.6	32.4	47.4	77.8	71.9	20.2	29.9	31.6	15.8	18.8
1970	17.4	40.7	53.2	77.1	73.6	20.9	33.5	33.0	17.1	19.8
1975	17.4	48.0	56.8	82.7	73.7	23.8	37.7	35.6	19.3	21.3
1980	19.6	56.9	59.6	87.9	73.7	26.8	42.0	37.5	22.1	23.1
1985	23.0	64.9	60.6	88.6	74.5	28.1	45.9	43.0	26.1	24.3
1990	27.4	73.8	63.1	88.7	75.3	29.4	49.8	48.8	30.6	25.5
1995	31.4	78.2	64.6	88.7	77.3	30.3	55.6	54.0	35.6	26.6
2000	35.8	79.6	65.2	88.9	79.1	31.1	61.8	58.5	42.0	27.7
2005	40.5	80.8	65.7	89.2	80.8	32.5	65.1	62.6	47.9	28.7
2010	45.1	81.9	66.5	89.7	82.2	34.3	68.2	66.1	53.2	30.3

Source: United Nations

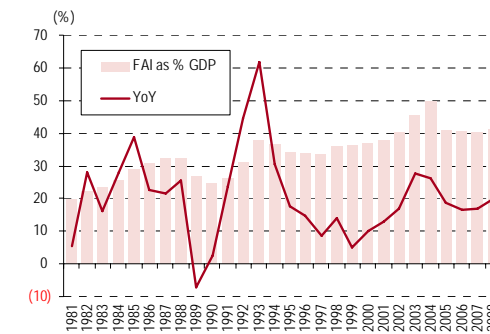
Hindsight is always 20/20 and we now know that high housing prices and an over-stretched consumer is not a good thing (to be fair to me, I kind of always knew that and you could easily read the sarcasm from my comments five years ago). So China faces an interesting conundrum. While housing prices, especially in major cities, seem to be excessive, the consumer is not over-stretched in general and debt levels remain relatively low. Add upon this the overlay of an underlying demand that is running about 10m housing units per year due to urbanisation, and you have a dilemma. I do not think there is any easy solution to this as free markets would tend to drive up housing prices and debt levels given there is a clear imbalance of supply and demand in the cities, but the government does not want this to happen. Perversely, the government's attempts to reign in prices will have the opposite effect over the medium-term, which is increase the scarcity of supply and thus put upward pressure on supply if it tries to artificially keep prices low.

To me, the only possible solution to this dilemma is to do what Hong Kong and Singapore have done: provide huge amounts of cheap government housing to the less fortunate parts of society. Between the Housing Ownership Scheme and Housing Authority rental schemes, about half of Hong Kong lives in some form of subsidised housing. Over 80% of Singaporeans live in Housing Development Board accommodations. Sadly, we are cursed in Asia and almost all doomed to live in tiny concrete high-rises due to a large population being concentrated into a relatively small land area. If you total up all Europeans and their offshoots overseas, there are probably about a billion Caucasians, but they managed to occupy the Americas (both North and South), Europe, Russia, parts of Southern Africa and Australia; or essentially everything except most of Africa and about half of Asia. While China, with its over 1.3bn population, technically has a land area slightly larger than America, only the eastern 1/3 of the country is optimally habitable with much of the western 2/3 being either desert or mountains. America and its 330m people have vast areas in the east, west, south and mid-west that are habitable with only a small patch of desert and mountains that are not. If you do not want to live in small over-priced high-rise apartments, then move to Arizona.

As I wrote five years ago, "I have gone over our argument numerous times previously, but the simple fact is there are somewhere between 20m and 30m people migrating to the cities in China each year, so the demand for housing stock and construction will continue to be strong for decades to come. FAI investment will also, by definition, remain relatively high (FAI retained annual growth rates of over 30% in Japan from 1960-73 and 20-30% in Korea and Taiwan during their expansion periods). This does not mean there will not be bubbles, cycles and corrections (see our April monthly for our view on the Shanghai property bubble), just that investment levels will stay high for a while." This view remains unchanged as the underlying growth in FAI from urbanisation continues.

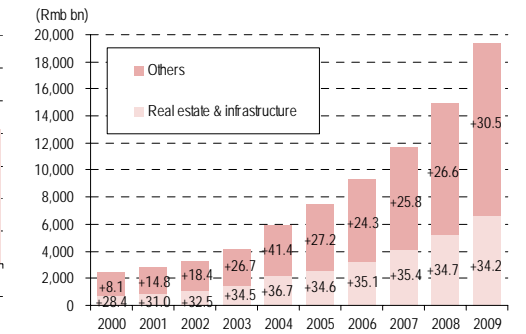
What has changed is the base of comparison. You will notice that the share of FAI as a percentage of GDP rose sharply from 2001-04, which prompted economists to predict that the economy was overheating and would collapse. FAI as a percentage of GDP did drop back to 40% in 2005, but exports more than took up the slack, resulting in very robust economic growth from 2005-08. Then in 2009, with the government stimulus programme in full swing, FAI basically accounted for all the economic growth as the rise in consumption was only sufficient to offset the decline in net exports. But the point remains the same. With such a high base of FAI to begin with, it is reasonable to expect that as the government investment in infrastructure starts to slow down over the next few years, the incremental growth in FAI will begin to decline dramatically. This is not to say that absolute levels of investment will fall, just that the growth rate will start to slow drastically over the next few years.

FAI as % of GDP and Growth Rates



Source: NBS

Urban FAI Breakdown



Source: NBS

Finally, we come to consumption. All economists whether they are foreign or from China now agree that the country must develop its domestic consumption if it is to maintain its economic growth. My only question is how? I personally have not seen any good examples of a government that was successful in forcing the transition to domestic consumption-led growth. Japan, with its all-powerful ministries, failed miserably in the 1980s to foster consumption and only ended up creating a massive asset bubble that ended in 1990 with the results still being felt two decades later. Korea attempted to force credit-consumption following the Asian Financial Crisis of 1997-98 and only ended up with a consumer credit-card bubble that blew up in 2002-03, causing many credit-card companies to either go bust or suffer massive losses. History is full of examples of failed attempts to stimulate a consumer economy in Asia with not a single contrary example of success. The reason for this is simple; consumption cannot be forced as it has a natural growth rate.

Consumption can only be funded in two ways: rising incomes and/or rising debt (or declining savings) to finance consumption. This logic is very simple and very powerful; you can only spend what you have made or what you can borrow or draw down in savings. Let us deal with the latter parts first. I do not know of a single place in Asia where there is a high propensity to borrow for consumption like there is in the Anglo-Saxon world (i.e., America, Britain, Canada and Australia). There is a cultural preference to saving in Asia, and China is no exception as the consumer-credit industry is still in its infancy. People will borrow to buy homes and in case of emergencies, but for the most part, most people will not borrow money to buy things they cannot afford. As for the high savings rate, as I have shown in previous months, the rise in China's savings rate is primarily due to government and corporates, and personal savings rates have been remarkably stable at around 20% for over a decade. Thus, it is unlikely that consumption in China will be driven by either rising consumer borrowing or declining savings.

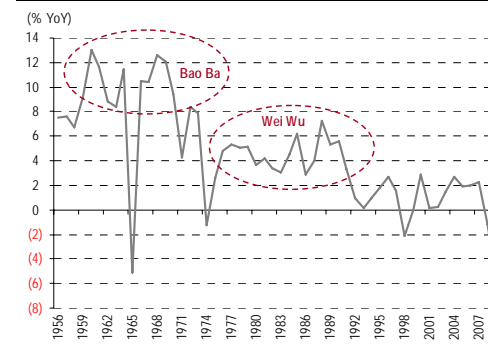
That means consumption in China only rises as salaries and incomes increase. As this has been growing at around 10-20% per annum, it is not surprising that retail sales in China have also been growing at 10-20% per annum as well. Attempts to boost personal disposable income are likely to fail, as few individuals pay tax (so tax cuts will not have the same impact as it does in the West), while large segments of the population fall into the informal or grey economy (think Greece). In fact, I think wage increases of 10-20% are about all that China can manage, as the natural brake on salary growth is the rate of increase of labour efficiency. If wages rise faster than labour productivity, the only outcome is inflation and increased unemployment. The clearest illustration of this is when Germany reunified in 1990. Due to political pressure from unions, wages in the former East Germany were also unified at the same rate as in West Germany, but labour force productivity was only about half the level. The end result was, despite massive subsidies from the West, business bankruptcies, factory closures and rising unemployment in East Germany; a condition which is still present today.

In other words, while I agree that China's future depends on boosting domestic consumption, I disagree that the process can be accelerated dramatically. In fact, I would go so far as to say that the rate of growth of retail sales over the past decade (roughly 10-20% per annum) is pretty close to the natural sustainable rate of growth for domestic consumption in China, as incomes are also growing at this rate. The only way to artificially boost incomes is either through rising property prices and/or large transfers of wealth from the government to the general population. I think that a major increase in government subsidised housing projects such as the economic housing programme would also qualify as a transfer of purchasing power to the household sector. But until this happens, it is clear that domestic consumption will only contribute about 4% annually to GDP growth as it has consistently for the last decade.

A fund manager in London once told me that China's economy is like the bus from the movie *Speed* which, if it falls below 50mph, will blow up. Thus the concept of "bao ba" or "protect eight" is explained as the minimum rate of growth that China needs to employ the 20m peasants that move to the cities every year. But the idea of "bao ba" is increasingly dated, as it was formed 20 years ago when the GDP per capita was US\$500. Now that China is approaching a GDP of US\$4,000 per capita, I think it is entering a stage where growth will naturally slow as the base effect of a "middle-income" GDP comes into play.

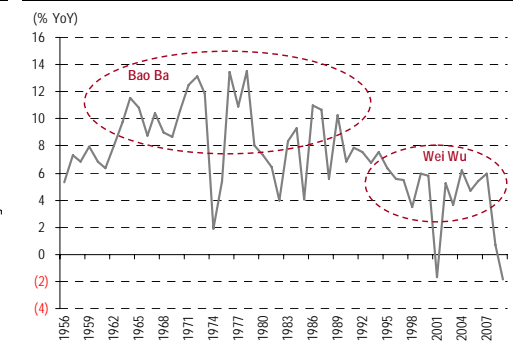
This is a natural development that has occurred in other parts of Asia that developed earlier. Once a country reaches "middle-income" status, which I roughly equate to somewhere between US\$5,000 to US\$10,000 GDP per capita, growth rates naturally decelerate from high single digits or low teens to about 5%. Once a country becomes "developed", which I estimate to be somewhere north of US\$20,000 per capita, GDP growth rates generally slow to 2-3%. As the charts below illustrate, this clearly happened in Japan and Taiwan previously.

Japan Historical GDP Growth



Sources: CEIC, BOCI Research

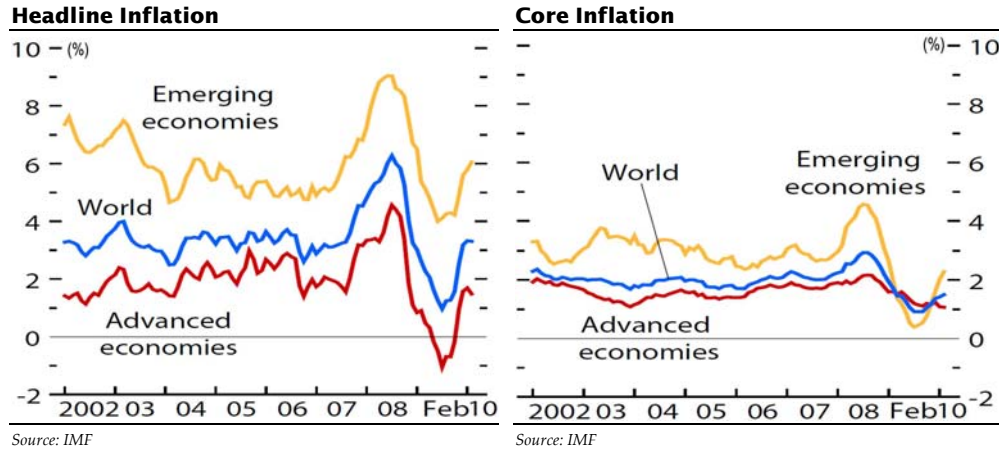
Taiwan Historical GDP Growth



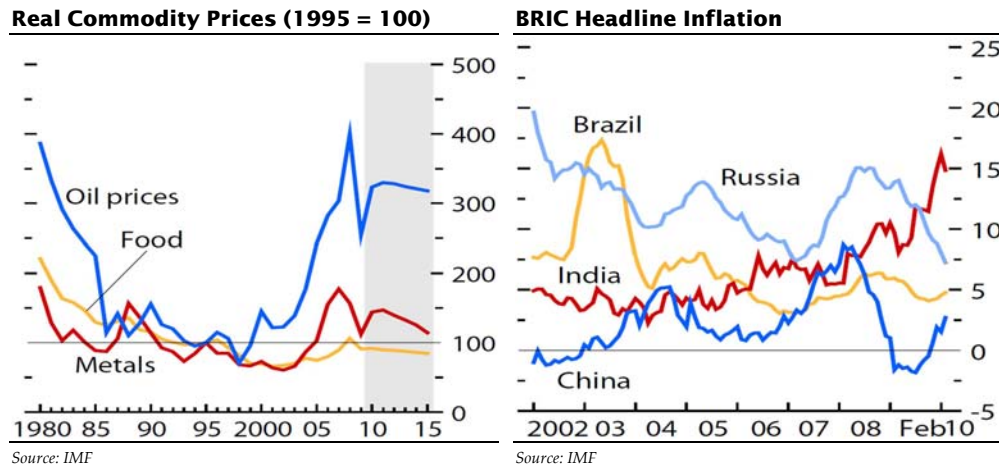
Sources: CEIC, BOCI Research

Thus, I believe that for China after 2012, economic growth will slow to an average of 5% and thus "bao ba 保八" or "protect eight" will give way to "wei wu 维五" or "maintain five". I also want to be the first to put my name to this because if "wei wu" becomes a common term in the future, I would like to get the credit. While some have said this means I am pessimistic about China's future, this is not true at all. All I am saying is that GDP growth will slow. For markets, you will notice that places like Japan in the 1970s and 1980s and Hong Kong in the 1980s and 1990s turned in their best performances when GDP growth slowed to the 5% range. Putting it another way, 8% growth on US\$500 is about US\$40 per year, but 5% growth on US\$4,000 is about US\$200 or five times larger in absolute terms. Thus, while growth rates may slow, the absolute dollar value of the growth will still be very high.

What can go wrong? Well, lots. Everything from natural disasters, a collapse of Greece or some other European country, a sovereign debt crisis in the US, to a Martian invasion could derail this scenario. But for me, the biggest concern I have about China has been and remains inflation. As the charts below show, core inflation in emerging markets is starting to rear its ugly head again while inflation in the West remains subdued.

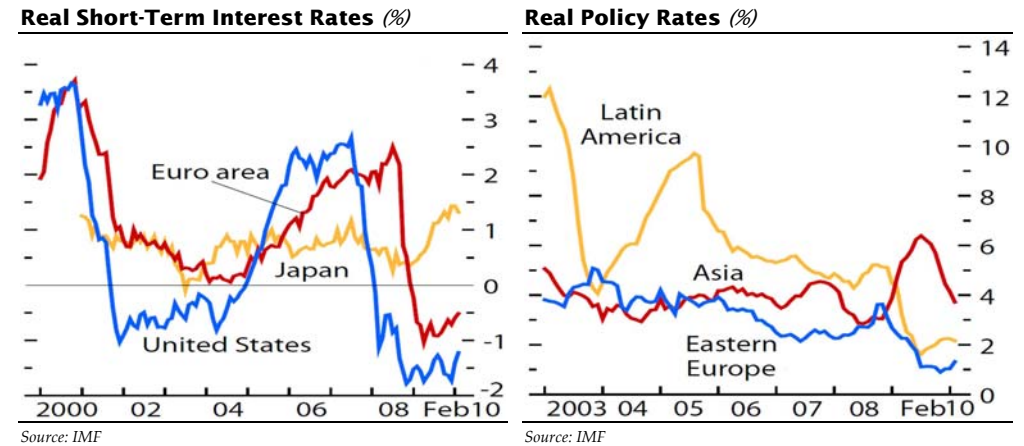


This is not completely unexpected as inflation in emerging economies tend to be much more sensitive to moves in commodity prices than developed countries, and much of the inflationary pressure we have seen so far has been due to rebounding commodity prices (see charts below). In fact, China stands out as being the least impacted by rising inflation amongst the BRICs, but I think this has more to do with the data than a realistic assessment of where inflation levels truly are.



This was illustrated well in the 20 April issue of the *Financial Times*, "Runaway cabbage prices in South Korea are threatening supplies of kimchi, the national dish, as they expose broader inflationary challenges in a food market heavily protected by tariffs... After poor harvests caused by a snowy winter, a head of cabbage fetches more than Won6,000 (US\$5.40), a fourfold surge from the beginning of last year... South Korea's benign headline consumer price inflation, running close to 2 per cent, disguises growing public discontent about the cost of food and fuel."

How China deals with rising inflationary pressure will be the major policy moves that make or break the markets over the next few years. One general conclusion is that the West will keep monetary conditions relatively loose for an extended period of time as there is little inflationary pressure and huge amounts of slack in the economy (i.e., there is a huge output gap in econo-speak). But for China and other developing economies, the need to tighten monetary conditions both through exchange rates and increasing interest rates is rising rapidly. So far, China has concentrated on trying to reign in surging asset prices, specifically property. But if general inflation begins to tick up again as it is showing signs of doing, the policy reaction will be much more difficult.



As I said last month, the problem with tightening monetary policy, whether it be through a higher exchange rate or higher interest rates, is that both result in hot money inflows in the short term, as you create a carry trade given the US dollar is weakening and nominal rates are zero. The more the renminbi goes up and interest rates are hiked, the bigger the carry, thus exacerbating the inflow of funds and creating the exact opposite impact of what the tightened monetary policy is supposed to accomplish.

My Big Fat Greek Bailout

“You can now get a higher yield from the Greeks than you can from the Argentines, which shows you how dangerous Greek debt has become.” – Bill Bonner, 30 April 2010

Not only is Greek debt more risky than Argentinean and Venezuelan, it even pays a higher yield than the communist Vietnamese. But I have always expected that Germany and the rest of the Euro-zone would eventually have to come and bail the Greeks out, and they now have. I have long argued that the zone itself, a monetary union without a fiscal or political union, is a deeply flawed concept. The lack of internal mechanisms to remove miscreants from the monetary union virtually ensures abuse of the system. But as long as the Greeks do not shoot themselves in the foot by holding debilitating general strikes, sticks to their budget reduction plans and the German legislature actually approves the funding, the risk of an imminent default is now remote. But the threat of “contagion” is not gone.

The Chinese press has a nickname for hedge funds. It calls them “big crocodiles”, ostensibly because they are large, nasty-looking cold-blooded reptiles. In reality, they should be called “great white sharks” because once there is blood in the water, they tend to congregate together and whip themselves into an indiscriminate feeding frenzy. Portugal and Spain continue to whine that they are not the same as Greece. While true, this is irrelevant. Malaysia, Indonesia and Korea were not the same as Thailand; that did not stop the big guns of global finance from going after them in turn. The ongoing saga of banking cum sovereign debt crisis started with Iceland and Ireland, who were the first to blow up at around the same time that Lehman Brothers and the global financial system was imploding. Markets then moved on to look at Eastern Europe, and many of them seemed on the verge of collapse until the IMF stepped in and bailed out a bunch of them. Then came Greece and concern about the PIGS in general. Are you starting to see the trend? Yes, the next sovereign crisis is never in the same place as the last one, and while we are busy looking in one direction, Mr Market goes off and surprises us by blowing up a country somewhere else.

Where will it be next time? I have no clue. I could be the United Kingdom or even the United States for all I know. All I can say is I have zero faith that the global economy is now recovering and that the worst is now behind us. As I have written on numerous occasions, the impending demographic disaster that the retiring baby boomers will foster on Western economies is no longer a problem for the future; it is a problem that has already arrived and will only get worse as this decade goes on. So far, I have been unimpressed by the response of most Western governments who have decided to stick their heads in the sand and spend more money and run ever higher deficits.

Sadly, I think the American comedy show *Saturday Night Live* hit this point dead on with their opening skit on 22 November 2009 parodying a fictitious meeting between President Hu Jintao and President Obama. If you missed it, you can watch it replayed on the internet, but I have provided a partial transcript below:

HU JINTAO IMPRESSIONIST (VIA TRANSLATOR): Are we going to get our money? Your country is in the middle of a serious recession.

OBAMA IMPRESSIONIST: Well, uh, while this is true, there are signs that our bailout has steadied the financial markets and our stimulus package has been effective in fixing the, uh, job crisis.

HU JINTAO IMPRESSIONIST: I'm curious. How many jobs has it created?

OBAMA IMPRESSIONIST: So far, none.

HU JINTAO IMPRESSIONIST: I see.

OBAMA IMPRESSIONIST: But our healthcare reform plan, we're confident, is going to lead to enormous savings.

HU JINTAO IMPRESSIONIST: How exactly is extending healthcare coverage to 30 million people going to save you money?

OBAMA IMPRESSIONIST: I don't know.

HU JINTAO IMPRESSIONIST: And this Cash for Clunkers program, I have read that you purchased many clunkers with our money.

OBAMA IMPRESSIONIST: Yes, we have.

HU JINTAO IMPRESSIONIST: What does this word "clunkers" mean?

OBAMA IMPRESSIONIST: Well, a clunker is a –

HU JINTAO IMPRESSIONIST: I know what a clunker is! And just so there is no misunderstanding, you are not allowed to pay us back in clunkers.

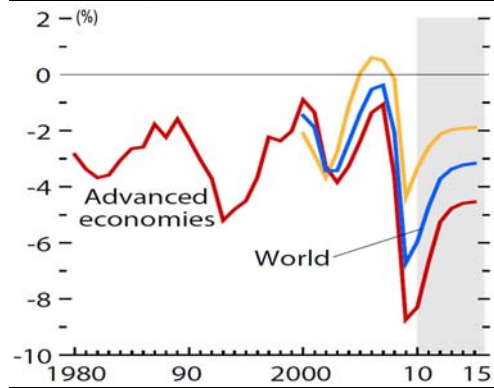
OBAMA IMPRESSIONIST: Of course not.

HU JINTAO IMPRESSIONIST: You know, as I listen to you, I am noticing that each of your plans to save money involves spending even more money. This does not inspire confidence.

What is even less inspiring is that a bunch of comedians in New York seem to have a better grasp of the realities of Sino-US economic policies than a great number of professional economists.

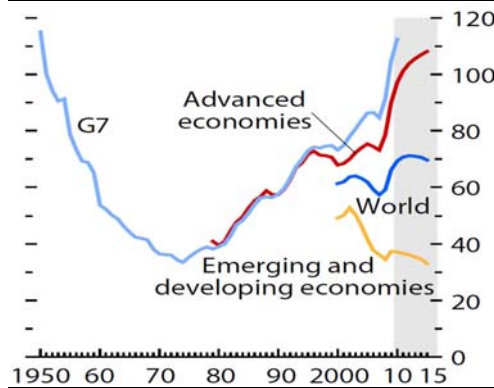
Some investors seem to think that I am very pessimistic about the future of world economy and markets. To this accusation, all I can say is that I am both pessimistic and optimistic. I am pessimistic in the sense that I think that long-term macro trends for most of the developed world look unfavourable. I cannot help but to get a sinking feeling that this may be the first generation in the West that will actually have a lower standard of living than their parents. Clearly that has been the case in Japan with its 20 years of economic stagnation and the phenomenon of a “lost generation” of workers who are now in their 30s and still live with their parents, having done nothing but menial part-time “McJobs” for their entire careers despite having university degrees. Young Americans and Europeans could be on the cusp of experiencing a similar phenomenon.

Fiscal Balance



Source: IMF

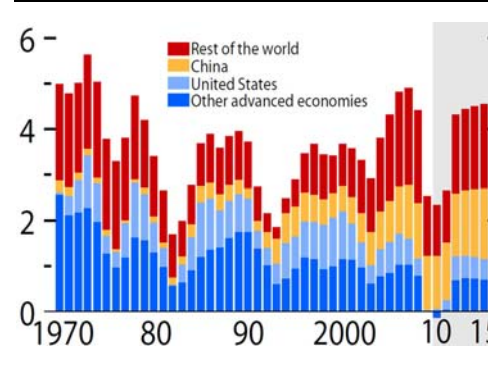
Public Debt



Source: IMF

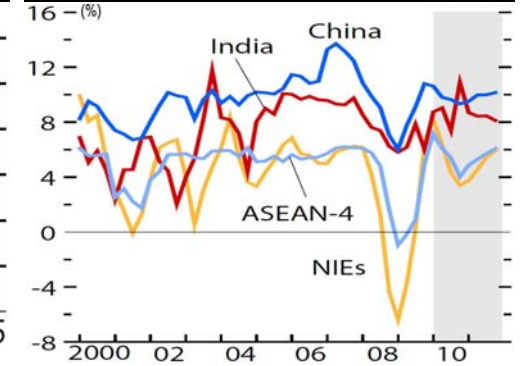
For China, as I outlined in the previous section, the future still remains relatively rosy as long as the country remains stable. Even assuming this, the country will have to contend with rising income disparities, a slower growth rate, and its own demographic time bomb, which is only a mere decade behind the West, from exploding. Looking at China through a very wide-angle lens, we can characterise the past 20 years of economic growth as one driven by manufacturing and exports. Geographically, this has benefited the large coastal cities such as Beijing, Shanghai and Shenzhen. Over the next 20 years, the focus will turn inwards to domestic consumption and smaller inland cities. I also suspect that while we are still thinking about first, second and third-tier cities, the true growth engine will be in fourth, fifth and sixth-tier cities, places with half a million or a million people that even most Chinese could not find on a map. This would be the equivalent of the small 50,000 to 100,000 population centres that dot America but are mostly ignored. While we all know that SMEs make up most of the economic activity and employment in most modern economies, we forget that this same concept may very well apply to urban centres as well.

Global GDP Growth (PPP Basis)



Source: IMF

Asian GDP Growth



Source: IMF

As for what will happen to stock markets, your guess is as good as mine. As Warren Buffett said, “We’ve long felt that the only value of stock forecasters is to make fortune tellers look good. Even now, Charlie and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children.” But I will hazard my own predictions for the sake of posterity.

My father has a very strange driving habit in that for no reason, he will hit the brakes abruptly even if there are no red lights, stop signs, pedestrian crossings or cars in front of us. This makes for a rather unpleasant and choppy ride as the constant stop-and-go motions are a recipe for whiplash. I believe China’s macro-economic adjustment policies are like my father’s driving. They move abruptly from full throttle to full stop without nary a pause. I think this is one of the times where the government is actually slamming on the brakes.

Ostensibly, the government’s reason for doing so is to cool down an overheated property market as there is a perception that the average man can no longer afford to buy his own home. But here is the problem. I do not think that China can avoid high property prices and maintain economic growth at the same time. It is simply impossible to square the two policies of increasing the volume and quality of housing for the people while keeping prices low at the same time. The only way a government can try to reduce the social friction caused by rising property prices is to actively intervene on the low end of the market via heavy subsidies to the poor, such as Hong Kong and Singapore have done. While the government has talked about expanding the “economic housing” programme, I believe that large-scale implementation is unlikely to take root without a major overhaul of the taxation system that allows local governments to fund their operations without having to resort to land auctions.

In other words, I think that while China wants to control housing prices; in reality it will fluctuate between slamming on the brakes when things look too hot and then rapidly loosening when things look like they are going to collapse. I also have a nagging suspicion that the current round of tightening measures and the resulting decline in stock and property markets may be a precursor to the appreciation of the renminbi, as the government knows that once the yuan starts to go up, so will asset prices. In conclusion, I believe that markets will be very bad for the next month (or maybe two) prior to the renminbi being revalued (which I still maintain will be in July). After the renminbi starts appreciating, a new equity bubble will begin, and the sell-off over the short-term is probably a good entry point for this.

A few final comments about my personal views about investing and markets. For those of you who achieve financial success (however you choose to define it), remember that 50% of success is luck, 30% ability and timing, and 20% perseverance and hard work. Warren Buffet once commented that, "I'd be a bum on the street with a tin cup if the markets were always efficient." I'd have to agree with that as I am not a big fan of the efficient market hypothesis. Some readers have commented to me in the past that they think my medium and long-term views are often insightful and even correct but that they are also often horribly wrong in the short term. Most, however, forgive me this shortcoming, but I am not sure they should be so understanding, as timing in investment is everything.

To illustrate this on a broader scale, think about some business models. Sony's first digital camera, the Mavica, was launched in August 1981. It was such a horrible failure that they even made a case study out of it that I studied during my MBA. Also consider *Theglobe.com*, one of the pioneers of the "internet social networking" craze that has spread around the planet. Launched in 1995, *Theglobe.com* provided internet chat and messaging services. It too failed. Were either of these bad ideas or bad products? Clearly not, as digital cameras have pretty much made their film counterparts extinct while Facebook and QQ have shown us just how valuable online social networking and messaging sites can be.

Sadly, both ideas were about a decade too early. Like I said, timing is everything. But an investor, unlike a businessman, need not be trapped, as money is fluid and can easily go on to the next idea. Warren Buffett made this point clear when he said, "I call investing the greatest business in the world because you never have to swing. You stand at the plate, the pitcher throws you General Motors at 47! U.S. Steel at 39! and nobody calls a strike on you. There's no penalty except opportunity lost. All day you wait for the pitch you like; then when the fielders are asleep, you step up and hit it... The stock market is a no-called-strike game. You don't have to swing at everything – you can wait for your pitch. The problem when you're a money manager is that your fans keep yelling, 'Swing, you bum!'"

To be fair to Sony, a lot of accompanying technology (the internet, cheap home PCs, large-capacity flash memory and colour printers) that makes digital cameras so accepted today had not been developed yet. But there were much better ways for an investor to make money while waiting for the world to wake up to the fact that digital cameras would eventually be the wave of the future. For example, you could have shorted Kodak and Fuji Film knowing that their entire business model was doomed instead of trying to figure out which of the dozens of consumer electronic companies would eventually make a fortune out of the new digital technology. Companies like Kodak, just like buggy-whip companies a century earlier, are faced with a no-win situation where they are almost guaranteed failure, because their core business is going obsolete and there is nothing they can do.

In fact, the skill of looking at companies that are impacted by an event indirectly rather than directly is particularly useful. For example, while I believe that the future of the automotive industry in China is bright given rising incomes and urbanisation, I am rather more pessimistic about the potential for any one company, as there are far too many competitors in China. This means that the minute growth slows down from its current torrid pace, most auto manufacturers will bleed red ink and do so for a very long time because none of the major auto manufacturers, not even bankrupt General Motors, is willing to leave the world's largest and fastest-growing car market. But near-monopolistic parts suppliers like Fuyao Glass or Minth may be better proxies to take advantage of the growth of the auto industry, as they do not really care which manufacturer gains market share or who goes bankrupt, as long as the sector as a whole grows.

By amazing coincidence, a big event happened a century ago, but is now lost as a footnote to history. That was the Panic of 1907, exactly 100 years before the Panic of 2007 following the failure of Lehman Brothers. History tells us that the Knickerbocker Trust Company collapsed, causing a massive banking run that promised to destroy the financial system until J.P. Morgan (the man) pledged his own money to stabilise the market. Today, this job falls on the Federal Reserve, which did basically the same thing 100 years later in 2007 after Lehman Brothers went bust. While we think of what has happened over the past several years as exceptional, it is not. It happens with surprising regularity, which is why I believe in buying things cheap because even if they do not turn around right away, you will probably eventually make money. But if you always chase higher prices using the greater fool theory, those big sudden turnarounds have a way of wiping you out. As Warren Buffett says, "Price is what you pay. Value is what you get." My best guess is that markets will fall for the next month or two and then value may emerge. This would be the best time to get into Chinese equities, as I believe that the eventual renminbi revaluation will lead to hot money inflows and another bull market in stocks. But only time will tell whether I am right or wrong.

So Long and Thanks for all the Fish

“The last ever dolphin message was misinterpreted as a surprisingly sophisticated attempt to do a double-backwards-somersault through a hoop whilst whistling the ‘Star Spangled Banner’, but in fact the message was this: So long and thanks for all the fish” – Douglas Adams’ 1997 book, The Hitchhiker’s Guide to the Galaxy

I have always wanted to use the above title and quote, which eventually became the title of the fourth book in the *Hitchhiker’s Guide to the Galaxy* series. The context is that dolphins, who are actually smarter than humans but unable to communicate with us because we are too stupid, leave the earth just before it is destroyed to make room for a new hyperspace bypass (something that Chinese who have been evicted from their homes to make way for construction can probably relate to). The dolphins’ final message to doomed mankind is “so long and thanks for all the fish”.

In a way, I am hoping to follow in the footsteps of Roman Emperor Diocletian who ruled from 284-305AD. Readers may remember I wrote briefly about him in the June 2008 issue under the title “Buddy Can You Spare a Denarius?” to illustrate the inflationary impact of debasing a currency and the ineffectiveness of price-controls as a way to combat inflation over the long term. But there is another side of Diocletian. He was born poor into a family of low status, but rose through the ranks of the military and was proclaimed emperor by the army following the death of Emperor Carus and his son Numerian. Diocletian also has the distinction of being the first Roman Emperor ever to voluntarily abdicate and retire to his country farm in Dalmatia. The power struggle that followed his stepping down was classically Roman, and when asked by some to return to restore order, he is reported to have said, “If you could show the cabbage that I planted with my own hands to your emperor, he definitely wouldn’t dare suggest that I replace the peace and happiness of this place with the storms of a never-satisfied greed.” Diocletian never did return to Rome and passed away a few years later in 311AD.

I probably am not going to grow cabbages, but do have an apple tree and raspberry bushes on my property that make for great pies and preserves. Anyone who manages to make it as far as Calgary is welcome to try. My greatest fear is that, unlike Diocletian, the siren call of global capital markets will lure me back into her warm and ultimately fatal embrace. After all, how can one easily give up the wealth, power and prestige that a career in high finance can provide? I am doubly worried because, unlike Diocletian whose declining health and impending mortality may have made it easier to avoid a return to his high-stress former job, I am still in remarkably rude health (knock on wood). Most of my closest friends and relatives have expressed doubts that I can pull this off, with the vast majority saying that I am too young to retire and will be bored out of my mind.

They may be right, but unlike academics, us lowly industry practitioners are not allowed to take a year off on sabbatical to recharge our batteries and ponder life’s vicissitudes. I also take solace in the knowledge that the French word for “work” is *travailler* but in old French, the word *travailler* meant “to suffer”, hence in English we have the word “travails”. *Bien sûr* the French would think that work is suffering as they are ones who invented the 35 hour work week and made laws against working overtime. But while Anglo-Saxons, infused with their protestant work ethic, would say that the French are lazy to begin with, I am more charitable and think that they are the closest to perfecting *l’art de vivre*.

I now approach my semi-retirement with trepidation, but am optimistic that I can avoid the fate of several of my Canadian-born Chinese friends who worked for investment banks in Hong Kong and then moved back to Canada many years ago, only to return to Hong Kong a few years later. I have no illusions that there is a high probability that somehow Hong Kong and China will continue to play a central part of my life in the years to come. But I am also looking forward to taking on my new role running my small oil company in my hometown of Calgary; a job whose primary duties including “doing” lunch and playing golf. Pumping oil out of the ground may be environmentally unfriendly, but it is at least something of substance which I think will be a nice change of pace after so many years of writing investment reports and transferring intangible electronic dollars around the globe.

Despite all the talk about globalisation, I once read an interesting study that concluding that something like 90% of people grow up, work, get married, have children and die within 100 miles of the place they were born. Maybe like the Pacific Salmon, people have an innate instinct to return to the tiny stream where they originated. In my case, the instinct is two-fold: I have long struggled with the question of whether I am Chinese or Canadian. In my long search for self-identity, I have discovered that I am both and neither at the same time – a happy balance and compromise that sits well with me. French sociologist Emile Durkheim popularised the term “anomie” when talking about the alienation that resulted from urbanisation and the industrial revolution. Perhaps it’s time for a post-anomie theory: one where globalisation has led to multiple norms.

To all my friends, colleagues and business associates who I have had the pleasure to meet over the years, I wish you the best of success, but more importantly, health and happiness in the future. For those of you who manage to make the long trek to Calgary, please feel free to drop me a line at tonylok@gmail.com. English is not so conducive to farewells, as terms like “goodbye” unfortunately have a note of finality to them. While you could say something convoluted like “see you soon”, I far prefer the French term *à bientôt* and the Chinese *zai jian* (再见) which holds the hope and promise of future encounters. Until then: *zaijian bing ganxie nimen suo zeng de yu* (再见并感谢你们所赠的鱼) or “so long, and thanks for all the fish”.

China – HK Strategy

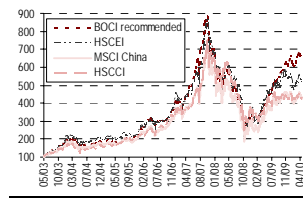
Performance Comparison

	% Change 1M	Since YTD	Since Incept*
BOCI recommended	(4)	6	572
MSCI China	(6)	(4)	329
HSCCI	(6)	(2)	328
HSCEI	(7)	(5)	424

* Inception May 2003

Sources: Bloomberg, BOCI Research

Relative Performance



Source: BOCI Research

BOCI China-HK Recommended Stocks

Stock code	Last price (HK\$)	3M avg. daily T/O (HK\$ m)	Free float mkt cap (HK\$ m)	P/E (x)	Yield (%)	Change (%)	Date rec.	Wgt (%)						
				FY09	FY10E	FY11E	1M	YTD	Since rec.					
China Green	0904.HK	9.15	22	4,556	18.2	15.6	12.5	1.9	2.4	(8)	26	0	30-Apr-10	4
Huabao	0336.HK	9.05	50	13,760	25.3	21.9	18.5	2.1	1.9	(11)	10	0	30-Apr-10	4
Golden Eagle	3308.HK	15.18	47	8,407	35.2	25.9	19.6	1.2	1.5	(5)	(3)	(5)	9-Apr-10	4
BYD	1211.HK	70.55	380	112,351	35.0	20.6	15.3	1.0	1.3	(11)	5	(11)	9-Apr-10	4
China Minsheng Bank	1988.HK	8.42	149	26,242	12.7	11.3	10.1	1.3	1.5	0	(7)	5	5-Mar-10	4
Tontine Wine	0389.HK	1.76	16.77	1,601	13.5	12.1	10.5	n.a.	n.a.	(1)	1	5	5-Feb-10	3
Jiangsu Expressway	0177.HK	7.33	39	8,863	15.8	13.3	12.0	6.0	6.7	(2)	8	8	5-Feb-10	3
Xinyu Hengdeli	3389.HK	3.27	38	7,318	27.6	18.7	14.7	1.6	2.1	(7)	14	12	8-Jan-10	5
Asian Citrus Holdings	0073.HK	6.05	21.69	3,975	10.4	11.7	9.2	1.8	2.4	(8)	(9)	(9)	4-Dec-09	3
Yanzhou Coal (H)	1171.HK	22.30	281	43,869	23.4	13.1	10.0	2.3	3.0	14	18	37	4-Dec-09	5
Kingdee International	0268.HK	3.04	23	4,371	25.9	21.0	17.4	1.0	1.2	(11)	74	60	06-Nov-09	6
China Molybdenum	3993.HK	6.17	45	6,920	52.7	21.1	14.1	1.6	2.4	(8)	(3)	(3)	04-Sep-09	4
China Resources Gas	1193.HK	11.68	15	12,387	37.2	25.9	20.0	1.0	1.3	1	(1)	80	31-Jul-09	5
Weichai Power	2338.HK	64.50	86	12,895	13.9	9.7	8.7	1.2	1.4	(12)	(1)	152	08-May-09	7
Tsingtao Brewery	0168.HK	38.70	54	25,096	34.5	28.6	24.0	1.7	2.1	(6)	(10)	115	03-Apr-09	4
China Everbright Int'l	0257.HK	3.89	29	6,247	36.0	24.6	18.3	0.8	1.1	(7)	(6)	184	09-Jan-09	6
Ajisen (China)	0538.HK	8.36	10	4,196	28.1	23.5	18.4	1.9	2.5	2	20	180	07-Nov-08	5
Hengan International	1044.HK	60.20	120	30,087	34.3	30.0	25.0	2.1	2.5	2	4	129	05-Sep-08	7
Wumart Stores	8277.HK	16.80	23	12,705	42.2	34.0	27.9	1.5	1.8	(1)	38	182	07-Mar-08	9
Cash (incl. dividends)														6
Total														100
Stocks removed or reduced from the BOCI China-HK recommended list														
China Oilfield Services	2883.HK	11.06	141	16,953	14.0	10.8	11.5	1.7	1.7	(1)	11	25	06-Nov-09	5
Poly (Hong Kong)	0119.HK	7.81	126	10,720	26.3	6.5	8.9	1.3	2.2	(20)	(25)	45	03-Jul-09	4

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

Sources: Bloomberg, BOCI Research estimates

Hong Kong Strategy

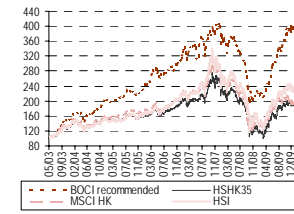
Performance Comparison

	% Change 1M	Since YTD	Since Incept*
BOCI recommended	(0)	6	328
MSCI HK	(5)	(1)	96
HSBK35	(6)	(2)	91
HSI	(5)	(3)	127

* 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 (%)						
				FY09	FY10E	FY11E	1M	YTD	Since rec.					
Sa Sa	0178.HK	6.52	22	3,151	28.5	23.9	19.0	4.0	5.0	3	18	0	30-Apr-10	4
Giordano	0709.HK	3.62	9	5,293	18.8	12.7	12.2	4.0	4.1	13	61	13	9-Apr-10	6
MTRC	0066.HK	27.50	110	37,065	19.7	20.4	18.8	2.0	2.2	(7)	1	(7)	9-Apr-10	5
SmarTone	0315.HK	8.74	1	2,299	112.1	21.0	16.7	4.5	5.7	2	37	26	5-Mar-10	6
V-Tech	0303.HK	87.75	59	12,952	19.4	16.5	14.8	4.9	5.4	3	22	5	5-Feb-10	5
Lifestyle	1212.HK	15.36	19	8,199	26.0	22.2	19.0	1.8	2.2	5	3	16	5-Feb-10	6
Lee & Man Paper	2314.HK	6.91	74	2,907	26.2	4.8	4.0	6.3	7.6	2	33	34	4-Dec-09	7
Fairwood	0052.HK	8.01	1	570	12.9	11.0	9.9	5.5	6.1	(3)	6	3	4-Dec-09	6
Great Eagle	0041.HK	22.00	15	6,694	10.7	10.5	10.3	2.5	2.7	0	8	10	9-Oct-09	5
Yue Yuen	0551.HK	27.35	97	17,294	12.3	12.5	12.2	2.8	2.8	8	23	25	4-Sep-09	5
Sun Hung Kai	0016.HK	109.70	721	163,137	22.8	19.1	16.8	2.9	3.2	(8)	(8)	15	3-Jul-09	5
Li & Fung	0494.HK	38.05	339	92,617	41.0	26.0	22.3	3.1	3.6	(4)	23	76	8-May-09	4
Galaxy	0027.HK	3.70	20	3,662	12.8	32.7	16.5	0.0	0.0	(2)	13	157	9-Jan-09	6
Café de Coral	0341.HK	18.78	10	5,061	22.8	20.3	17.4	3.4	4.0	1	7	34	7-Nov-08	4
TVB	0511.HK	37.65	22	11,214	18.3	14.0	11.9	4.8	5.8	(2)	(3)	41	7-Nov-08	5
Standard Chartered Bank	2888.HK	215.00	127	326,531	17.1	14.0	11.5	3.1	3.7	2	8	15	9-Mar-07	6
HK & China Gas	0003.HK	19.00	121	68,393	25.4	23.3	21.3	2.6	2.8	(8)	(3)	91	23-May-03	4
Cash (incl. dividends)														7
Total														100
Stocks removed or reduced from the BOCI HK-HK recommended list														
SCMP	0583.HK	1.45	0	566	69.0	26.4	24.2	4.8	5.5	0	(13)	41	3-Apr-09	4

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

Sources: Bloomberg, BOCI Research

China – A Strategy

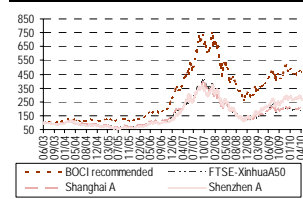
Performance Comparison

	% Change 1M	% Change YTD	Since Incept. *
BOCI recommended	(2)	(6)	363
Shanghai A	(9)	(12)	88
Shenzhen A	(11)	(7)	163
FTSE-XinhuaA50	(9)	(17)	77

* Inception May 2003

Sources: Bloomberg, BOCI Research

Relative Performance



Source: BOCI Research

BOCI China-A Recommended Stocks

Stock code	Last price	3M avg. daily T/O	Free float mkt cap (Rmb m)	P/E (x)	Yield (%)	Change (%)	Wgt.							
						1M YTD Since rec.								
						Date rec.	(%)							
Beijing Capital Tourism	600258.SS	20.83	60	4,820	30.2	25.3	21.3	2.0	2.3	(8)	(12)	0	30-Apr-10	3
Silver Plaza	600858.SS	27.18	71	5,970	55.9	34.5	25.4	0.4	0.6	5	4	0	30-Apr-10	3
Xishan Coal	000983.SZ	33.49	801	38,154	36.4	16.5	12.5	1.3	1.7	(10)	(16)	(10)	9-Apr-10	7
Changyu Wine	000869.SZ	75.10	54	8,316	35.9	28.8	23.8	2.4	2.9	7	(3)	7	9-Apr-10	8
China Minsheng Bank	600016.SS	7.02	733	132,837	12.0	10.7	9.6	1.4	1.5	(8)	(13)	(3)	5-Mar-10	3
Jiangling Motors	000550.SZ	22.73	46	5,689	18.6	13.7	12.1	2.5	2.9	3	0	6	5-Mar-10	3
Qinghai Salt Lake Potash	000792.SZ	45.89	222	17,939	28.6	19.3	17.6	0.9	1.5	(10)	(22)	(16)	5-Feb-10	3
Hefei Department Store	000417.SZ	15.55	55	4,478	45.1	33.0	26.4	0.6	0.8	4	7	0	5-Feb-10	4
China Northern Rolling	601299.SS	5.35	289	8,881	33.4	20.6	15.3	0.7	0.9	(6)	(14)	(8)	8-Jan-10	7
CITS	601888.SS	19.38	142	3,411	54.6	43.7	34.0	0.8	1.0	0	(5)	(6)	8-Jan-10	7
Baotou Steel Rare-Earth	600111.SS	35.64	591	14,504	584.3	54.0	36.9	0.7	1.1	19	35	20	4-Dec-09	7
Wuliangye Yibin	000858.SZ	26.29	578	53,890	33.5	21.9	17.9	0.2	0.3	(6)	(17)	12	4-Sep-09	5
Suning Appliance	002024.SZ	11.20	328	52,498	27.1	19.4	16.4	0.8	1.1	(12)	(21)	9	4-Sep-09	3
Dongfang Electric	600875.SS	49.80	262	21,962	27.2	22.0	15.3	0.0	0.1	4	9	17	5-Jun-09	5
Yanjing Brewery	000729.SZ	21.80	104	10,551	42.1	30.2	24.4	1.3	1.6	2	18	58	8-May-09	9
China Life	601628.SS	26.57	304	36,697	22.8	20.8	18.7	1.5	2.0	(7)	(17)	1	1-Aug-08	3
Yabao Pharmaceutical	600351.SS	20.22	166	5,303	49.4	30.3	20.6	1.7	2.4	(5)	22	184	29-May-08	7
Shandong Gold Mining	600547.SS	72.07	619	25,144	68.8	49.6	47.8	0.4	0.4	(5)	(7)	70	2-Nov-07	7
Cash (incl. dividends)														7
Total														100
Stocks removed or reduced from the BOCI China-A recommended list														
Poly Real Estate	600048.SS	12.35	534	22,171	12.6	9.1	7.6	0.9	1.0	(18)	(34)	(35)	3-Jul-09	2
China Vanke	000002.SZ	7.80	708	72,897	14.5	12.4	9.8	0.6	0.8	(17)	(31)	(27)	5-Jun-09	3

Notes: 600351 and 600547 shares up 100% (100% bonus), and all prices are now adjusted; Stocks in bold are new additions to the recommended list

Sources: Bloomberg, BOCI Research

China Economy

- April 2010 was a memorable month in the history of Chinese economic policy. The State Council published *No.10 Document* on 17 April with the goal of deflating the property bubble. The documents was issued following the report of 11.9% YoY GDP growth in 1Q10 and an 11.7% YoY housing price hike in March. According to the document, the down payment for first homes bigger than 90sqm was set at a minimum of 30% while that for second homes was increased to 50% from 40% previously. The document also suggested that the local governments should be responsible for housing prices in their jurisdictions. The No.10 Document represents the highest-level and strictest measures against the property sector ever in the country's history.
- Following the *No.10 Document*, the Beijing municipal government and several other municipal governments further unveiled concrete measures against the housing market. The Beijing municipal government said that mortgage loans to third-home buyers and sales of residential houses would not be allowed to individuals without proof of residency and social security payments in the city. If the Beijing government successfully implements the said policies, housing demand would certainly fall, leading to a certain drop in prices over the short term. Before the announcement in Beijing, the media reported that Shanghai and Chongqing would be the first pilot cities to impose a special tax on property.
- The strict measures also followed the report of a 35% YoY growth for fixed asset property investment in property during 1Q10. Property has undoubtedly been one of the most important contributors to GDP growth, which leads many people to believe the government will not dare to adopt overly-aggressive countermeasures. However, this time is quite different as the housing bubble has become a widespread public concern. When recalling the words of Premier Wen Jiabao, "Inflation and corruption can threaten the stability of the state power", it becomes rather apparent that housing prices have become a key political issue in the spring of 2010.

■ With regard to policy tools, we still believe that monetary tightening is the most effective way of controlling housing prices. According to the People's Bank of China (PBOC), incremental mortgage loans reached Rmb522.7bn in 1Q10, compared to about Rmb1.4trn for full-year 2009. This suggests that the quota for mortgage loans in the remaining months of the year will be quite limited if the government adheres to its current commitment. Indeed, the direction of the monetary policy is a very important benchmark in observing housing prices, which was best illustrated in Japan during 1985-90 when the country experienced a huge property bubble. The six-city price index for residential land rose from 39.2 in September 1985 to 105.8 in September 1990, while the commercial land price rose from 27.9 to 104.5 during the same period. This situation was exacerbated by the loose monetary policy at the time, which was aimed at offsetting the negative effect of yen appreciation. Hindsight suggests the bubble may not have been deflated purely by monetary tightening, but the damage could have been reduced by earlier tightening and more prudent regulations.

■ In terms of the loan-to-value ratio, the risk of the Chinese property market still appears lower compared to the situation in Japan during the late 1980s. However, if the government is truly motivated to cool the property market, more monetary and fiscal policies will be required, including a hike in the benchmark interest rate and currency appreciation. To some extent, it makes sense to combat property prices before allowing the renminbi to appreciation since the rise of the currency may further push up housing prices in the future. Although the downturn in the housing market should have a definite negative impact on economic growth in 2H10, we reiterate our view that GDP growth will come in well above 8% YoY this year even with declining investment in the property sector

China Monthly Economic Indicators (2009-11E)

	2009	2010E	2011E	Apr09	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan10	Feb	Mar
Real economy (YoY %)															
GDP*	8.7	7.8	7.6	-	-	7.9	-	-	8.9	-	-	10.7	-	-	11.9
VAIO (real)	11	11.2	11	7.3	8.9	10.7	10.8	12.3	13.9	16.1	19.2	18.5	-	20.7	18.1
-Light industry	9.7	9.5	10	8.2	9.7	10.2	9.2	9.8	11.8	11.3	12.6	12.1	-	14.5	13.4
-Heavy industry	11.5	11.7	11.1	6.9	8.6	10.9	11.3	13.2	14.8	18.1	22.2	21.4	-	23.7	20
Industrial sales ratio (%)	97.7	97	97.5	97.8	97.3	97.3	97.9	97.7	97.7	98	97.8	99.3	-	97.2	97.8
FAI* (YoY %)															
- Property	16.1	22	20	4.1	4.9	5.8	8.3	9.5	12.5	15.4	16.6	17.8	-	31.1	35.1
Retail sales*	15.5	15	15.5	14.8	15.2	15	15.2	15.4	15.5	16.2	15.8	17.5	-	17.9	18
External sector															
Exports (US\$ bn)	1,201.7	1,309.9	1414.7	91.9	88.8	95.5	105.4	103.7	115.9	110.8	113.7	130.7	109.5	94.5	112.1
Export growth (YoY %)	(16)	9	8	(22.5)	(26.4)	(21.3)	(23)	(23.4)	(15.2)	(13.8)	(1.2)	17.7	21	45.7	24.3
Imports (US\$ bn)	1,005.7	1,136.5	1272.8	78.8	75.4	87.2	94.8	88.0	103	86.8	94.6	112.3	95.3	86.9	119.3
Import growth (YoY %)	(11.2)	13	12	(23)	(25.2)	(13.2)	(14.9)	(17)	(3.5)	(6.4)	26.7	55.9	85.5	44.7	66
Trade balance (US\$ bn)	196	173.5	141.9	13.3	13.4	8.3	10.6	15.7	12.9	24	19.1	18.4	14.2	7.6	(7.2)
FDI* (US\$ bn)	90	72.1	60	5.9	6.4	8.1	5.4	7.5	7.9	7.1	7	12.1	8.1	5.9	9.4
Money supply (YoY %)															
M0	11.8	12.6	13.2	10.9	11.2	11.5	11.6	11.5	16.0	14.1	15.0	11.8	(0.8)	22	15.8
M1	32.4	18	16.2	17.0	18.7	24.8	26.4	27.7	29.5	32.0	34.6	32.4	39.0	35	29.9
M2	27.7	17.5	16.5	25.5	25.7	28.5	28.4	28.5	29.3	29.4	29.7	27.7	26.0	25.5	22.5
Deposit rate, 12M (%)	2.25	2.79	3.06	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Lending rate, 12M (%)	5.31	5.85	6.12	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31
FX reserves* (US\$ bn)	2,399	2963.5	3,437	2,009	2,090	2,132	2,175	2,211	2,273	2,328	2,389	2,399	2,415	2,425	2,447
Inflation (YoY %)															
National CPI	(0.7)	2.8	2.5	(1.5)	(1.4)	(1.7)	(1.8)	(1.2)	(0.8)	(0.5)	0.6	1.9	1.5	2.7	2.4

*Periodical; no single-month data from the NBS
Sources: NBS, MOF, MOC, PBOC, BOCI Research

Value Added Industrial Output (VAIO)

	2009								2010			
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Feb	Mar
VAIO	8.3	7.3	8.9	10.7	10.8	12.3	13.9	16.1	19.2	18.5	20.7	18.1
Heavy industry	8.3	6.9	8.6	10.9	11.3	13.2	14.8	18.1	22.2	21.4	23.7	20
Light Industry	8.5	8.2	9.7	10.2	9.2	9.8	11.8	11.3	12.6	12.1	14.5	13.4

Source: NBS

According to the National Bureau of Statistics (NBS), value-added industrial output (VAIO) rose 18.1% in March, down from 20.7% in 2M10 mainly due to the rising comparison base and input costs.

The mitigation of VAIO growth was notable in both light and heavy industries. VAIO in the two sectors grew 13.4% and 20% in March, slowing from the increases of 23.7% and 14.5% in 2M10. In March, the output in textiles rose 11.4%, and that of raw chemical material & chemical products, non-metal mineral products, and smelting & pressing of ferrous metals climbed 17.5%, 21.4% and 18%, respectively, down from the corresponding increases of 13.3%, 25.1%, 23.2% and 20.9% in 2M10. Meanwhile, the output in communication & electronic equipment, transportation equipment, and electric material & equipment grew 19.5%, 30.1% and 14.8% in March, compared to the rise of 26.4%, 43.7% and 18.9% in 2M10.

Due to the climbing comparison base, slowdown in investments and tightening of loans, VAIO growth is likely to continue slowing in future. We expect VAIO to grow about 16% in 2Q10.

Fixed Asset Investments (FAI)

YTD %	2009										2010	
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Feb	Mar
Total FAI	28.8	-	-	33.5	-	-	33.4	-	-	30.1	-	25.6
Urban FAI	28.6	30.5	32.9	33.6	32.9	33	33.3	33.1	32.1	30.5	26.6	26.4
Urban FAI/total FAI (%)	83.8	-	-	85.5	-	-	85.9	-	-	86.3	-	84.4
- Primary industry	85.0	82	79.7	68.9	62.5	60.4	54.8	54.1	51.5	49.9	8.9	9.7
- Secondary industry	26.8	27.8	29.1	29	27.8	27	26.9	26.8	26.1	26.8	21	22.4
- Tertiary industry	29.1	31.6	34.9	36.6	36.5	37.3	38.1	37.8	36.6	33	30.9	30
- Property	1.0	4.1	4.9	5.8	8.3	9.5	12.5	15.4	16.6	17.8	31.1	35.1

Source: NBS

Overall fixed asset investment (FAI) climbed 25.6% in 1Q10, down from the increases of 30.1% in 12M09 and 33.4% in 9M09. Meanwhile, urban FAI rose 26.4%, 4.1ppts lower than that of 30.5% in 12M09.

A breakdown shows that government-supported sectors posted the greatest slowdown, while the manufacturing sector also saw mitigation from 2H09. According to the NBS, urban FAI in agriculture, railway transport and electricity generation & supply grew 9.7%, 16.4% and 4% in 1Q10, down significantly from the respective increases of 49.9%, 67.5% and 22.8% in 12M09. Investment growth in the secondary industry also decelerated to 22.4% in 1Q10 from 26.8% in full-year 2009. However, supported by the low comparison base and strong sales of residential sales, property development investment registered high growth of 35.1% in 1Q10, after rising only 4.1% in the same period last year. Urban FAI in coal mining, non-metal ore mining & related mineral products, steel mining & pressing, as well as non-ferrous metal mining & pressing grew 29.9%, 34.7%, 22.7% and 40.2% in 1Q10, compared to the increases of 25.9%, 43.8%, 3% and 17.9% in 12M09.

Mainly because of the rising comparison base and authority's curbs on lending and new projects, urban FAI, especially in the infrastructure sector, has seen a significant slowdown this year. Although the change of property investment usually lags that of lending policies and property sales, we are still concerned that it might also face mitigation pressure in 2H10 after the recent round of policy roll-outs. We expect total urban FAI growth to decline to 23.5% in 2Q10.

Retail Sales

YoY %	2009										2010	
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Feb	Mar
Retail sales	14.7	14.8	15.2	15	15.2	15.4	15.5	16.2	15.8	17.5	17.9	18
Urban	13.7	13.9	15	15.1	15.1	15.3	15.9	16.6	16.5	18.6	18.4	18.5
Rural	16.8	16.7	15.6	15	15.4	15.5	14.6	15.4	14.4	15.4	15.5	15.1

Source: NBS

Retail sales posted steady growth of 18% in March, compared to the increases of 17.9% in 2M10 and 17.5% in December 2009. In rural and urban areas, retail sales grew about 15.1% and 18.5% in March, after climbing 15.5% and 18.4%, respectively, in 2M10.

Breaking down the items, sales of food, beverages and tobacco increased 22.9%, clothing and textiles rose 25.4%, and daily-use goods increased 30.2% in March, compared to the respective increases of 16.8%, 23.3% and 18.8% in 2M10. Supported by the strong residential sales last year, retail sales of household electronic & video appliances, furniture and construction & decoration materials registered strong increases of 24.8%, 40% and 21% in March, after rising 31.7%, 36.3% and 30.5% in 2M10. Auto sales grew 36.2% in March, slightly down from the rise of 41.7% in 2M10.

Although residential and auto sales started to show a mitigation in recent months, overall retail sales are likely to maintain stable high growth ahead, partially supported by the inflation effect.

Foreign Trade

YoY %	2009										2010			
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Exports	(25.7)	(17.1)	(22.6)	(26.4)	(21.3)	(23)	(23.4)	(15.2)	(13.8)	(1.2)	17.7	21	44.7	24.3
Imports	(24.1)	(25.1)	(23)	(25.2)	(13.2)	(14.9)	(17)	(3.5)	(6.4)	26.7	55.9	85.5	45.7	66
Trade balance (US\$ bn)	4.9	18.6	13.3	13.4	8.3	10.6	15.7	12.9	24	19.1	18.4	14.2	7.6	(7.2)

Source: GAC

China exports climbed 24.3% in March, after rising 45.7% in February, according to the State Administration of Customs. Imports jumped 66% in March, up from the increase of 44.7% in February. If we use the figures in the same period of 2008 as a comparison, the growth of March exports and imports should come in at about 2.9% and 24.9%, respectively. Due to the stronger growth of imports than exports, China posted the first trade deficit in six years in March at about US\$7.2bn, compared to a surplus of US\$7.6bn in February. For 1Q10, the total trade surplus declined about 76.7% to US\$14.5bn.

In line with our analysis, exports of most capital goods posted better performances than those of consumer goods in March, and we believe this trend will continue for the rest of the year due to the larger income elasticity and lower comparison base for capital goods. In March, exports of mechanical and electrical (M&E) products and high-tech products both recorded high growth rates of 30.4% and 43%, compared to the increases of 32.2% and 36.7%, respectively, in 2M10. Meanwhile, exports of steel products rose 42.6%, and those of automatic data processing machines & units climbed 41.7%, versus the corresponding increases of 1.1% and 25.1% in 2M10.

Import growth remained high at 66% in March, after climbing 44.7% in February. Imports of most commodities and autos registered high growth supported by strong domestic demand. Imports of soybeans and primary plastics grew 17.3% and 70.5%, with the price factor contributing 13.5ppts and 50ppts, respectively. The strong recovery of domestic production activity also encouraged the imports of most manufactured goods. In March, imports of M&E products increased 56% and those of high-tech products jumped 51%, compared to the rises of 27.6% and 30.2% in February.

Foreign Direct Investment (FDI)

YoY %	2009										2010			
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Actual FDI	(15.8)	(9.5)	(22.5)	(17.8)	(15.6)	(35.7)	7	18.9	5.7	32	103.1	8.1	1.1	12.1
US\$ bn	5.8	8.5	5.9	6.4	8.1	5.4	7.5	7.9	7.1	7	12.1	7.8	5.9	9.4

Source: MOC

According to the Ministry of Commerce (MoC), China's actual foreign direct investment (FDI) increased 12.1% to US\$9.42bn in March. Total FDI in 1Q10 reached about US\$23.44bn, up 7.65% but still 14.5% lower than in 1Q08. Breaking down the sectors, FDI in manufacturing dropped 10.3%, while that in the service sector registered strong growth of 25.4% in 1Q10, compared to the respective decreases of 6.3% and 20.1% for full-year 2009.

FDI has risen steadily since 2H09 along with the recovery of exports, yet it still below the normal level last seen in 2008. Looking ahead, as the global economy and operations of multinational companies see likely improvements, FDI looks set to continue its recovery in the current half. Although the actual renminbi appreciation should have a negative impact on the earnings of foreign enterprises, the short-term effect of renminbi appreciation expectation on FDI would be positive due to the rising inflow of hot money.

Consumer Price Index

YoY %	2009										2010		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
CPI	(1.2)	(1.5)	(1.4)	(1.7)	(1.8)	(1.2)	(0.8)	(0.5)	0.6	1.9	1.5	2.7	2.4
- Food	(0.7)	(1.3)	(0.6)	(1.1)	(1.2)	0.5	1.5	1.6	3.2	5.3	3.7	6.2	5.2
- Clothing	(2.3)	(2.3)	(2.3)	(2.3)	(2.4)	(2.2)	(1.8)	(1.6)	(1.2)	(0.8)	(0.4)	(1.3)	(1.1)
- Trans. & comm.	(2.5)	(2.2)	(2.3)	(2.4)	(2.7)	(2.9)	(2.6)	(2.7)	(2.2)	(1.5)	(0.5)	0.1	0
- Household items	(3.5)	(4)	(4.8)	(5.7)	(5.8)	(5.4)	(5)	(3.8)	(1.2)	1.5	2.5	3	3.3
- Medical segment	1.0	0.9	0.9	0.9	0.7	0.9	1.1	1.2	1.6	2.2	2.3	2.4	2.5

Source: NBS

China's Consumer Price Index (CPI) grew 2.4% in March, down from the rise of 2.7% in February and a bit lower than the primary market consensus. From a month-on-month perspective, the CPI decreased 0.7% MoM in March compared to the increase of 1.2% MoM in February.

Breaking down items, food prices increased 5.25%, while non-food prices and service prices climbed 1% and 1.3% in March, compared to the rises of 6.2%, 1% and 1.7% in February. Beverage & tobacco prices grew 1.7%, medicine & personal care items rose 2.5%, and residential items (such as construction & decoration materials and public utilities) jumped 3.3% in March, versus the corresponding increases of 1.6%, 2.4% and 3% in February.

Looking ahead, food prices may return to an uptrend after April due to the drought in south-western China and the flood season in southern China. Meanwhile, the base effect will see consecutive increases leading up to September. We expect the year-on-year growth of the CPI to move up gradually before September. The CPI is tipped to grow about 2.9% in 2Q10 and 3.6% in 3Q10.

Inflation/Deflation

YoY %	2009										2010			
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
EFPI	(4.5)	(6.0)	(6.6)	(7.2)	(7.8)	(8.2)	(7.9)	(7)	(5.8)	(2.1)	1.7	4.3	5.4	5.9
PPI	(7.1)	(8.9)	(9.6)	(10.4)	(11.2)	(11.7)	(11.4)	(10.1)	(8.4)	(3.6)	3	8	10.3	11.5
CPI	(1.6)	(1.2)	(1.5)	(1.4)	(1.7)	(1.8)	(1.2)	(0.8)	(0.5)	0.6	1.9	1.5	2.7	2.4
Crude oil	(54.8)	(54.2)	(53.6)	(50.6)	(48.1)	(42.9)	(44.4)	(30.2)	(23.4)	(3.3)	43.9	69.7	81.7	63.3

Source: NBS

In March, the Ex-factory Price Index (EFPI) and Purchasing Price Index for materials (PPI) picked up 5.9% and 11.5%, after respectively rising 5.4% and 10.3% in February. Although some commodities showed mitigation in price growth in March, prices of most manufactured goods registered consecutive rebounds since 2H09. The EFPI of mining, material and manufactured goods rose 30.3%, 12.2% and 2.3% in March, compared to the increases of 37.6%, 10.1% and 1.3% in February. The price of coal mining, oil & natural gas mining, and ferrous metals grew 5.5%, 63.3% and 4.5% in March, compared to the increases of 6.9%, 81.8% and the decline of 0.2% in February. The PPI for non-ferrous metals and fuel & power even jumped 32.8% and 25.6% in March.

As the base effect reaches its peak around April for the EFPI and in August for the CPI, the year-on-year growth of EFPI and CPI is likely to reach new highs in the second and third quarters.

Monetary Performance

YoY %	2009										2010			
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
M0	8.3	10.9	11.3	11.2	11.5	11.6	11.5	16.0	14.1	15.0	11.8	(0.8)	22.0	15.8
M1	10.9	17.0	17.5	18.7	24.8	26.4	27.7	29.5	32.0	34.6	32.4	39.0	35.0	29.9
M2	20.5	25.5	26.0	25.7	28.5	28.4	28.5	29.3	29.4	29.7	27.7	26.0	25.5	22.5
Loan/deposit	66.4	66.9	66.7	66.3	66.6	66.8	67.1	66.9	66.9	66.8	66.9	67.5	67.6	66.7
M1/M2, %	32.8	33.3	33.0	33.2	34.0	34.2	34.7	34.5	35.4	35.7	36.3	36.7	35.3	35.3

Source: PBOC

According to the PBOC, renminbi loans grew 21.8% in March, while renminbi deposits increased 22.1%, down from the respective increases of 27.2% and 25% in February. The loan-to-deposit ratio stood at about 66.7% in March, slightly lower than 67.6% in February. Due to the rising comparison base and a decrease in incremental loans, money supply growth decelerated somewhat. M2 growth dropped from 25.5% in February to 22.5% in March, while M1 growth slid from 35% in February to 30%. We expect the M1 and M2 growth rates to see continued slowdowns in the next few months owing to a further rise in the comparison base and the tightened loan policies.

PBOC statistics show that incremental renminbi lending in March plunged 73% to about Rmb510.7bn, which was a bit lower than the primary market consensus, but in line with what the regulator considers an acceptable level. A breakdown reveals that ordinary loans to enterprises and individual mortgages made up a greater proportion of newly increased loans. In March, incremental loans to households amounted to about Rmb270.6bn, with long-term lending (mainly in terms of individual mortgages) at about Rmb150bn. The increased loans to households still remained relatively high, reflecting strong loan demand from the country's hot property market. New loans to non-financial enterprises came in at Rmb231.1bn in March, down from Rmb507.4bn in February, mainly caused by a decrease in discounted-bill financing, which fell Rmb269bn MoM in March, indicating domestic banks' adjustments in their loan structure to comply with the lending quota requirement set by the banking regulator. Meanwhile, incremental long-term ordinary lending to non-financial enterprises hit about Rmb519.1bn in March, compared with Rmb789.3bn in the same period last year. However, new short-term ordinary loans stood at negative Rmb25.6bn in March, probably attributed to the lending controls as well.

Total incremental deposits came in at Rmb1,570bn in March, up from Rmb958.9bn in February. Incremental savings deposits decreased to Rmb214.8bn in March from Rmb1.56trn in February (when the Spring Festival took place), while new enterprise deposits reached Rmb939.7bn in March after a month-on-month decrease of Rmb481.9bn the month before. Those changes in savings and enterprise deposits were contrary to the situation in February because of the holiday effect. March fiscal deposits showed a negative incremental amount of Rmb33.2bn after declining Rmb111.2bn in February.

Policy Highlights

- **State Council provides guidance for 1Q10 economic work.** The State Council held an executive meeting on 13 April to provide guidance for the government's economic work in the first quarter. At the meeting, Premier Wen Jiabao stated that the current economic situation was still quite complicated and that the relatively high economic growth was mainly driven by the stimulus policies and the low comparison base last year. The effect of the global financial crisis persisted while the domestic economy faced an intensified inflation expectation, soaring property prices as well as underlying fiscal and financial risks, the premier said. The premier said more support would be provided to agriculture and effective measures would be adopted to avoid an excessive decline in pork prices. Mr Wen emphasised the importance of liquidity management, "moderate" loan growth, lending curbs on energy-intensive sectors and those with overcapacity, as well as strengthening capital ratio regulations and management over loans to local-government financing platforms. He also said land supply would be increased, stricter differential home loan policies would be adopted and tax policies would be more strictly enforced in the area of property transactions to stave off soaring real estate prices. At the meeting, the premier said reasonable and steady investment growth would be maintained, structural adjustments accelerated and efforts in energy conservation and emissions improvements promoted, along with the establishment of a more comprehensive social security system.
- **PBOC issues three-year bills to tighten liquidity.** The PBOC restarted the issuance of three-year central bank bills on 8 April after it stopped issuing them in June 2008 to combat the economic slowdown. The total issuance this time amounted to Rmb15bn, quite lower than the normal level in previous periods, which indicated that the PBOC wanted to stabilise the interest rate in order to dampen the market expectation of an interest rate hike. Despite the issuance amount being quite low, the restart of three-year central bank bills reflects the authority's intent to tighten liquidity. As they can freeze liquidity more effectively for longer periods, three-year bills will be used more often to partially replace those with shorter maturities.
- **State Council vows to curb soaring property prices.** The State Council issued a document on 17 April saying it would adopt stricter measures to restrain the soaring property prices in some cities. According to the document, local governments will be responsible for the stability of property prices and subsidised housing construction in the future. The cabinet required banks to introduced even stricter "differential" mortgage policies to curb the irrational residential demand. The down payment ratio for first-home buyers of floor areas greater than 90sqm will be raised to 30% from 20%, while that for

- second-home buyers is set to increase to 50% with an interest rate more than 1.1x that of the base rate. The down payment ratio and interest rates for buyers with more than two homes should be raised more significantly. The State Council also said it would accelerate property tax studies and require local government to increase the supply of subsidised housing and low-end commercial houses in the future.
- **CBRC urges banks to readjust lending structures.** Liu Mingkang, chairman of the China Banking Regulatory Commission (CBRC), recently called on commercial banks to readjust their credit structures in order to support the country's drive to upgrade and restructure major industries. In response to the government requirement to curb excessive capacity, the banking regulator earlier this year asked lenders to maintain strict controls on loans flowing into the industries of steel, cement, plate glass, shipbuilding, electrolytic aluminium and the chemical processing of coal and polysilicon. Given that China is considering an exit from the excessively loose monetary policies adopted last year, credit avenues for industries appearing on the government "blacklist" are set to be limited. The Chinese government is targeted to extend Rmb7.5trn in new loans this year, lower than the record Rmb9.59trn lent in 2009. As risks in the property sector are intensifying along with the soaring residential prices, the chairman also required commercial banks to pay closer attention to the dynamic changes in the property market.
 - **CSRC issues futures guidelines for brokerages and funds.** China Securities Regulatory Commission (CSRC) used on 23 April guidelines for securities firms and equity funds to trade stock index futures in order to managing potential trading risks. Securities firms should trade index futures only for hedging purposes in their principal investment business, and they are not allowed to engage in speculative trading until relevant rules are issued, the regulator said. The guidelines also required that in an aggregate asset management business, securities firms must not have long holdings of index futures contracts that exceed 10% of the net value of their assets nor should they hold short positions that exceed 20% of the total value of their stock holdings. Domestic equity funds, similar to securities firms, should trade index futures for hedging, and the total value of index futures contracts held by an equity fund by the end of a trading day cannot exceed 10% of the fund's net book value. The regulator also sought to control investment leverage by requiring that the total value of index futures contracts and securities held by open-end funds should not exceed 95% of their net assets. For exchange-traded funds and closed-ended funds, the value cannot exceed 100% of their net assets.

- China unveils new rules for foreign investment.** The State Council issued a document on 13 April regarding the optimisation of the FDI structure in China. The cabinet said it would employ taxation and other policies to encourage foreign enterprises to invest in the high-end manufacturing, high technology, advanced services, alternative energy, as well as energy conservation & environmental protection industries while curbing the expansion of energy-intensive sectors and those with excessive capacity. It also said it would support the transfer of foreign enterprises to western regions from the east. We expect FDI in the service sector and that in western regions to see faster growth compared with other sectors and regions over the next few years.
- Cabinet commits to accelerating energy-conservation work.** The State Council held an executive meeting on 28 April to set guidelines for energy conservation work this year. According to the official announcement, China will take more strict measures such as controlling land and tightening project approvals to reduce obsolete capacity in low-end thermal power generation, iron and steel smelting, cement, electrolytic aluminium, flat glass and paper making. The cabinet ordered curbs on the exports of energy-intensive and highly polluting products. Meanwhile, the central government will provide Rmb83.3bn for energy-efficient and environmentally-friendly projects, up more than 20% YoY. The State Council also said it would accelerate reforms of resource prices. The government will adopt an accumulated rate on different levels of residential electricity use while cancelling the favourable rate of electricity use in energy-intensive industries in some regions. The cabinet will promote the use of energy-efficient air conditioners, autos and electric machinery in both public and private sectors. The State Council encouraged public sectors in eastern and central regions as well as in some eligible western regions to replace the low-efficiency electric lamps with more highly-efficient ones.
- NDRC raises gasoline and diesel oil prices.** The National Development and Reform Commission (NDRC) announced on its website that the ex-factory prices of gasoline and diesel oil would both be raised by Rmb320/tonne, up 4.5% and 5%, respectively. Prices increased from the previous levels to Rmb7,420/tonne and Rmb6,680/tonne on 14 April. The price adjustments were mainly driven by the significant increase in global oil prices since the Spring Festival holiday. According to statistics from the International Monetary Fund (IMF), the international crude oil price returned to above US\$80/bbl in March. The price hike this time came a bit earlier than the market expectation, partially due to the probable mitigation of the CPI in March. Based on our rough estimates, the weighting of petroleum in China's CPI stands at about 2% and accounts for 3.5% of the EFPI. The current round of price hikes will have a direct impact of 0.09ppt and 0.17ppt on the CPI and EFPI, respectively, which is still quite limited.

Hong Kong Economy

- Hong Kong's Composite CPI rose 2.0% YoY in March 2010, down from the 2.8% rise in February.** Breaking down the numbers, the tail-raising factor contributed 1.37% and the year-to-date price level accounted for 0.63% during 3M10. Following the distortion from the Spring Festival in February, the index should gradually grind higher over the next few months. However, as the US dollar remains strong, the index is likely to see a slight upturn.
- Hong Kong's total exports in March jumped 32.1% YoY and imports swelled 39.8% YoY in value terms, as compared with the respective year-on-year increases of 28.5% and 22.3% in February.** March domestic exports rose 29.4% YoY, accelerating from the 8.3% YoY gain in February. Re-exports grew 32.1% YoY, up from the 29.1% YoY rise the month before. The robust rebound in trade numbers should continue into 1H10 amid the inventory-replenishment cycle. However, trade numbers may trend lower towards the second half of the year.
- The seasonally adjusted unemployment rate dropped to 4.4% from January to March.** The actual number of unemployed persons (not seasonally adjusted) increased from 159,100 to 160,600.

Major Economic Indicators

	2009			2010												
	2009	2010E	2011E	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
YoY %																
GDP	(2.7)	4.0	4.5	(7.5)	-	-	(3.7)	-	-	(2.2)	-	-	2.6	-	-	-
Total exports	(20.5)	10.0	9.0	(21.1)	(18.2)	(14.5)	(5.4)	(19.9)	(13.9)	(8.6)	(13.1)	1.3	9.2	18.4	28.5	32.1
- Domestic exports	(41.6)	12.0	10.0	(41.1)	(40.2)	(37.4)	(38.7)	(41.3)	(37.3)	(35.0)	(32.9)	(19.4)	(7.0)	33.9	8.3	29.4
- Re-exports	(19.8)	10.0	9.0	(20.5)	(17.5)	(13.7)	(4.2)	(19.2)	(13.2)	(7.8)	(12.5)	1.9	9.7	18.0	29.1	32.1
Imports	(19.5)	11.5	9.5	(22.7)	(17.0)	(19.2)	(7.9)	(17.8)	(9.8)	(3.1)	(10.7)	6.5	18.7	39.5	22.4	39.8
Trade balance (HK\$ bn)	(218.0)	(245.0)	(280.0)	(18.2)	(16.4)	(11.0)	(16.5)	(21.7)	(21.8)	(29.1)	(19.2)	(20.7)	(33.4)	(29.5)	(19.7)	(38.9)
Retail sales value	0.6	5.0	8.0	(7.7)	(4.3)	(6.2)	(4.7)	(5.3)	(0.1)	2.6	9.8	11.9	16.0	6.5	35.8	-
Unemployment rate (%)	4.9	4.6	4.3	5.2	5.3	5.3	5.4	5.4	5.4	5.3	5.2	5.1	4.9	4.9	4.6	4.4
Composite CPI	1.3	2.5	3.0	1.2	0.6	0.1	(0.9)	(1.5)	(1.6)	0.5	2.2	0.5	1.3	1.0	2.8	2.0
Fiscal deficit/surplus (YTD HK\$ bn)	(1.2)	(23.0)	(20.0)	1.4	(1.8)	(12.2)	(24.2)	(35.2)	(50.5)	(64.8)	(56.8)	(38.9)	(1.2)	47.9	47.0	-
Tourist arrivals	0.3	6.5	8.0	1.7	0.8	(13.4)	(15.0)	(12.2)	5.8	2.5	9.1	7.6	10.0	5.9	32.5	-
M2	5.3	6.5	7.5	4.2	4.4	7.3	9.8	9.6	10.5	9.7	11.3	10.1	5.3	5.5	6.6	-
Monetary base	99.2	(10.0)	(20.0)	73.4	89.7	112.7	116.1	137.7	143.3	131.2	145.0	138.6	99.2	88.2	94.2	79.4
3-month HIBOR (period average, %)	0.13	1.00	1.50	0.78	0.76	0.44	0.23	0.16	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
HSBC best lending rate (%)	4.75	5.25	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Property price (domestic premises)	27.6	(5.0)	1.0	(13.6)	(9.1)	(7.7)	(4.3)	(0.6)	3.7	6.6	15.2	25.6	27.6	27.7	29.0	-

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

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

Policy Highlights:

- **Commission on Strategic Development to discuss role of Hong Kong in mainland's development:** On 19 April 2010, the Commission on Strategic Development (CSD) held a meeting to discuss Hong Kong's role in the development of mainland China. As the PRC is in the process of formulating the National 12th Five-Year Plan, Hong Kong attaches great importance to participating in the formulation work. It is timely for the CSD to discuss Hong Kong's role in the medium to long-term development of the mainland, with a view to achieving mutual benefits and development. Several issues were discussed: i) As Hong Kong is the most internationalised financial centre in the country, the central authorities have time and again confirmed its role as an important testing ground for the mainland's financial reforms, and pledged support for Hong Kong to elevate its position as an international financial centre. Hong Kong should improve its financial infrastructure in support of the internationalisation of renminbi and its renminbi financial- and risk-management services. The SAR should also further develop renminbi products and renminbi settlement and investment services in Asia. It is also well-equipped to develop into an asset- and wealth-management centre for mainland China; ii) Hong Kong should strengthen its multiple roles as a world city in order to serve as a bridge for mainland enterprises to "go global" and for the PRC to "bring in" foreign investment. In drawing up plans for country-wide shipping and road transport networks, the central authorities can take into consideration Hong Kong's roles as an international aviation and shipping centre and a regional logistics hub to ASEAN countries. Looking ahead, Hong Kong will handle an increasing volume of international trans-shipment business, and should further develop high-end ancillary shipping services. It is also well-positioned to become a high-end inventory management and distribution centre, and; iii) Hong Kong should actively promote regional co-operation and integrated development in the greater Pearl River Delta with a view to making the region the most dynamic and internationally competitive city cluster in Asia Pacific. This includes implementing macro policies of the Outline of the Plan for the Reform and Development of the Pearl River Delta (Outline) through the Framework Agreement on Hong Kong-Guangdong Co-operation (Framework Agreement), so as to improve the living environment of and transportation between the two cities as well as to facilitate the development of the service industries of both

markets. Besides, as a modern service centre, Hong Kong can facilitate the mainland's process of "enhancing the secondary industries and speeding up the development of tertiary industries". The PRC and Hong Kong should continue to deepen the liberalisation measures under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), so that the latter's modern services can penetrate further into the mainland.

- **Re-opening of 10-year government bonds:** On 26 April 2010, the Hong Kong Monetary Authority (HKMA) announced that the tender of 10-year government bonds through the re-opening of existing government bonds (issue no. 10GB2001) under the Institutional Bond Issuance Programme will be held on 5 May (Wednesday) and for settlement on 6 May (Thursday). An additional amount of HK\$3bn of the outstanding 10-year bonds (issue no. 10GB2001) will be on offer. The bonds will mature on 13 January 2020, carrying an annual interest rate of 2.93% payable semi-annually in arrears. The bonds fixings on 26 April 2010 were 99.96, with an annualised yield of 2.958%.

AUTOMOTIVE

Top pick: Weichai Power

HK listed – Overweight

A shares – Overweight

- March passenger car sales amounted to 1,264,958 units in China, up 63% YoY. As a result, domestic passenger-car sales surged 76% YoY in 1Q10.
- With an increasing number of affluent households, we expect the country's passenger-car sales to rise 25% YoY in 2010.
- Sales of heavy-duty trucks (including chassises and semi-tractors) jumped 92% YoY in March. Meanwhile, large-bus sales soared 80% YoY in the period.
- China's 17 key automobile-manufacturing groups collectively registered a 531% YoY increase in total profit to Rmb28.67bn for 2M10.

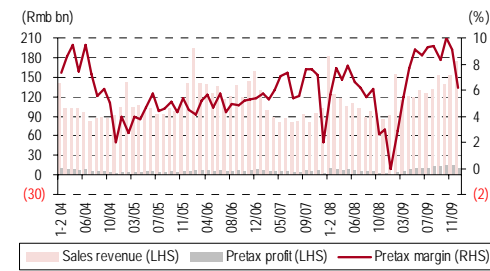
Shanghai Automobile (600104.SS/Rmb18.85) – BUY

First-quarter auto sales of SAIC Motor soared on a year-on-year basis. We believe SAIC-Volkswagen and SAIC-GM will each be able to meet their targeted sales of 900,000 vehicles. The launch of four new car models should double SAIC Motor's owned-brand auto sales this year. Passenger vehicles produced by its joint-venture firms enjoy higher gross margins and are more resilient in the face of risks. We raised our 2010 EPS estimate from Rmb1.561 to Rmb1.649, and kept our Rmb27.24 target price and **BUY** rating intact.

Dongfeng Motors (0489.HK/HK\$11.30) – BUY

Owing to the rapid growth in China's passenger car market, Dongfeng Motors' net profit for 2009 grew 58% YoY to Rmb6,250m. Meanwhile, its gross margin increased to 19.9% in 2H09 from 17.9% in 1H09 and 16.8% in 2008, mainly due to the improvement in its product mix and the reductions in unit production costs and raw-material prices. Earnings contributions from passenger vehicles accounted for more than 100% of its total operating profit for 2009. The firm's 2009 passenger-vehicle sales revenue and operating profit rose 42% and 59%, while its commercial-vehicle sales revenue and operating profit increased 5% and 25%. We reaffirmed our **BUY** call on the stock.

Operating Performance of Auto Industry



Source: China Automotive Industry Newsletter

Key Statistics

YoY %	2008	2009E	2010E	Sep09	Oct	Nov	Dec	Jan10	Feb
Trucks	6	34	19	63	61	86	106	167	22
Heavy	12	23	15	77	120	158	140	412	72
Semi-tractors	9	9	15	94	180	468	450	1,643	582
Medium	(13)	25	16	57	34	33	82	150	(7)
Light	5	30	22	60	52	96	104	144	4
Mini	19	73	15	65	73	53	99	141	(0)
Buses	(3)	4	9	37	23	43	36	91	19
Large	10	7	13	63	47	80	46	143	105
Medium	1	4	8	52	20	43	33	77	27
Light	(6)	3	8	27	20	35	35	86	8
Passenger cars	7	53	24	84	76	98	89	113	55
Sedans	7	48	25	77	66	94	82	112	46
MPVs	(13)	26	16	76	58	92	125	229	72
SUVs	25	47	28	88	78	104	96	156	122
Minivans	8	83	18	118	128	118	118	95	68
Total	7	46	22	78	72	96	92	124	46

Source: China Automotive Industry Newsletter, BOCI Research estimates

CHEMICALS

Top pick: Yantai Wanhua

HK listed – Neutral

A shares – Overweight

- In April 2010, prices of glyphosate, methylene diphenyl diisocyanate (MDI) and potash moved up given the approach of the mid-season. We expect the prices of MDI and other polyurethane products to remain at relatively high levels due to the rising utilisation rates in the downstream sectors.

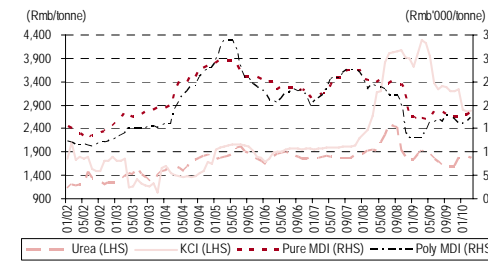
Yantai Wanhua (600309.SS/Rmb20.35) – BUY

In line with our forecasts, Yantai Wanhua saw year-on-year increases of 31% in net profit and 69% in sales revenue during 1Q10. Both the domestic methylene diphenyl diisocyanate (MDI) sector and the company are well-positioned for an upturn starting this year. Our estimate is for Yantai Wanhua to post net profit growth in excess of 30% in the next two years. We reaffirmed our Rmb27.16 target price and **BUY** call.

Hualu Hengsheng (600426.SS/Rmb16.31) – BUY

Net profit of Shandong Hualu Hengsheng Chemical edged up 2% YoY to Rmb96m in 1Q10, while revenue grew 33% YoY to Rmb1.147bn (EPS: Rmb0.193). Net profit would have increased about 30% YoY if excluding the Rmb25m in 2008 provision for inventory written off in 1Q09. First-quarter revenue growth was mainly attributed to the increases in both the outputs and sales of acetic acid and urea. Urea product prices witnessed a year-on-year decline due to poor weather and other factors. The market price for acetic acid remained low at Rmb2,800-3,000/tonne owing to issues relating to cost and oversupply. Selling expenses rose in tandem with administrative costs, while financing expenses surged 48% YoY on higher loan interests incurred following an increased loan for its 200,000-tonne acetic acid project. We expect Hualu Hengsheng to maintain stable production of chemicals in 2Q10 and make progress in its planned share placement. Growth drivers include the cost-advantage in its advanced clean-coal gasification technology and its 50,000-tonne coal-based ethylene glycol project, which is scheduled to commence operation at the end of this year. We reiterated our **BUY** rating on the stock.

Product Prices



Source: China Petroleum & Chemical Industry Association

Key Statistics

	% YoY	08	09	10E	Oct09	Nov	Dec	Jan10	Feb	Mar
Output										
Urea	3.7	10.5	8.0	9.2	15.8	21.5		4.6	2.2	
Potash	3.4	24.6	15.0	27.2	138.0	237.0		98.0	1.6	
PVC	(5.3)	11.0	8.0	56.8	66.5	42.0		8.6	12.7	
Nitric acid	(6.0)	10.7	5.0	24.5	46.0	46.9		41.0	16.0	
Price										
Urea	13.8	(15.7)	(5.0)	1.9	(0.6)	3.5	1.1	0.6	(1.7)	
KCl	21.6	(8.0)	(3.0)	(2.4)	0.0	(16.7)	(13.8)	(1.8)	(5.1)	
Nitric acid	73.8	(15.1)	5.0	8.7	(10.0)	13.9	1.1	1.1	(5.1)	
Pure MDI	(3.0)	(25.0)	5.0	0.0	(3.3)	0.0	0.0	2.3	2.8	
Poly MDI	(14.7)	(27.0)	8.0	0.0	(5.6)	(4.8)	0.0	3.0	4.2	
PVC	1.1	(13.0)	5.0	(3.0)	4.9	9.7	8.4	(0.3)	(0.9)	

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

CONSUMER – Beer, Wine & Liquor

Top pick: Wuliangye Yibin

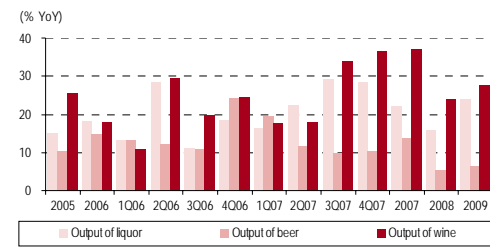
HK listed – Neutral
A shares – Overweight

- Liquor production volume increased about 27.7% YoY to 20.8m kl in 1Q10.
- Beer output grew around 7.3% YoY to 84.0m kl in 1Q10.
- Wine output rose about 13.2% to 2.3m kl in 1Q10.

China Foods (0506.HK/HK\$5.78) – SELL

Coca-Cola announced in its 1Q10 results that unit case volume in China grew only 6% YoY, a significant slowdown from 29% YoY in 4Q09 and the slowest quarterly growth in recent years. Its juice and juice-drink sales climbed 16% YoY in the quarter. The company did not disclose the figures for sparkling beverages, but we believe growth was in the low single digits or virtually flat. This could be because there were two reported cases of tainted Sprite in Beijing earlier this year. After examination, the claims were found to be erroneous, but the sales performance of sparkling drinks suffered as a result. According to China Foods, sparkling drinks recorded low-single-digit sales growth in 1Q10, and it expects the sales performance to recover in 2Q10. We already lowered our full-year turnover growth assumptions for sparkling drinks in our last report, and believe the sales growth for the bottling business will be in the high teens at best this year. We estimate a 24% three-year EPS CAGR for the holding company. We reaffirmed our **SELL** rating for China Foods.

Outputs of Beer & Liquor



Sources: China Light Industry Association, BOCI Research

Key Statistics

(m kl)	02	03	04	05	06	07	08	09	1Q10
Output									
Liquor	38	33	31	35	40	49	57	71	21
YoY (%)	(6)	2	2	15	18	22	16	24	28
Beer	238	254	291	306	352	393	410	424	84
YoY (%)	7	7	15	10	15	14	5	7	7
Wine	2.9	3.4	3.7	4.3	4.9	6.7	7.0	9.6	2.3
YoY (%)	7	14	15	25	18	37	24	28	13

Source: China Light Industry Association

CONSUMER – Dairy & Others

Top pick: Want Want China

HK listed – Overweight
A shares – Neutral

- Liquid milk product output grew 8.2% YoY to about 4.0m tonnes in 1Q10.
- Dairy product output climbed 8.9% YoY to about 4.7m tonnes in the period.
- Instant noodle output swelled 28.4% YoY to about 1.6m tonnes.
- Fruit juice and juice drink output jumped 28.1% YoY to about 3.5m tonnes.

Huabao International (0336.HK/HK\$9.05) – BUY

Chairlady Chu Lam-yiu transferred 204m shares or a 6.50% stake to investors in mid-April. Her stake in the listco decreased from 50.74% to 44.24%, while FMR and Wellington's stakes increased 2.40% and 2.68% to 10.51% and 7.79%, respectively. Despite the vote of confidence by fund shareholders, further share disposals from the chairlady remains the major overhang on its share price.

Xiwang Sugar (2088.HK/HK\$2.35) – BUY

Xiwang reported a net profit increase of 60% YoY to Rmb102m in 2009. It posted a strong recovery in 2H09 with a net profit of Rmb100m, a substantial improvement from the Rmb1m registered in 1H09. We revised up our 2010-11 earnings forecasts by 2-11% based on our higher gross margin and lower income tax expense assumptions. We nudged up our target price from HK\$3.00 to HK\$3.10 and reaffirmed **BUY**.

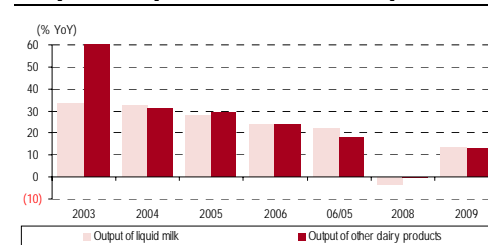
Haisheng Juice(0359.HK/HK\$1.17) – HOLD

Haisheng posted a net profit of Rmb98m in 2009, up from a loss of Rmb59m in 2008. Capturing a 25% share in China's export market, coupled with improved production efficiency and solid sales channels, Haisheng is the most competitive apple-juice concentrate play among the peers. Its market share will rise to around 40% after the acquisition of Yitian Group from Itochu. Our HK\$1.20 target price and **HOLD** rating remained intact.

Mengniu Dairy (2319.HK/HK\$23.65) – SELL

The 2009 earnings of Mengniu came in at Rmb1.1bn, 13% below our forecast. The disappointment stemmed mainly from the higher-than-expected A&P expense ratio in 2H09. The rising input cost and the higher A&P expense budget led us to revise down our respective earnings estimates by 21% and 11% for 2010 and 2011. As such, we cut our target price from HK\$22.00 to HK\$18.30 and reiterated our **SELL** rating.

Output of Liquid Milk & Other Dairy Products



Sources: China Dairy Yearbook, BOCI Research

Key Statistics

Output growth (YoY %)	03	04	05	06	07	08	09	1Q10
Liquid milk	60	31	29	24	18	(4)	13	8
Dairy products	33	32	28	24	22	(1)	13	9
Carbonated drinks	12	17	19	11	15	10	7	9
Fruit juice and juice drinks	35	28	29	29	21	12	38	28
Bottled water	16	20	24	19	16	24	25	11
Instant noodle	19	9	21	24	21	5	12	28
Confectionary	16	26	25	13	17	24	21	33
Cigarettes	0	7	5	3	7	4	3	4

Sources: China Statistical Yearbook, BOCI Research

CONSUMER – Retail

Top picks: *Lianhua (H), Wangfujing (A)*

HK listed – *Overweight*

A shares – *Overweight*

- The sales of key retail enterprises jumped 29.6% YoY in 1Q10, according to the China National Commercial Information Center, well above the 17.9% YoY increase in the retail sales of consumables, indicating that major retailers are gaining market shares.
- First-quarter retail sales growth in central and western China outpaced the national average, with the retail sales of consumables in Anhui, Jiangxi and Henan rising 19.3%, 18.8% and 18.3% YoY, respectively.

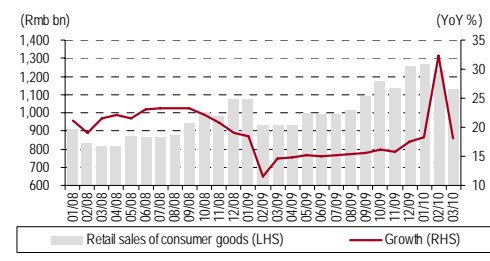
Wangfujing (600859.SS/Rmb34.24) – BUY

Wangfujing announced that its attributable net profit (barring the non-recurrent items) came in at Rmb143m in 1Q10. Revenue jumped 29.9% YoY to Rmb3.813bn in the period. First-quarter EPS soared 63% YoY to Rmb0.361. Our 2010 forecasts are lower than consensus numbers due to the somewhat long store-development cycle for its relatively new outlets. A larger number of new stores and the renovation work at its Beijing department-store building are likely to affect its full-year results. The stock still looks attractive in the medium to long term given its strong fundamentals. We raised our target price from Rmb36.75 to Rmb39.70 on 27x 2011E P/E and reiterated our **BUY** call.

Suning Appliance (002024.SZ/Rmb11.20) – BUY

Suning Appliance's attributable net profit leapt 86.08% YoY to Rmb884m in 1Q10 (excluding the non-recurrent items). Total revenue rose 33.1% YoY to Rmb16.494bn, while revenue from its core business increased 33.5% YoY to Rmb16.461bn in the period. Scale advantage and an improving supply chain should give a meaningful boost to Suning's operational efficiency in the long run. Quality of operations is set to improve thanks to the expansion of its retail work, business revamp and the implementation of a number of measures on expense control. We revised up our corresponding 2010-12 EPS estimates by 7.0%, 4.7% and 4.0% to Rmb0.578, Rmb0.684 and Rmb0.831. Based on 24x 2010E P/E, we derived a new target price of Rmb13.90 (previously Rmb13.50) and reaffirmed our **BUY** rating.

Retail Sales of Consumer Goods



Source: CEIC

Key Statistics

Wholesale and retail trade by category of main commodities					
YoY %	Oct09	Nov09	Dec09	J-F 2010	Mar10
Grain and oil	20.7	16.3	17.3	16.8	22.9
Meat, poultry and eggs	9.2	6.8	n.a.	n.a.	n.a.
Clothing, shoes, hats and textiles	22.7	24.7	21.8	23.3	25.4
Sport and recreation articles	10.8	12.9	14.8	10.7	19.1
Household and video appliances	35.4	24.9	25.2	31.7	24.8
Furniture	26.2	41.0	37.6	36.3	40.0
Cosmetics	18.2	14.0	13.4	15.6	15.4
Gold, silver and jewellery	15.6	11.6	25.4	34.7	44.0
Communication appliances	2.5	6.9	11.5	20.0	13.6
Automobiles	43.6	61.5	57.7	41.7	36.2

Source: NBS

CONSUMER SERVICES – Gaming

Top pick: *Galaxy Entertainment*

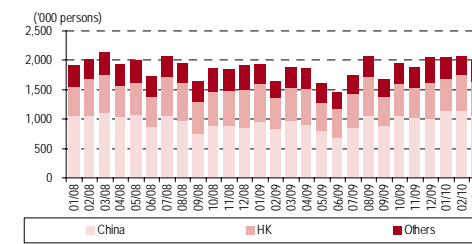
HK listed – *Neutral*

- Gross gaming revenue surged 69% YoY to MOP14.1bn in April, or 1.2% higher than the previous record in January this year, according to Macau Daily. Year to date, gross gaming revenue rose 60% YoY. If we annualise the figure, 2010 full-year gaming revenue would reach MOP180bn, representing a 50% YoY increase.
- Macau's visitor arrivals rose 6.7% YoY in March, exceeding the 2.0m mark for the fourth month and sustaining the uptrend since August 2009.

Galaxy Entertainment (0027.HK/HK\$3.70) – BUY

Galaxy Entertainment's 2009 net profit of HK\$1.15bn came in line with consensus estimate of HK\$1.1bn. The company posted EBITDA growth for the fifth consecutive quarter, with full-year EBITDA rising 106% YoY, thanks to the strong performance of StarWorld Hotel and Casino. The firm has also secured a six-year loan of HK\$9.0bn at HIBOR plus 450bps, which should cover the capital expenditure of Cotai Mega Resort scheduled to open by 2011.

Macau Visitor Arrivals



Source: CEIC

Key Statistics

Gross revenue from games of fortune						
MOP m	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10
VIP baccarat	15,616	16,828	16,287	21,742	24,976	28,761
YoY %	(8)	(19)	(19)	26	60	71
Slot machines	1,478	1,533	1,533	1,616	1,820	1,948
YoY %	30	13	10	13	23	27
Others	6,984	7,658	7,588	8,423	9,365	10,242
YoY %	5	(0)	3	15	34	34
Total	24,078	26,019	25,408	31,781	36,161	40,951
YoY %	(3)	(13)	(12)	22	50	57

Source: CEIC

ENERGY

Top pick: CNOOC Ltd

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

- The oil price continued to strengthen in April on the more optimistic global economic outlook. The spot price of ICE Brent rose from US\$82/bbl at the beginning of the month to US\$87/bbl at the end.
- The prices of Asian benchmark oils showed different performances relative to those of global benchmarks in April. The discount of the price of Minas (the benchmark for Daqing oil) to that of ICE Brent narrowed from US\$2.7/bbl to US1.1/bbl whereas the discount of the price of Duri (the benchmark for Shengli oil) to that of ICE Brent widened from US\$6.4/bbl to US\$7.3/bbl.
- By end-April, the coal inventory at Qinhuangdao (QHD) fell 41% MoM to 4.62m tonnes as inbound traffic was adversely affected by the major overhaul of the Daqin Railway in the first 28 days of the month. The median settlement price of Datong high-grade coal at QHD rose 3.4% MoM to Rmb750/tonne and that of Shanxi high-grade coal gained 2.9% MoM to Rmb705/tonne.

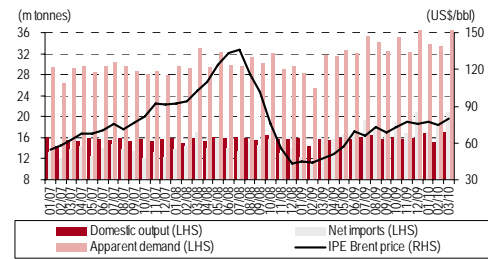
Yanzhou Coal (1171.HK/HK\$22.30; 600188.SS/Rmb23.73) – BUY

While Yanzhou's H-share earnings dropped 37% YoY to Rmb4.11bn and A-share earnings fell 39% YoY to Rmb3.88bn in 2009, the company surprised the market on the upside by reporting 191% YoY growth in 1Q10 A-share earnings to Rmb2.1bn with the contributions from Felix Resources acquired late last year. The company also projects its A-share earnings will more than double to above Rmb3.8bn. We raised our 2010-11 earnings forecasts by 22-24% in view of the strong results in 1Q10. We reiterated our **BUY** call and increased our target price for the H shares to HK\$25.71. However, we cut our target price for the A shares to Rmb30.82 on its narrowing A-H premium.

China Coal (1898.HK/HK\$12.04; 601898.SS/Rmb10.97) – BUY

China Coal's H-share earnings rose 10% YoY to Rmb7.83bn while A-share earnings increased 18% YoY to Rmb6.62bn in 2009. Its A-share earnings surged 43% YoY to Rmb1.98bn in 1Q10 due to higher sales volume. Meanwhile, the company announced the acquisitions of majority stakes in three mines with total coal resources of more than 2.7bn tonnes for Rmb4.7bn. They will be developed into mines with a total capacity of 17m tonnes per annum (tpa). They will pave the way to realise its output target of 200m tonnes by 2014. We lowered our 2010-11 earnings forecasts by 6-12% but reiterated our **BUY** call on the stocks.

Crude Production, Import & Demand



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

Key Statistics

YoY %	2009	2010E	2011E	Oct09	Nov	Dec	Jan10	Feb	Mar
Output									
Crude oil	(0.2)	1.3	1.6	(0.6)	(1.2)	2.3	5.8	5.5	6.9
Natural gas	6.1	9.4	9.2	14.8	15.6	10.7	12.8	11.1	13.5
Refining throughput	9.3	8.0	5.0	11.7	22.4	27.4	30.8	23.7	17.6
Coal	9.0	7.7	10.0	17.1	19.1	24.8	62.6	4.2	29.5
Imports									
Crude oil	13.9	7.4	5.5	19.7	28.1	48.0	33.4	57.8	28.9
Price									
IPE Brent (US\$/bbl)	62.4	81.4	81.4	68.4	73.3	77.4	75.3	77.3	74.4

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

FINANCIALS (China)

Top pick: China Merchants Bank

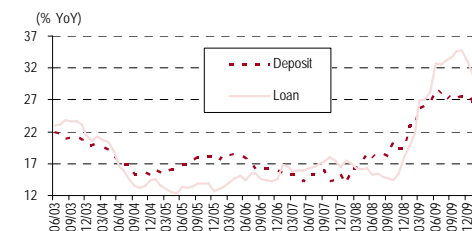
**HK listed – Neutral
A shares – Neutral**

- All listed PRC banks released their 1Q10 results in the past month. These banks posted an aggregate net profit of Rmb141.9bn, up 31.6% YoY. Lending increased 23.7% YoY and 6.6% QoQ. We also note a slight drop in net interest margin (NIM) from 2.32% in 4Q09 to 2.28% in 1Q10, mainly due to rising funding costs, flat earnings asset yields and a lower proportion of loans among interest-earning assets. Their asset quality continued to improve in the first quarter, with both the non-performing loan (NPL) balance and NPL ratio on the decline. Coverage ratio increased to 186% as at end-1Q10 from 170% at end-09.
- On 2 May, the People's Bank of China (PBOC) announced its move to raise the reserve requirement ratio (RRR) by another 0.5ppts. We believe such an adjustment will have little impact on the earnings of PRC banks. However, this will negatively impact banks with higher loan-to-deposit ratios, lower excess reserve ratios and poorer liquidity. We reiterated our **Neutral** rating for China's banking sector.

China Construction Bank (0939.HK/HK\$6.42; 601939.SS/Rmb5.25X) – BUY

China Construction Bank (CCB) announced on 29 April that it would raise up to Rmb75bn through a right-issue plan for both its H and A shares. The offering ratio for the right-issue plan will be no more than 0.7 shares for 10 existing shares. We believe the plan will have a minimal impact on the A-share market, but will cause some financing pressure in the H-share market. As Central Huijin Investment (which holds 57% of CCB's total shares) will participate in the plan, it will only need to raise a maximum of Rmb32bn in the capital market. We calculate that the offering price represents a 16% discount to the current H-share price and a 12% discount to the A-share price. The discount is not very attractive, in our view. However, the final financing amount might not reach Rmb75bn. As such, we expect the discount to increase in the future. This plan requires approvals from the China Banking Regulatory Commission (CBRC) and the China Securities Regulatory Commission (CSRC). From an optimistic standpoint, we believe the plan will be completed by end-2010.

Growth in Loans and Deposits



Source: NBS

Key Statistics

	09	10E	Oct09	Nov	Dec	Jan10	Feb	Mar
Incremental loans (Rmb bn)	9,579	7,500	253	295	380	1,390	700	511
Deposits (% YoY)	28.0	18.0	28.1	28.2	28.2	27.3	25.0	22.1
Lending (% YoY)	32.0	19.0	34.2	33.8	31.7	29.3	27.2	21.8
7-day interbank lending rate (%)	1.3	1.8	1.3	1.3	1.3	1.2	1.5	1.4
Excess deposit reserve ratio (%)	2.0	1.5	n.a	n.a	3.1	n.a	n.a	n.a
NPLs (%)	1.6	1.5	n.a	n.a	1.6	1.5	n.a	n.a

*NPL data from the CBRC; all other data from the PBOC
Sources: Listed companies, PBOC, BOCI Research estimates

FINANCIALS (Hong Kong)
Top pick: Standard Chartered

HK listed – Neutral

- Loans grew by 5.6% YoY in 2M10 supported by a 2.8% YoY growth in domestic loans. Overseas merchandising loans also reported a robust growth of 54.3% YoY.
- Hong Kong dollar deposits grew 6.6% YoY, the majority of which came from demand and savings accounts, which grew 30.9% YoY. Meanwhile, time deposits showed a decline of 12.1% YoY. The loan-to-deposit ratio in February increased further to 53.8% from 52.9% the previous month. This was the fourth consecutive month the L/D ratio rose after having reaching the most recent low of 50.1% in October 2009.
- Residential mortgage loans increased by 1.2% in March, where new loan drawdown surged rapidly to HK\$27.4bn, which was a record high as property transactions increased, particularly in the primary market. HIBOR-pegged loans gained further popularity, representing 76.5% of newly-approved loans, up further from the 64.3% reported in February.

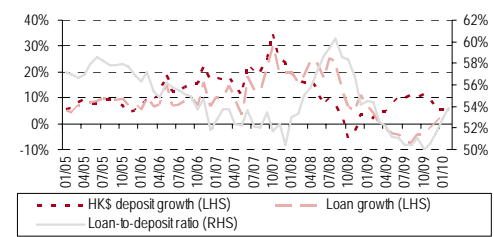
Standard Chartered (2888.HK/HK\$215.00) – BUY

Standard Chartered's 2009 net profit attributable to ordinary shareholders rose 4.7% YoY to US\$3.28bn, in line with market consensus. Pre-tax profit went up 35.8% YoY for wholesale banking, while consumer banking reported a 22.3% YoY decline. Operations in MESA and Korea showed profit declines, while all other operations recorded rises. Income growth of 9% YoY was derived from well-diversified markets. Capital is adequate with a core tier-1 capital ratio of 8.9% (vs. 8.4% reported in 1H09). We continue to favour StanChart for its emerging market-focused strategy and its track record of delivering consistent improvements. We reaffirmed **BUY** and lifted our target price to HK\$225.00.

Dah Sing Financial (0440.HK/HK\$44.70) – BUY

Dah Sing Financial's 2009 net profit of HK\$626m represented a 490% YoY increase, but it still came in 21% below Bloomberg consensus estimates. The rather weak set of results and the dividend cut are likely to be viewed negatively by the market, although we believe the volatility resulting from various one-off items should not be repeated this year. Despite the relatively weak fundamentals compared with other H-share banks, the current valuation offers substantial upside, in our view, so we upgraded our rating from **HOLD** to **BUY** and raised our target price from HK\$34.00 to HK\$50.00.

Loan and Deposit Growth



Sources: HKMA, BOCI Research estimates

Key Statistics

(%)	2008	2009E	2010E	Oct09	Nov	Dec	Jan01	Feb	Mar
Prime	5.39	5.00	5.15	5.00	5.00	5.00	5.00	5.00	5.00
3M HIBOR	2.30	0.47	0.72	0.21	0.14	0.11	0.13	0.13	0.13
Prime - HIBOR	3.09	4.53	4.43	4.79	4.86	4.89	4.87	4.87	4.87
Savings deposit rate	0.14	0.01	0.16	0.01	0.01	0.01	0.01	0.01	0.01
(YoY %)									
Loan growth	10.9	5.0	7.5	(4.4)	(1.8)	0.1	2.6		
HK\$ deposit growth	3.2	2.5	5.0	11.5	10.3	5.3	5.7		
Rmb deposit growth	67.8	5.0	30.0	(13.3)	(2.5)	11.9	17.6		

Sources: HKMA, BOCI Research estimates

FINANCIALS – Insurance
Top pick: China Life Insurance

HK listed – Overweight
A shares – Overweight

- Chinese insurance companies' premium income growth slowed slightly in March. Accumulated life insurance premium grew 39.1% YoY in 1Q10 while accumulated non-life insurance premiums increased 36.9%. We believe that after the slowdown in premium growth last year, the China insurance sector will post decent premium growth in 2010, which could drive Chinese insurers' stock performances.

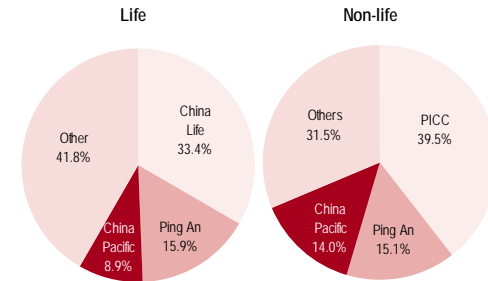
China Life Insurance (2628.HK/HK\$35.75; 601628.SS/Rmb26.57) – BUY (H); NR (A)

China Life posted net profit of Rmb10.2bn for 1Q10, representing year-on-year growth of 66.6%. This was mainly driven by the recovery in insurance premiums and better investment returns. The company's earned premiums reached Rmb110bn, up 14.1%. At end-1Q10, China Life's investment assets amounted to Rmb1,210bn. The company's investment income jumped 57% YoY, and its gross investment yield came in at 1.47% (5.95% if annualised). Investment income was mainly driven by the accumulated gains in 2009, while the value of AFS securities actually recorded losses in 1Q10 due to the volatile equity markets. Looking forward, we still expect the company's premiums to recover moderately, possibly posting single-digit growth for full-year 2010. Meanwhile, the stock market corrections may impair its investment gains and negatively impact its share price performance in the short term.

Ping An Insurance (2318.HK/HK\$67.85; 601318.SS/Rmb49.40) – HOLD (H); BUY (A)

Ping An posted a net profit increase of 785% in 2009 owing to strong investment income. However, a slowdown in new business value is expected this year due to low margin and slow premium income growth. Furthermore, the close correlation with the A-share market raises short-term risk if it drops in the coming months. Ping An posted net profit of Rmb4.6bn in 1Q10, a significant increase of 89.6% YoY. Its net earned premium jumped 55.7% and investment income climbed 12.3%. The company lowered the weighting of equity securities in its investment portfolio and achieved positive gains in its available-for-sale financial assets. We reaffirmed our **BUY** rating on the A shares from a long-term perspective but are cautious of the short-term performance due to a possible correction in the market.

Market Share Breakdown – February 2010



Sources: CIRC

Insurance Premium Growth

(Rmb bn)	2008	2009	Oct09	Nov	Dec	Jan10	Feb	Mar
Non-life insurance premiums	234	288	20	21	24	44	21	34
Life insurance premiums	745	826	58	65	68	120	113	121
Total insurance premiums	978	1,114	78	86	92	164	134	155
Growth rate (%)								
Non-life insurance premiums	17	23	23	32	33	48	27	35
Life insurance premiums	48	77	28	48	50	42	40	34
Total insurance premiums	39	14	27	44	45	43	38	35

Sources: Bloomberg, Company data, BOCI Research estimates

MEDIA

Top pick: TVB

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

- Industry regulator State Administration of Radio, Film and Television (SARFT) has launched a surprise campaign to stamp out all unauthorised internet protocol television (IPTV) projects undertaken by several media groups in conjunction with the telecom carriers. We do not believe this is conducive to the upcoming trial of cable and telecom service convergence.

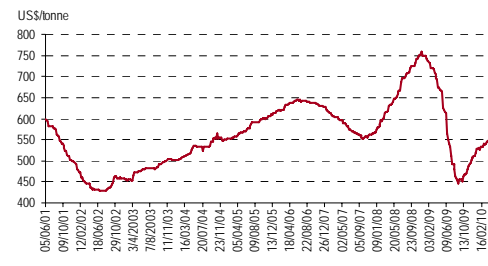
Xinhua Media (600825.SS/Rmb13.35) – HOLD

Xinhua Media reported a 12.3% YoY decline in recurrent net income to Rmb238m (EPS: Rmb0.268), with attributable profit falling 3.7% YoY. We believe the company should see strong growth in its core newspaper advertising business this year, while investments in electronic publishing may well benefit the company in the longer term. We maintained our **HOLD** rating.

Shanghai Oriental Pearl (600832.SS/Rmb11.85) – SELL

Oriental Pearl posted 8.6% YoY growth in recurrent net income to Rmb362m (EPS: Rmb0.164), in line with our forecasts. Despite its well-performing core businesses, the 39%-held Oriental Cable is likely to see a substantial loss this year due to an aggressive digital-migration programme ahead of a tariff increase next January. Longer term, the management of World Expo facilities will help the company's earnings growth. However, valuation is too high at more than 80x current-year earnings, while profit growth is likely to hover at single-digit levels. We reaffirmed our **SELL** rating.

Newsprint Prices



Sources: Bloomberg

Key Statistics

	2001	2002	2003	2004	2005	2006	2007	2008
Hong Kong adspend (HK\$m)								
Total adspend	24,240	31,900	35,755	41,112	45,856	49,205	54,968	61,652
TV	10,344	13,696	14,934	16,477	17,546	19,384	19,606	21,592
Radio	692	1,149	1,236	1,442	1,486	1,710	2,596	
Newspapers	8,389	11,104	12,651	14,221	15,895	16,648	18,059	19,732
Magazines	3,399	4,680	5,110	6,875	7,977	8,701	9,444	10,378
Internet	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2,008	2,195
Outdoor	2,107	1,727	1,911	2,303	2,996	2,985	4,140	5,159
China adspend (Rmb m)								
Total adspend	38,035	47,318	57,643	64,541	74,386	86,323	90,843	107,821
Newspapers	15,770	18,848	24,301	23,072	25,605	31,259	32,219	34,541
TV	17,937	23,103	25,504	29,154	35,529	40,402	44,295	56,161
Magazines	1,186	1,521	2,438	2,037	2,487	2,410	2,646	4,235
Radio	1,828	2,190	2,557	3,293	3,886	5,719	6,282	6,404
Others	1,314	1,656	2,843	6,984	6,880	6,533	5,400	6,480

Sources: Admango for Hong Kong data, SAIC for mainland China data

METALS & MINING

Top pick: Jinduicheng Molybdenum

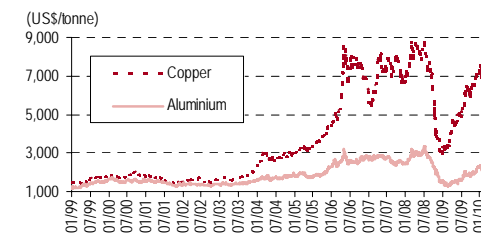
**HK listed – Neutral
A shares – Overweight**

- Most of the Chinese metal and mining companies have announced their FY09 and first quarter results. Of the companies announced, we saw steady growth in gold companies for 1Q10 and last year but mixed results for aluminium companies. Despite the aluminium price recovery, rising energy costs have eroded margins, and we believe cost is the now the major concern for Chinese aluminium smelters. The steel companies reported strong quarterly earnings growth in 1Q10, but the outlook remains uncertain as Chinese steel producers have not agreed on iron-ore contract prices yet. We believe a move to quarterly pricing is likely for Chinese steel producers, which would be a blow to earnings growth ahead.
- Spot iron ore prices have gone up to US\$195/tonne since Brazilian miner Vale and BHP Billiton agreed in April with Japanese steel producers to move to quarterly contracts at a price for Asian steel producers of about US\$110-US\$120/tonne during the April-June period. This is an increase of between 69-85% from around US\$65/tonne at which the 2009-10 annual contracts were settled.
- Of the various metals, we are more positive on nickel, molybdenum and gold prices this year. Among metal and mining stocks, we prefer vertically integrated plays, so we favour China Molybdenum, Jinduicheng, Xinjiang Xinxin Mining and Shandong Gold.

Xinjiang Xinxin Mining (3833.HK/HK\$4.53) – BUY

We maintain our forecasts and reiterate our BUY rating for XXM on an improved earnings outlook, as nickel sales volume from its own mines should increase from 4,279 tonnes in 2009 to 8,500 tonnes in 2011 due to a rising contribution from its Kalatongke mine and its new mine in Hami. In addition, we believe the worst is over for the nickel price, as it should post moderate increases of 15% YoY in 2010 and 10% YoY next year. XXM stands to benefit from the rises in the volume and price of nickel.

3-month Futures Aluminium and Copper



Sources: LME

Key Statistics

(% YoY)	07	08	09	Nov09	Dec	Jan10	Feb	Mar
Quick-speed wire rod	15.0	32.0	(25.1)	0.3	1.9	3.1	2.0	17.6
Ord. plate -40mm	17.0	26.6		(2.0)	4.3	3.3	(4.9)	18.1
Hot-rolled sheet	10.0	20.5	(26.9)	10.0	6.3	(1.5)	0.6	16.7
Cold-rolled sheet	5.0	19.2	(22.3)	18.9	23.1	22.2	21.5	37.3
Galvanised steel	1.0	14.9	(24.2)	11.3	13.8	11.0	9.3	21.4
Aluminium	(5.0)	(12.8)	(17.2)	10.8	37.5	47.0	40.2	27.3
Copper	0.0	(11.0)	(23.5)	57.4	96.1	112.8	99.7	89.9

Sources: Bloomberg, company data, BOCI Research estimates

PHARMACEUTICALS

Top pick: *Tasly Pharmaceutical*

HK listed – **Overweight**

A shares – **Overweight**

- According to China's State Council, the payback of hospital maintenance charges for urban citizens and new cooperative medical insurance will increase to more than 60%.

Payback of hospital maintenance charge will increase

On 19 April, the State Council released the notice Major Working Arrangement in 2010 for Five Core Healthcare System Reforms. According to the document, the payback of hospital maintenance charges for urban citizens and new cooperative medical insurance will increase to more than 60%. As a result, the demand for drugs is set to rise in the long run, which will benefit the country's pharmaceutical companies.

Acceleration of growth in 1Q10 results

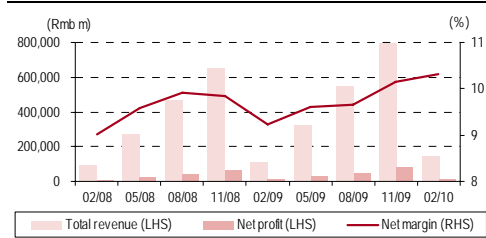
The year-on-year growth rates for the pharmaceutical industry accelerated in 1Q10 in terms of both revenue and gross margins. Among subsectors, distribution, medical devices and biological drugs were the best performers.

Year-on-year Growth Rates by Subsector

Subsector	Revenue		Gross margin		Net profit	
	2009	1Q10	2009	1Q10	2009	1Q10
Pharmaceutical total	15.3	31.3	18.8	40.9	70.6	66.1
Bulk drugs	9.1	34.9	3.4	35.5	(6.0)	82.9
Finished drugs	7.9	9.4	14.2	27.6	22.5	19.5
Biological drugs	10.5	37.2	26.7	43.2	682.7	84.3
Medical devices	10.1	40.9	48.1	44.0	283.7	61.9
Distribution	21.9	49.5	21.5	116.2	56.4	191.1
TCM	20.4	22.4	22.9	32.1	51.7	56.7
Medical services	16.0	34.1	20.0	21.0	(80.8)	89.5

Sources: Company data, BOCI Research

Revenue of Pharmaceutical Industry



Sources: Chinese Medicine Economic Information

Key Statistics

	Sales increase (%)			Profit increase (%)		
	Aug09	Nov09	Feb10	Aug09	Nov09	Feb10
Pharmaceutical total	18.1	21.4	28.0	15.1	25.2	43.2
Finished drugs	25.2	26.6	27.7	20.7	26.9	40.3
TCM Yinjian	29.6	30.9	(4.5)	48.9	50.2	(9.6)
TCM	15.5	19.7	26.7	17.8	24.7	48.8
Biological drugs	18.1	21.8	19.1	19.0	35.3	33.8
Bulk drugs	14.6	17.2	39.6	(8.4)	8.6	67.3
Medical devices	4.8	10.7	31.7	37.8	38.8	38.1

Sources: Chinese Medicine Economic Information, BOCI Research estimates

PROPERTY (China)

Top picks: *Poly HK (H), Risesun Development (A)*

HK listed – **Overweight**

A shares – **Neutral**

- The State Council issued a series of tightening measures to cool down the property market. The most important changes in mortgage loan policies included: i) down payments for second-home buyers are to be raised from 40% to 50%, while those for first-time buyers of homes larger than 90sqm will rise to at least 30% (up from 20%); ii) mortgage rates for second-home buyers are to be set at 1.1x of the benchmark; iii) banks can now deny loans to third-home buyers. In addition, local governments in areas with skyrocketing prices can temporarily restrict the number of properties one can buy, and banks can deny loans to buyers who cannot prove that they had lived and paid taxes for at least one year in the cities where they wanted to buy property.
- The average selling price of commodity houses in 70 mainland cities rose 11.7% YoY in March, 1.0ppt higher than that in February, according to the National Development and Reform Commission (NDRC). The cities of Haikou, Sanya and Wenzhou led the way in price hikes, up 64.8%, 57.5%, and 22.3%, respectively.

China Overseas Land & Investment (0688.HK/HK\$15.38) – BUY

1Q10 turnover of China Overseas Land & Investment reached HK\$6.06bn and operating profit amounted to HK\$2.44bn. 1Q10 contracted increased 48.3% YoY to HK\$13.73bn, with a record high in monthly contracted sales of HK\$6.85bn achieved in March 2010.

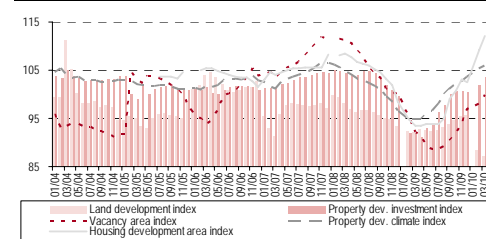
Greentown China (3900.HK/HK\$8.42) – SELL

Greentown China registered net profit growth of 87% YoY in 2009 to Rmb1,072m. Stripping out one-off non-cash items, we estimate core net profit fell 10% to Rmb706m, missing the consensus forecast of Rmb1.1bn.

China Vanke (000002.SZ/Rmb7.80; 200002.SZ/HK\$7.55) – BUY

China Vanke posted revenue of Rmb7.50bn (down 8.1% YoY) and net profit of 1.13bn (up 46.5%) in 1Q10. In the quarter, the company realised cumulative sales area of 1.242m sqm for revenue of Rmb15.09bn, representing a decrease of 18.5% and a rise of 23.5%, respectively.

Property Indices



Sources: Soufun.com

Key Statistics

(YoY %)	07	08	09	Sep09	Oct	Nov	Dec	J-F10	Mar
Property investment	30	21	16	34	26	29	23	31	39
Residential property investment	32	23	14	29	20	31	18	33	33
Commodity housing starts (area)	21	2	13	56	55	194	34	38	87
Commodity housing completion area	10	(4)	6	22	10	49	11	8	17
Commodity housing sales area	26	(20)	42	56	82	100	43	38	33
Commodity housing sales amount	44	(20)	76	97	134	167	67	70	43
Average selling prices	15	(0)	21	20	21	22	21	23	16

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

PROPERTY (Hong Kong)

Top picks: SHKP, The Link REIT

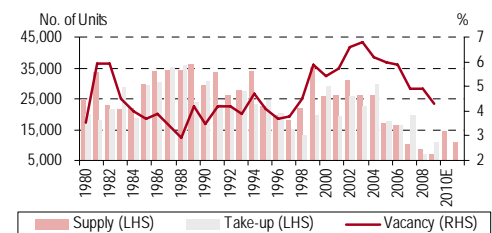
**Developers – Neutral
Investors/REITs – Neutral**

- The number of sale and purchase agreements in April rose 12.5% MoM to 14,300, which was 28% higher than the 2009 average. Total consideration of sale and purchase agreements increased 9.8% MoM to HK\$63.8bn, boosted by the strong sales at the newly launched Festival City I developed by Cheung Kong.
- The Hong Kong government announced four measures to prevent the overheating of the property market. Meanwhile, the government re-initiated land auctions for the first time since 2002, putting two sites in Ho Man Tin and Mount Nicholson up for sale. Together with the previously announced Tung Chung and Fanling land auctions, as well as the Nam Cheong Station site tender, the five sites are to provide about 7,200 new units. However, the underlying issues remain how the government can raise the supply further and its attitude towards the high-land-price policy.

MTR Corporation (0066.HK/HK\$27.50) – BUY

In line with the Hong Kong government's intent to increase housing supply, MTRC has also accelerated the process of its project tenders. Following the Nam Cheong Station, we anticipate MTRC will tender the Lohas Park package 4 in 2H10. With local developers still keen to replenish their land bank, we expect them to be generous in terms of profit sharing. We maintained our target price of HK\$32.00 and **BUY** rating on the stock.

Private Residential Property Completions & Sales



Sources: Housing Department, Centaline

Key Statistics

	08	09	10E	Nov09	Dec	Jan10	Feb	Mar	Apr
Midland property prices	(12)	27	12	28	27	30	30	28	24
CCL Index	(15)	29	10	28	29	30	33	31	26
No. of trans.	(22)	18	5	196	104	115	166	58	28
Trans. value	(21)	25	3	350	109	139	207	103	58
Primary trans.	(48)	66	9	727	37	123	253	175	37
Unsold stock	13	(4)	7	2	(4)	(13)	(9)	7	-

* Provisional figures

Sources: Centaline, Midland, BOCI Research estimates

SMALL/MID-CAP

Top pick: Ajisen (China)

HK listed – Overweight

- The FOEX China Bleached Hardwood Kraft Pulp Index climbed 3.6% MoM to Rmb5,535/tonne, while the FOEX US Northern Bleached Softwood Kraft Index increased 4.5% MoM to US\$929/tonne. Global pulp inventory days dropped from 28 days as of end-February to 26 days as at end-March due to diminishing supply caused by the Chile earthquake.
- The old corrugated containerboard (OCC #11) price declined 12.4% MoM to US\$247.5/tonne, which helped alleviate the cost pressure faced by containerboard manufacturers.

Vinda International (3331.HK/HK\$6.64) – BUY

Vinda announced that its 2009 net profit soared 140% YoY to HK\$398m, which was 11% above our estimate and 8.5% ahead of the market's expectation. The average cost of the company's wood pulp in stock is at a 20% discount to the market spot price, which is sufficient for its production until end-October. Moreover, the company aims to lift the sale contribution from high-margin products going forward. Vinda will launch a new non-wood pulp product brand called Rewoo targeting price-sensitive consumers in lower-tier cities. Based on 15x 2010E P/E, a 48% discount to Hengan's 2010E P/E, we left our target price unchanged at HK\$6.60 and reaffirmed our **BUY** rating.

Lumena Resources (0067.HK/HK\$2.31) – BUY

Lumena's net profit for 2009 grew 24% YoY to Rmb533m, in line with our expectation. We revised down our earnings forecast for 2011 by 21.3% mainly due to the suspension of the 1.0m tpa Muma project. Instead, the company plans to commence production of specialty thenardite production lines with 300,000tpa for animal feed in 1H10 and optimise exiting production capacity of specialty thenardite from 1.0m tpa to 1.1m tpa to compensate the project delay. Considering the execution risk and those related to the major shareholder's other business, we applied a 20% discount to the peer average 2010E P/E to value Lumena. Based on 8.1x 2010E P/E, we revised down our target price from HK\$4.20 to HK\$3.50 and reiterated our **BUY** rating.

Vinda International – Income Statement

	2008	2009	2010E	2011E	2012E
Year ended 31 Dec					
Revenue (Rmb)	2,424	2,776	3,849	4,894	5,680
Change (%)	36	15	39	27	16
Net profit (Rmb)	166	398	403	453	516
Fully diluted EPS (Rmb)	0.174	0.440	0.441	0.491	0.554
Change (%)	111.6	153.6	0.2	11.4	12.7
Core EPS (Rmb)	0.174	0.440	0.441	0.491	0.554
Change (%)	111.6	153.6	0.2	11.4	12.7
Fully diluted P/E (x)	38.3	15.1	15.1	13.5	12.0
Core P/E (x)	38.3	15.1	15.1	13.5	12.0
CFPS (Rmb)	0.45	0.28	0.59	0.45	0.65
P/CF (x)	14.8	23.9	11.2	14.7	10.3
EV/EBITDA (x)	21.0	10.3	9.5	8.8	7.3
DPS (Rmb)	0.046	0.120	0.111	0.125	0.143
Yield (%)	0.7	1.8	1.7	1.9	2.1

Sources: Company data, BOCI Research estimates

Lumena Resources – Income Statement

	2008	2009	2010E	2011E	2012E
Year ended 31 Dec					
Revenue (Rmb)	1,140	1,344	1,931	2,028	2,052
Change (%)	207	18	44	5	1
Net profit (Rmb)	430	533	757	806	823
Fully diluted EPS (Rmb)	0.283	0.270	0.378	0.400	0.406
Change (%)	444.3	(4.6)	40.3	5.8	1.4
Core EPS (Rmb)	0.288	0.269	0.378	0.400	0.406
Change (%)	454.8	(6.6)	40.6	5.8	1.4
Fully diluted P/E (x)	7.2	7.5	5.4	5.1	5.0
Core P/E (x)	7.0	7.5	5.4	5.1	5.0
CFPS (Rmb)	0.49	0.22	0.54	0.50	0.58
P/CF (x)	4.1	9.2	3.8	4.0	3.5
EV/EBITDA (x)	5.0	5.4	3.4	2.9	2.4
DPS (Rmb)	0.000	0.000	0.097	0.103	0.105
Yield (%)	0.0	0.0	4.8	5.1	5.2

Source: Company data, BOCI Research estimates

TECHNOLOGY

Top pick: Comba Telecom

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

- Global LCD Monitor panel shipments increased 32% MoM to 19.8m in March 2010 while LCD TV shipments posted an 18% MoM slide to 16.9m, according to Displaysearch.
- Global semiconductor sales decreased 1.3% MoM and 56.2% YoY to US\$22.0bn in February 2009, according to Semiconductor Industry Association.
- North America semiconductor equipment bookings in March 2010 rose 2.7% MoM to US\$1,285.1m while billings grew 6.4% to US\$1,081.6m.

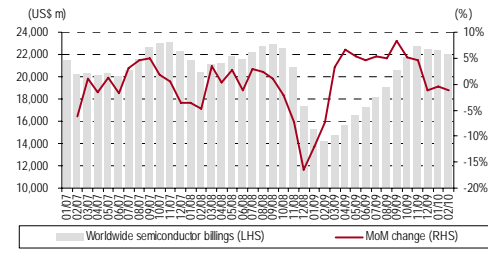
ZTE Corp (0763.HK/HK\$28.30; 000063.SZ/Rmb37.25) – HOLD

ZTE announced in-line 1Q10 results with net profit up 40% YoY to Rmb110m. The company continued to gain traction in China's handset market by delivering over 60% YoY growth. Combined with the robust sales of optical equipment and the upcoming fourth phase of TD-SCDMA tender, we expect ZTE to continue to deliver year-on-year growth in the PRC. Optical equipment registered robust growth both in China and overseas. ZTE offers a full range of products to ride on the two-way conversion upgrade by cable TV companies.

BYD (1211.HK/HK\$70.55) – BUY

BYD delivered another encouraging quarter with net profit surging 255% YoY to Rmb1.7bn, thanks to the gross margin expansion and robust auto shipments in 1Q10. We believe the company is on track to reach its annual shipment target and ride on the wave of the 3G terminal ramp-up in China. We revised up our earnings forecasts by 16.8% for 2010 and 16.5% for 2011 to factor in a better margin outlook. We reaffirmed our **BUY** rating and target price of HK\$88.00.

Worldwide Semiconductor Billings



Sources: SIA, BOCI Research estimates

Key Statistics

Semiconductor sales revenue		08	09	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
US (US\$ bn)		39.0	37.0	9.9	9.0	7.6	8.3	9.8	11.4
Europe (US\$ bn)		39.6	29.2	10.3	9.1	6.6	6.5	7.3	8.8
Japan (US\$ bn)		49.3	38.2	12.6	12.0	8.5	8.3	10.2	11.2
Asia-Pacific (US\$ bn)		127.4	113.8	35.1	30.6	21.5	26.3	30.5	35.5
Total		255.3	218.3	67.9	60.8	44.2	49.4	57.9	66.8

Capacity & utilisation rate		1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Foundry capacity (wafer start per week x 1,000)		298	308	290	294	296	288	315	325
Foundry utilisation rate (%)		94	93	86	53	50	83	92	91
Total IC capacity (wafer start per week x 1,000)		2,152	2,198	2,223	2,187	1,995	1,948	1,927	1,933
Total IC utilisation rate (%)		91	89	87	68	57	78	87	89

Sources: SIA, SICAS

TELECOMS

Top pick: China Mobile

Overweight

- The Ministry of Industry and Information Technology (MIIT) estimates that the three telecoms carriers will invest about Rmb95bn in 3G network construction this year, with about Rmb6.04bn having been spent in 1Q10.

China Mobile (0941.HK/HK\$77.25) – BUY

China Mobile has reported a 1.1% YoY net income growth to Rmb25.48bn (EPS: Rmb1.27), just 0.4% below our estimate. Revenue was quite strong with a 7.7% rise to Rmb109.1bn, about 2.7% higher than our forecast. The company reported a net addition of 5.97m in its subscriber base to 538.89m, the highest monthly gain in a year. It also redefined its 3G subscriber base to conform to that of industry regulator MIIT, putting the total 3G users at 7.69m at end-March, though adjustments in prior months were not available. We reaffirm our **BUY** rating on the stock.

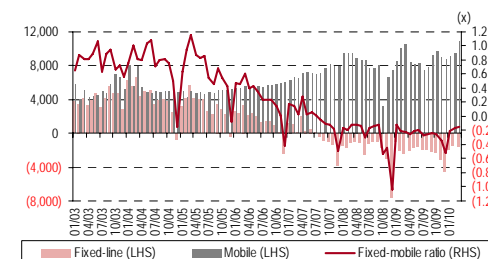
China Telecom (0728.HK/HK\$3.62) – HOLD

China Telecom reported a 3.3m net increase (after 3.01m in February) in its cellular subscriber base to 65.45m. This was a record-high monthly gain since the company took over the CDMA business in October 2008 from China Unicom, and was slightly better than our estimate. Its fixed-line voice business lost 1.4m users (following the 1.03m loss in February) to a total of 184.23m, while the broadband business added 0.81m users (after a 0.78m gain the previous month) to a total of 55.84m. Both were marginally better than our forecasts.

China Unicom (0762.HK/HK\$9.82; 600050.SS/Rmb5.89) – SELL

China Unicom has posted a 1.63m subscriber increase in March after 1.21m in February, bringing the total to 152.1m, in line with our estimates. Among them, 3G users totalled 4.82m, up 0.76m on the month (much improved from the 0.47m gain in February), but still a bit below the 0.92m record achieved last December. It also paled against China Mobile's surprisingly strong performance in the 3G segment in the same month. We reiterated **SELL**.

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



Sources: MIIT

Key Statistics

	2009	2010E	2011E	Nov09	Dec	Jan10	Feb	Mar
(m subscribers)								
National mobile sub.	747.4	835.2	907.4	738.6	747.4	756.6	766.0	776.9
net adds	106.1	87.8	72.2	9.0	8.8	9.2	9.4	10.9
CM total subscribers	522.3	564.6	598.4	518.0	522.3	527.4	532.9	538.9
net adds in period	65.0	42.3	33.8	4.6	4.2	5.1	5.5	6.0
CU-G total sub.	147.6	168.9	188.1	146.0	147.6	149.2	150.5	152.1
net adds in period	14.2	21.3	19.2	1.4	1.6	1.7	1.2	1.6
CU-C total sub.	56.1	80.3	99.5	53.0	56.1	59.1	62.2	65.5
net adds in period	28.2	24.2	19.2	3.1	3.1	3.1	3.0	3.3
National broadband sub	103.2	120.8	136.7	102.1	103.2	105.1	106.8	109.3
net adds in period	19.8	17.6	15.9	1.2	1.2	1.9	1.7	2.5
CT broadband sub.	53.5	61.7	69.2	52.8	53.5	54.3	55.0	55.8
net adds in period	9.2	8.3	7.4	0.7	0.6	0.8	0.8	0.8
CN broadband sub.	38.6	45.1	51.0	38.3	38.6	39.5	40.3	41.5
net adds in period	13.1	6.6	5.9	0.3	0.2	1.0	0.8	1.2
National fixed-line sub.	313.7	282.7	261.0	318	314	312	310	309
net adds	(27.1)	(31.0)	(21.7)	(3.1)	(4.6)	(1.9)	(1.5)	(1.6)

Sources: MIIT, Company data, BOCI Research estimates

TRANSPORT – Aviation

Top picks: Xiamen Airport, Air China

Airports – Overweight

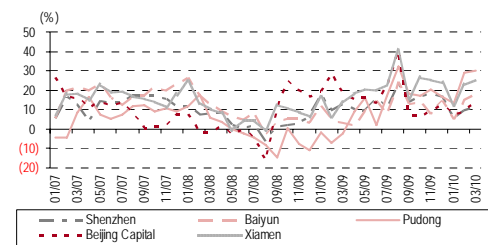
Airlines – Overweight

- The Civil Aviation Administration of China (CAAC) announced that Revenue Passenger Kilometres (RPK) in 3M10 rose 24.2% YoY and Revenue Freight Tonne Kilometres (RFTK) climbed 58.8% YoY, with a passenger load factor of 81.1%, up 5.9ppts YoY. The total load factor increased 8.2ppts YoY to 73.7%. The operating data beat the market expectation once again, suggesting a better trend of air traffic demand for the whole year.
- We reiterate our **OVERWEIGHT** ratings on the airlines and airports sectors, and recommend investors keep a close eye on the upcoming operating data.

Air China (0753.HK/HK\$8.02; 601111.SS/Rmb13.54) – BUY

Under China Accounting Standards, Air China registered attributable net profit of Rmb5.029bn in 2009, compared to a vast loss of Rmb9.149bn in the previous year. In 1Q10, the company's attributable net profit increased 1.21x to Rmb2.172bn, mainly due to traffic growth, among which the fair value gain from jet-fuel hedging also contributed Rmb938m. The company's results beat our previous expectation. Taking into consideration the strong rebound of international and regional air traffic demand and the company's acquisition of Shenzhen Airlines, we increased our forecasts of the company's operating data and yield. We lifted our 2010-11 A-share EPS projections by 58.4% and 65.2% to Rmb0.624 and Rmb0.80, respectively, and by 53.3% and 51.7% to Rmb0.64 and Rmb0.80 for the H shares. We revised up our target prices for the H and A shares to HK\$10.90 and Rmb19.50. We left our **BUY** ratings unchanged.

Passenger Throughput Growth YoY



Sources: NBS, BOCI Research

Key Statistics

	07	08	09	Sep09	Oct	Nov	Dec	Jan10	Feb	Mar
RPK YoY %										
Air China	14	(2)	11	11	11	13	15	9	17	21
CEA	12	(6)	13	16	14	8	9	36	54	46
CSA	15	2	12	10	11	14	19	11	21	
PLF YoY %										
Air China	77	75	77	77	82	79	76	77	79	81
CEA	70	71	72	70	75	74	71	72	75	77
CSA	73	74	75	72	78	78	74	76	76	

Sources: Bloomberg, Company data, BOCI Research

TRANSPORT – Land

Top pick: Jiangsu Expressway

HK listed – Overweight

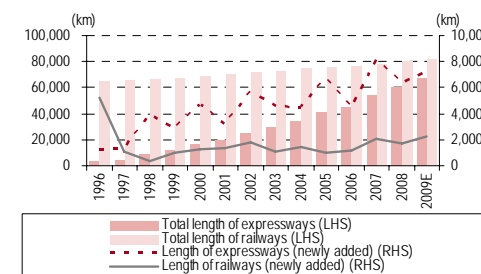
A shares – Overweight

- During the Labour Day long weekend in early May, total passenger transport volume nationwide reached 188m persons, a daily average of 62.7m. Figures during the public holiday show that the majority of passenger transport volume came from short and medium-distance trips. The growth rate of passenger volume grew fast in some major tourism destinations such as Beijing, Kunming and Shanghai, where the opening of the World Expo greatly boosted road transport figures.

Daqin Railway (601006.SS/Rmb9.09) – BUY

Daqin Railway made a net profit of Rmb6.53bn in 2009, down 2.2% YoY, while revenue edged up 2.3% YoY to Rmb23.12bn. The resurgent demand for coal in 1Q10 propelled the rapid rebound in the firm's coal freight business, with revenue up 35.5% YoY to Rmb6.59bn. First-quarter net profit surged 57.1% YoY to Rmb2.3bn, which was ahead of our forecast. We raised our estimates of Daqin's total length of railways and expressways. As we expect a rebound in coal transport volume ahead, we increased our 2010 - 11 EPS estimates from Rmb0.567 and Rmb0.661 to Rmb0.659 and Rmb0.710, respectively, and project 2012 EPS of Rmb0.764. The listco's integrated listing plan may be implemented over the next few years. Based on 20x 2010E P/E, we reiterated our Rmb14.20 target price and **BUY** rating.

Total Lengths of Railways & Expressways



Sources: MoC, CEIC

Key Statistics

	08	09	10E	Sep09	Oct	Nov	Dec	Jan10
Railways								
Passenger carried (m person)	1,456	1,718	1,924	122	142	101	111	127
Passenger turnover (person-km bn)	773	897	987	64	69	46	54	69
Freight carried (m tonnes)	3,301	3,641	3,932	281	295	284	299	306
Freight turnover (bn tonnes-km)	2,512	2,592	2,800	215	227	218	232	234
FAI (Rmb bn)	402	480	720	43	52	59	218	n.a
Roads								
Passenger carried (m persons)	20.5	22.1	23.9	2.4	2.5	2.3	2.2	2.4
Passenger turnover (person-km bn)	1,151	1,264	1,339	116	126	108	113	115
Freight carried (bn tonnes)	18.2	18.7	19.2	1.9	1.9	1.8	1.9	1.8
Freight turnover (bn tonnes-km)	1,135	1,317	1,357	320	333	318	327	319
FAI (Rmb bn)	733	913	1,095	117	210	95	120	n.a

Sources: CEIC, MoC, BOCI Research estimates

TRANSPORT – Marine

Top pick: COSCO Pacific

HK listed – Overweight

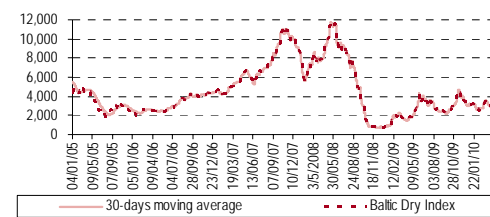
A shares – Neutral

- The Baltic Dry Index (BDI) rebounded 9.5% MoM in March from 2,738 points to 2,998 points. The year-to-date average closing of the index was 3,028.9.
- The rate for very large crude carriers (VLCC) dropped 4.5% MoM in March, closing the month at WS52.5. The year-to-date average closing was WS58.3.

China Communications Construction (1800.HK/HK\$7.44) – BUY

China Communications Construction (CCC) posted an 18.5% YoY growth in 2009 net profit to Rmb7.2bn on the back of a 27.3% growth in new contract value. It aims to implement a margin-focused strategy that will enhance its overall profitability. Its earnings will also be supported by the bottoming out of its heavy machinery manufacturing operations. We lower our target price to HK\$9.90. New order growth was solid in 2009 at 27.3% YoY, as contributions from all its core businesses offset the negative impact from the heavy machinery manufacturing arm. Contributions from some new projects were booked in 2009, thus enhancing CCC's infrastructure construction margin. In our view, the company's heavy machinery manufacturing division has passed the cycle trough and its performance is poised for improvement. According to recent press reports, the parent of CCC is studying the possibility of acquiring one of the 16 national SOEs that are allowed to participate in the property development business and then injecting it into the listco. This represents a potential diversification opportunity for CCC. After considering the 2009 results and revisions in our profit forecasts, we reaffirm our **BUY** rating on CCC with a new target price of HK\$9.90, as the company's valuation is relatively cheap when compared with its peers.

Baltic Dry Index (BDI) Trend



Source: Bloomberg

Key Statistics

YoY %	07	08	09E	Jun09	Jul	Aug	Sep	Oct	Nov
Shenzhen	10	2	(17)	(20)	(23)	(13)	(12)	(9)	1
Shanghai	25	7	(10)	(18)	(9)	(15)	(6)	(10)	(7)
Dalian	20	18	2	3	2	5	6	3	4
Tianjin	28	20	4	(3)	11	(0)	(0)	2	2
Qingdao	24	6	4	0	2	2	2	2	3
Xiamen	18	8	(10)	(24)	(10)	(10)	3	(3)	8
Ningbo	30	16	(4)	(8)	(3)	0	10	(3)	(5)
Guangzhou	40	22	(2)	(1)	2	31	27	1	17

Sources: MoC, BOCI Research estimates

TRANSPORT – Port

Top pick: Rizhao Port

HK listed – Neutral

A shares – Neutral

- In March, total cargo throughput at China's above-scale ports grew 24.1% YoY to 621.04m tonnes, of which coastal ports took up 439.82m tonnes, up 18.3% YoY, and river ports accounted for 181.22m tonnes, up 40.8% YoY. Container throughput climbed 6.5% YoY to 10.04m TEUs. Foreign-trade cargo throughput increased 24.6% YoY to 205.41m tonnes.
- We believe that the bulk business of Chinese ports will maintain stable growth due to strong domestic demand and that the container business will gradually bottom out as the export figures improve. However, the recovery may be slow.

Rizhao Port (600017.SS/Rmb6.98) – BUY

Rizhao Port's 1Q10 attributable net profit surged 89.77% YoY to Rmb103m, while revenue soared 63.78% YoY to Rmb722m (EPS: Rmb0.07). First-quarter throughput of iron ore, the port's major commodity, jumped 35.1% YoY to 34.594m tonnes, compared with a 56.2% YoY increase in the shipments of coal and related products to 7.252m tonnes. It also announced that it would issue 120m-200m shares to specific investors to raise Rmb14.5bn.

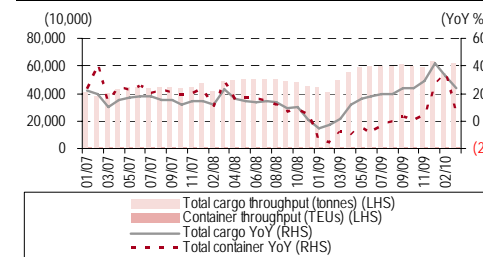
Tianjin Port (600717.SS/Rmb10.34) – HOLD

Tianjin Port's attributable net profit grew 37.12% YoY to Rmb158m in 1Q10, while sales revenue increased 34.64% YoY to Rmb2.513bn (EPS: Rmb0.09). Fuel sales, currently accounting for 70% of its total revenue, soared significantly and lifted its first-quarter turnover. However, the cost of fuel sales moved up in tandem with the oil-price rally, which brought about a 40.61% jump in operating expenses. It is still early days for the group to inject its 300,000-tonne-grade crude-oil jetty project into the listco. We see uncertainties over its port business integration with controlling shareholder Tianjin Port Development Co.

Shenzhen Chiwan Wharf (000022.SZ/Rmb14.15; 200022.SZ/HK\$13.25) – BUY

Shenzhen Chiwan Wharf posted respective year-on-year increases of 40.5% in attributable net profit to Rmb131m and 15% in revenue to Rmb390m in 1Q10 (EPS: Rmb0.203). Broadly in line with our expectations, first-quarter earnings accounted for 25% of our full-year estimate. Cost of operation and selling, administrative and financing expenses were well controlled in the period, with both its gross and operating margins up year-on-year.

Cargo & Container Throughputs at Major Ports



Sources: NBS, BOCI Research estimates

Key Statistics

YoY %	Oct09	Nov	Dec	Jan10	Feb	Mar
Rizhao Port	35.5	32.4	n.a.	35.6	36	20.5
Tianjin Port	9.5	13.7	n.a.	12.7	10.1	8.2
Shenzhen Port	(1.5)	15.5	n.a.	23.7	37.7	13.2
Shanghai Port	(2.3)	11.8	n.a.	44.9	39.1	19.5
Lianyungang Port	9.6	9.6	n.a.	12.6	12.6	17.6
Yingkou Port	30.0	5.4	n.a.	25.1	32.4	22.6

Sources: Bloomberg, Company data, BOCI Research estimates

UTILITIES (China)

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

HK listed – **Overweight**

A shares – **Neutral**

- 1Q10 power consumption rose 24% YoY and production rose 18%, slightly decelerating from 22% in 2M10. Thermal power made up a greater proportion of additional production as the drought restricted hydropower output. Thermal utilisation rose 13.6% in March while hydropower fell 19.5%. Major IPPs announced their power generation figures for 1Q10, with Huaneng, Datang, CRP and Huadian respectively climbing 40%, 33%, 45% and 23%.
- Major IPPs also announced 1Q10 results. Gross margins for coal power were all squeezed as the 4Q09 coal-price surge took its toll. 1Q10 profits of Huaneng, Datang and Huadian changed +41%, -57% and -60% YoY and 0%, -97% and -70% QoQ, respectively. Huaneng's operating margin outperformed those of peers (5.4%). Anticipation of a tariff hike will be a near-term driver.
- Wind power stocks may benefit from multiple and favourable policy initiatives in the near-term, and growth rates for CLYP, CPNE and CWP are strong. Connection problems are being tackled, turbine costs keep sliding and there is ample bank financing available. We initiated coverage on the wind power operator sub-sector with an **OVERWEIGHT** call.

Eguard Resources Development (000826.SZ/Rmb21.20) – BUY

Eguard registered a 40.7% YoY jump in net profit to Rmb32.29m in 1Q10, during which sales revenue grew 24.21% YoY to Rmb153m. Gross margin rose 3.4ppts YoY to Rmb39.5%, while net margin moved up 2.5ppts to 21.2%.

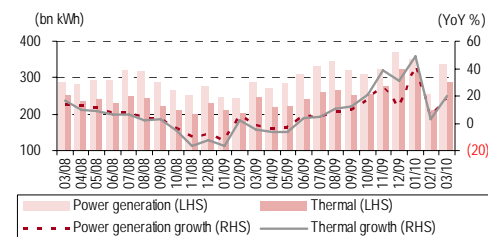
China Power New Energy (0735.HK/HK\$0.91) – BUY

We are now more confident about the position of CPNE as a diversified clean energy portfolio developer under the China Power Investment Group. Capacity growth and potentially higher debt ratios will be better managed on high-return waste-to-energy, wind power and natural gas expansion projects. We raised our target price to HK\$1.14.

Shenzhen Energy (000027.SZ/Rmb11.96) – BUY

Revenue and net profit of Shenzhen Energy in 1Q10 increased 62.47% and 132.09% YoY. Gross margin expanded 1.4ppts YoY to 22.63% while net margin swelled 4.4ppts to 14.8%.

Monthly Electricity Growth



Sources: Electric Power Industry of China, BOCI Research

Key Statistics

	2008	2009E	2010E	Dec09	2M10	Mar10
VAIO growth YoY %	12.9	11.0	11.2	18.5	20.7	19.6
Heavy industries YoY %	13.2	11.5	11.7	21.4	23.7	22.1
Power generation (bn kWh)	3,451	3,664	3,957	372	609	337
Growth YoY%	5.7	6.2	8.0	11.3	22.1	17.6
Thermal power generation	2,803	2,992	3,220	324	523	288
Growth YoY %	3.0	6.7	7.6	30.7	26.8	19.7
Hydropower generation	565.5	574.7	609.2		56.2	33.9
Cumulative capacity (GW)	792.7	874.1	957.1	874.1	844.6	850.4
Utilisation hours	4,648	4,527	4,446	389	728	1,125
Thermal utilisation hours	4,885	4,839	4,918	462	833	1,285
Hydro utilisation hours	3,589	3,264	3,071	99	321	499

*Non-annual data only includes plants above 6MW
Sources: CEC, NBS, BOCI Research estimates

UTILITIES (Hong Kong)

Top pick: **HK & China Gas**

HK listed – **Neutral** ↑

- The market-cap weighted HK utilities (CLP, HK Electric, HK & China Gas and CKI) on average outperformed the Hang Seng Index by 2.7% over the past month, underpinning the perception of defensiveness among investors.

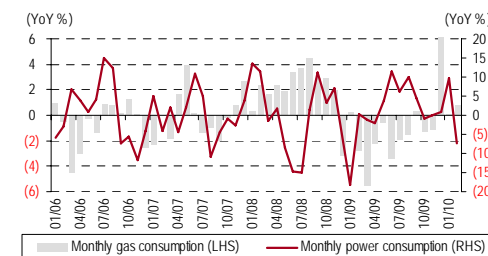
Cheung Kong Infrastructure (1038.HK/HK\$29.15) – NR

CKI acquired 50% of Seabank Power from Scottish and Southern Energy PLC for £221.7m (HK\$2.5bn). The target asset consists of 1,140MW in combined cycle gas turbines (CCGT), whose electricity output is sold under long - term contracts to its parent group. Based on 31 December 2009 figures, the deal was at 4.6x P/B and 18x P/E. CKI explicitly mentioned that it intends to sell part of the stake to HK Electric, which is in line with the practice in foreign (UK, Canada, Australia, New Zealand, etc) energy investments. If HK Electric takes up half of the 50% stake in Seabank Power, the immediate earnings contribution (HK\$70 - 100m) would represent 1.5% of its 2010E net profit.

HK Electric (0006.HK/HK\$45.90) – HOLD

We are looking forward to HK Electric's much - anticipated UK assets acquisition from EDF along with CKI. The final bids will be submitted by end - May and the transaction (if successful) will be completed in 2H10. The assets include a 100,000 - mile electricity distribution network in London, on which the market put a bill of £4 - 5bn. We estimate CKI and HK Electric are targeting 65% debt financing and an 11 - 12% cash yield on the equity invested, which means an investment of HK\$4.9bn as well as an earnings boost of 8.3% for HKE if the latter takes a 25% stake in this asset. We will closely monitor the bidding process.

Power and Gas Production/Consumption



Sources: Company data, BOCI Research

Key Statistics

	2008	2009	Dec09	Jan10	Feb10	3M10
Power consumption (bn kWh)	44.5	45.2	3.2	3.2	2.7	9.4
Growth YoY%	(0.9)	1.7	0.9	9.6	(7.2)	3.6
- Residential (bn kWh)	10.3	10.8	0.6	0.7	0.7	2.1
- Commercial	27.1	27.5	1.9	1.9	1.8	5.9
- Export to China	3.6	3.7	0.4	0.3	0.1	0.8
Gas consumption (m cum NG eq)	732.4	724.1	61.8	68.7	71.4	206.6
Growth YoY%	(0.9)	1.7	8.3	0.1	0.8	48.2
- Residential (m cu m NG eq)	413.8	406.3	34.0	39.5	41.7	121.2
- Commercial	294.6	293.9	25.7	27.1	27.5	79.3

Sources: Company data, BOCI Research

BOCI Stock Universe

China – HK

RIC Company	Y/E	Price Y/E	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. (%)	EPS gr. (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (HK\$)
Automotive																	
2357 AvChina	Dec	3.35	(11)	5	63	6,837	0.04	0.15	84.1	21.8	n.a.	286	0.0	0.0	XU Minle	BUY	4.58
1114 Brilliance Auto	Dec	2.80	27	28	64	6,268	0.05	0.06	61.5	49.2	33	25	0.0	0.0	WANG Yusheng	SELL	0.76
0203 Denway Motors	Dec	4.56	10	(8)	134	21,258	0.29	0.35	15.7	12.9	(9)	22	2.2	2.7	Eric HU	HOLD	4.21
0489 Dongfeng Motor	Dec	11.30	(10)	1	288	32,129	0.82	1.01	13.7	11.1	58	23	0.9	1.1	Eric HU	BUY	15.20
0300 Kunming Machine (A/H)	Dec	6.92	13	(2)	6	779	0.58	0.76	11.9	9.1	(22)	31	1.3	1.6	SHI Qi	BUY	7.73
1122 Qingling Motors	Dec	1.93	(9)	2	10	1,437	0.11	0.13	17.5	14.5	37	21	4.7	5.7	Eric HU	BUY	3.28
2338 Weichai Power (A/H)	Dec	64.50	(1)	3	86	12,895	4.65	6.66	13.9	9.7	77	43	0.8	1.2	Eric HU	BUY	79.80
Average				3	4	93	11,658	0.93	1.30	31.2	18.3	29	64	1.4	1.8		
Chemicals																	
0338 Shanghai Petrochem (H/A)	Dec	3.03	(2)	(1)	48	6,981	0.25	0.11	12.1	27.7	n.a.	(57)	1.1	1.1	Lawrence LAU	SELL	2.70
0297 Sinoferk HK Hldg (R)	Dec	4.23	(9)	(3)	76	34,893	(0.20)	0.21	n.m.	20.1	n.a.	n.a.	0.0	0.2	NI Xiaoman	HOLD	4.25
Average				(5)	(2)	62	20,937	0.03	0.16	12.1	23.9	n.a.	(57)	0.6	0.7		
Conglomerates																	
0291 China Resources (R)	Dec	27.80	(4)	(2)	136	31,072	1.24	0.80	22.5	34.6	58	(35)	1.8	1.2	Ashley CHEUNG	HOLD	28.50
Average				(4)	(2)	136	31,072	1.24	0.80	22.5	34.6	58	(35)	1.8	1.2		
Consumer Products																	
2020 Anta Sports Products	Dec	14.08	10	23	76	10,877	0.57	0.65	24.8	21.8	39	14	2.5	2.8	Sarah XING	HOLD	12.25
1717 Ausnutria	Dec	5.50	1	(14)	19	1,897	0.20	0.38	27.8	14.5	98	92	1.1	2.1	Jenny CHAN	BUY	7.30
0606 China Agri-Industries (R)	Dec	10.36	(3)	2	105	16,791	0.51	0.79	20.2	13.1	(30)	54	0.9	1.9	Jenny CHAN	BUY	14.20
3818 China Dongxiang (P)	Dec	5.33	(5)	(11)	109	15,402	0.29	0.33	18.2	16.1	8	13	3.8	3.7	Sarah XING	BUY	6.50
0506 China Foods (R)	Dec	5.78	(9)	(17)	25	12,103	0.20	0.25	28.3	22.8	18	25	1.3	1.5	Jenny CHAN	SELL	6.35
0904 China Green	Apr	9.15	(6)	24	22	4,556	0.50	0.59	18.2	15.6	3	16	1.5	1.9	Jenny CHAN	BUY	11.00
0359 China Haisheng Juice (P)	Dec	1.17	2	4	4	907	0.09	0.20	13.4	5.7	n.a.	134	1.8	1.7	Jenny CHAN	HOLD	1.20
3398 China Ting Group (P)	Dec	1.43	(1)	14	1	868	0.20	0.18	7.0	8.1	29	(13)	7.7	8.0	Sarah XING	BUY	2.00
1044 Hengan International	Dec	60.20	4	5	120	30,087	1.75	2.00	34.3	30.0	52	14	1.8	2.1	Sarah XING	BUY	64.60
0336 Huabao International	Mar	9.05	(3)	9	50	13,760	0.36	0.41	25.3	21.9	29	15	1.5	2.1	Jenny CHAN	BUY	10.85
2331 Li Ning	Dec	30.15	7	2	89	21,719	1.02	1.21	29.7	25.0	30	19	1.4	1.6	Sarah XING	BUY	32.00
2319 Mengniu Dairy	Dec	23.65	(2)	(15)	120	27,455	0.69	0.79	34.0	30.0	n.a.	13	0.6	0.7	Jenny CHAN	SELL	18.30
0886 Silver Base Group	Mar	3.44	3	24	17	1,032	0.39	0.39	8.7	8.8	13	(1)	8.5	9.4	Jenny CHAN	HOLD	2.80
0322 Tingyi Holding	Dec	19.42	6	1	75	32,550	0.54	0.67	36.3	29.1	47	25	1.4	1.7	Jenny CHAN	HOLD	21.20
0168 Tsingtao Brewery (A/H)	Dec	38.70	(1)	(10)	54	25,096	1.12	1.35	34.5	28.6	84	21	1.5	1.7	0.00	BUY	33.00
3331 Vinda International	Dec	6.64	29	21	39	3,005	0.44	0.44	15.1	15.1	153	0	1.8	1.7	Sarah XING	BUY	6.60
0151 Want Want China	Dec	5.91	7	9	69	38,252	0.19	0.25	31.7	23.8	20	33	2.8	2.5	Jenny CHAN	BUY	6.75
2088 Xiwang Sugar (P)	Dec	2.35	(8)	(14)	12	1,024	0.13	0.32	17.8	7.4	1,060	141	1.9	4.1	Jenny CHAN	BUY	3.10
8259 Yantai North Andre Juice (H)	Dec	0.49	(8)	29	5	517	(0.00)	0.02	n.m.	28.4	n.a.	n.a.	0.0	0.7	Jenny CHAN	SELL	0.26
Average				1	5	53	13,574	0.48	0.59	23.6	19.3	103	34	2.3	2.7		
Consumer Services																	
0538 Aijsen (China)	Dec	8.36	9	26	10	4,196	0.30	0.36	28.1	23.5	42	20	1.8	1.9	Sarah XING	BUY	9.00
1880 Belle International	Dec	10.84	4	20	137	31,110	0.34	0.40	31.8	27.2	26	17	0.8	0.9	Ashley CHEUNG	SELL	8.30
1234 China Lilang	Dec	9.67	28	79	24	3,017	0.29	0.38	33.7	25.2	47	34	1.8	1.8	Ashley CHEUNG	BUY	8.50
3308 Golden Eagle	Dec	15.18	(2)	(4)	47	8,407	0.43	0.59	35.2	25.9	34	36	0.3	1.2	LIU DU	BUY	17.50
0493 Gome Electrical	Dec	2.55	(2)	(10)	181	25,339	0.09	0.12	28.0	21.1	(39)	33	0.0	1.1	Ashley CHEUNG	HOLD	3.15
1833 Intime Department Store	Dec	7.50	(0)	4	41	4,779	0.29	0.27	25.7	27.5	22	(7)	1.2	1.1	LIU DU	HOLD	7.40
0980 Lianhua Supermarket	Dec	27.85	(0)	19	19	7,795	0.93	1.26	30.0	22.0	31	36	1.1	1.6	Ashley CHEUNG	BUY	36.10
0825 New World Dep.Store	Jun	6.65	(11)	(6)	9	3,139	0.33	0.32	20.5	20.5	15	(0)	2.3	2.0	Ashley CHEUNG	HOLD	7.00
3368 Parkson Group	Dec	12.80	(4)	(6)	85	16,422	0.37	0.45	34.4	28.1	8	22	1.3	1.8	ZHENG Yuan	HOLD	12.00
0891 Trinity	Dec	5.53	9	73	29	5,122	0.12	0.18	46.1	30.6	25	51	1.3	1.9	Ashley CHEUNG	BUY	6.60
8277 Wumart Store	Dec	16.80	7	37	23	12,705	0.40	0.49	42.2	34.0	8	24	1.2	1.5	Ashley CHEUNG	BUY	15.70
3389 Xinyu Hengdeli (P)	Dec	3.27	(1)	11	38	7,318	0.12	0.18	27.6	18.7	(3)	48	0.9	1.6	Sarah XING	BUY	3.90
Average				3	21	55	11,094	0.35	0.44	32.3	26.0	20	24	1.2	1.5		
Energy																	
1898 China Coal (A/H)	Dec	12.04	(1)	(15)	357	49,488	0.67	0.81	17.9	14.8	9	21	1.4	1.7	Lawrence LAU	BUY	14.70
2883 China Oilfield Services (A/H)	Dec	11.06	(3)	19	141	16,953	0.79	1.03	14.0	10.8	1	30	1.4	1.7	Lawrence LAU	BUY	15.48
0883 CNOOC Limited	Dec	13.84	8	13	959	179,283	0.75	1.15	18.5	12.1	(34)	54	2.9	3.2	Lawrence LAU	BUY	13.89
0639 Fushan Energy	Dec	5.56	(6)	(26)	180	16,449	0.24	0.32	23.6	17.2	40	37	3.8	3.8	Lawrence LAU	BUY	6.97
1683 IMM	Dec	3.92	(5)	(a)	0	2,038	0.33	0.28	11.8	14.0	51	(15)	0.0	1.4	Lawrence LAU	BUY	5.76
0857 PetroChina (A/H)	Dec	9.10	0	(2)	851	199,859	0.64	0.86	14.2	10.5	(10)	34	3.2	4.3	Lawrence LAU	BUY	10.65
1088 Shenhua Energy (A/H)	Dec	34.00	1	(11)	612	115,640	1.81	2.15	18.8	15.8	19	19	1.8	2.1	Lawrence LAU	BUY	42.93
0386 Sinopec (A/H)	Dec	6.29	(1)	(9)	641	103,618	0.81	0.78	7.8	8.1	116	(4)	3.3	3.3	Lawrence LAU	BUY	8.83
1171 Yanzhou Coal (A/H)	Dec	22.30	19	30	281	43,869	0.95	1.71	23.4	13.1	(37)	79	1.3	2.3	Lawrence LAU	BUY	25.71
Average				2	(0)	447	80,800	0.78	1.01	16.6	12.9	17	28	2.1	2.6		

China – HK

RIC Company	Y/E	Price Y/E	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. (%)	EPS gr. (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (HK\$)
Financials																	
0998 China CITIC Bank (A/H)	Dec	5.21	(10)	(21)	235	178,958	0.41	0.44	12.7	11.7	6	8	2.1	2.3	YUAN Lin	HOLD	5.61
0939 China Construction Bank (A/H)	Dec	6.42	1	(4)	1,884	379,722	0.52	0.59	12.4	10.9	15	13	3.6	4.6	YUAN Lin	HOLD	7.09
0165 China Everbright	Dec	19.60	(6)	2	118	14,041	3.00	1.29	6.5	15.2	288	(57)	1.9	0.8	Dickie WONG	BUY	24.00
0966 China Taiping Insurance	Dec	26.05	(4)	4	68	16,006	0.53	0.66	49.2	39.5		25	0.0	0.0	Dickie WONG	HOLD	27.00
2628 China Life (A/H)	Dec	35.75	(4)	(7)	1,411	262,723	1.06	1.32	33.8	27.1	21	25	1.1	1.4	YUAN Lin	BUY	31.20
3968 China Merchants Bank (A/H)	Dec	19.40	(8)	1	531	75,347	1.09	1.22	17.9	15.9	(13)	13	1.4	1.2	YUAN Lin	BUY	23.50
1398 ICBC (A/H)	Dec	5.77	(3)	(10)	1,723	346,912	0.44	0.49	13.2	11.7	16	13	3.4	3.8	YUAN Lin	HOLD	5.80
1988 China Minsheng Bank (H/A)	Dec	8.42	5	(3)	149	26,242	0.67	0.75	12.7	11.3	40	12					

China – HK

RIC Company	Y/E	Price (30/4/10)	1M chg (%)	YTD chg (%)	3M avg. daily T/O (\$m)	Free float (HK\$m)	EPS 09E (HK\$)	EPS 10E (HK\$)	P/E 09E (x)	P/E 10E (x)	EPS gr. 09E (%)	EPS gr. 10E (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (HK\$)
Property																	
3383 Agile Property	Dec	9.20	(13)	(19)	197	12,867	0.59	0.85	15.6	10.8	(65)	44	1.9	2.8	Andy SO	BUY	12.40
0688 China Overseas (R)	Dec	15.38	(12)	(6)	472	59,050	0.92	1.04	16.8	14.8	43	14	0.9	1.7	Manfred HO	BUY	19.40
1109 China Resources Land (R)	Dec	14.48	(14)	(18)	277	26,949	0.90	0.97	16.1	14.9	97	8	1.6	2.1	Manfred HO	BUY	21.50
1668 China South City	Mar	1.32	(4)	(8)	6	1,980	(5.33)	0.07	n.m.	n.m.	0.0	0.0	1.3	Alfred LAU	BUY	2.40	
2007 Country Garden	Dec	2.43	(13)	(16)	24	8,395	0.14	0.15	16.8	16.6	51	2	2.1	2.1	Andy SO	HOLD	2.99
3333 Evergrande Real Estate Grp	Dec	3.17	(2)	(26)	86	15,216	0.08	0.62	37.7	5.2	95	631	0.3	1.9	Andy SO	BUY	5.41
1777 Fantasia Holding Group	Dec	1.46	(17)	(32)	13	2,129	0.11	0.23	13.0	6.5	330	100	1.2	2.7	Andy SO	BUY	2.22
3900 Greentown China	Dec	8.42	(23)	(31)	34	4,835	0.88	1.53	9.6	5.5	47	73	2.6	4.6	Andy SO	SELL	8.88
2777 Guangzhou R&F Properties	Dec	10.38	(18)	(24)	207	11,037	1.02	0.93	10.1	11.2	(7)	9	3.9	3.6	Andy SO	SELL	10.50
1638 Kaisa Group	Dec	2.40	(10)	(19)	27	3,720	2.49	0.58	1.0	4.1	0	(77)	0.0	2.4	Alfred LAU	BUY	3.55
0123 Yuexiu Property	Dec	1.88	(10)	(15)	77	7,102	(0.15)	0.10	n.m.	n.m.	0.0	4.9	1.3	Andy SO	BUY	3.42	
0119 Poly (HK) Investments	Dec	7.81	(21)	(20)	126	10,720	0.30	1.21	26.3	6.5	145	307	0.6	1.3	Alfred LAU	BUY	14.10
1387 Renhe Commercial	Dec	1.92	7	9	74	18,163	0.19	0.26	9.9	7.3	77	36	4.6	7.5	Andy SO	BUY	2.35
0813 Shimao Property	Dec	12.16	(15)	(17)	218	18,125	1.15	1.49	10.5	8.1	299	29	2.7	4.3	Andy SO	BUY	17.62
0272 Shui On Land	Dec	3.59	(10)	(22)	49	9,016	0.63	0.44	5.7	8.2	42	(30)	3.6	2.4	Andy SO	BUY	5.26
1168 Sinolink Worldwide Holdings	Dec	1.24	(6)	(16)	9	2,474	0.41	0.14	3.0	8.7	254	(65)	2.8	1.8	Manfred HO	BUY	2.19
0410 SOHO China	Dec	4.49	2	7	36	8,852	0.72	0.72	6.2	6.3	726	(1)	5.1	5.6	Alfred LAU	BUY	5.43
0337 SPG Land	Dec	4.37	(12)	(6)	5	1,332	0.35	0.88	12.4	5.0	548	150	2.2	3.1	Alfred LAU	BUY	7.00
3377 Sino-Ocean Land (R)	Dec	6.06	(11)	(16)	223	19,130	0.37	0.36	16.3	16.6	5	(2)	1.7	1.5	Andy SO	BUY	8.88
Average			(11)	(16)	114	12,689	0.30	0.66	13.4	10.2	158	71	2.2	2.8			
Technology																	
1688 Alibaba.com	Dec	15.04	(4)	(16)	141	16,683	0.23	0.30	66.1	50.9	(12)	30	1.3	0.0	Frank HE	HOLD	16.70
1211 BYD Company	Dec	70.55	(9)	3	380	112,351	2.01	3.42	35.0	20.6	255	70	0.6	1.0	Frank HE	BUY	88.00
0861 Digital China	Mar	11.62	(12)	12	72	5,820	0.67	0.80	17.4	14.6	60	20	1.3	1.7	Frank HE	BUY	14.00
0596 Inspur International	Dec	0.81	(21)	(27)	34	1,309	0.05	0.06	15.6	13.3	(24)	17	1.2	2.1	Frank HE	HOLD	0.96
0268 Kingdee International	Dec	3.04	0	75	23	4,371	0.12	0.14	25.9	21.0	(13)	23	0.7	1.0	Frank HE	BUY	3.30
0992 Lenovo Group (R)	Mar	5.86	9	21	234	25,936	(0.20)	0.11	n.m.	n.m.	0.0	0.5	0.7	Frank HE	BUY	6.00	
0751 Skyworth Digital	Mar	7.10	(22)	(11)	195	9,832	0.20	0.50	35.3	14.2	1	148	1.0	2.5	Frank HE	BUY	10.60
0700 Tencent Holdings	Dec	163.40	5	(3)	838	141,334	3.17	4.20	51.5	38.9	84	32	0.3	0.5	Frank HE	HOLD	158.60
0082 VODone	Dec	2.82	(2)	58	126	4,808	0.05	0.22	52.2	13.0	302	0.2	1.0	Frank HE	BUY	3.70	
0763 ZTE Corporation (A+H)	Dec	28.30	(10)	(12)	191	50,600	1.53	1.90	18.4	14.9	48	24	1.3	1.4	Frank HE	HOLD	50.00
Average			(6)	10	223	37,304	0.78	1.16	35.3	25.5	53	74	0.8	1.2			
Telecoms																	
0941 China Mobile	Dec	77.25	3	6	1,727	402,885	6.53	6.68	11.8	11.6	2	2	3.6	3.7	Allan NG	BUY	96.50
0728 China Telecom	Dec	3.62	(5)	12	340	50,099	0.19	0.21	19.4	17.4	12	2.4	2.5	Allan NG	HOLD	4.00	
0762 China Unicom (A+H)	Dec	9.82	12	(4)	371	67,100	0.44	0.20	22.4	48.2	(73)	(54)	1.9	1.2	Allan NG	SELL	8.00
Average			3	4	813	173,361	2.39	2.36	17.9	25.7	(36)	(13)	2.6	2.5			
Transport																	
0753 Air China (A+H)	Dec	8.79	10	45	115	38,725	0.45	0.73	19.5	12.1	62	0.0	1.6	DU Jianping	BUY	10.90	
0995 Anhui Expressway (A+H)	Dec	5.02	(5)	(7)	10	2,498	0.46	0.47	10.8	10.6	15	2	5.2	4.7	LIU Huiming	HOLD	5.60
0670 China Eastern Airlines (H+H)	Dec	4.39	11	58	50	25,743	0.02	0.31	214.4	14.0	1,428	0.0	0.0	DU Jianping	BUY	4.69	
0144 China Merchants Holdings (R)	Dec	27.55	(4)	9	121	29,372	1.03	1.08	26.7	25.5	(28)	5	2.0	1.7	Jimmy LAM	BUY	30.90
1138 China Shipping (A+H)	Dec	11.82	(7)	1	128	15,294	0.35	0.63	34.0	18.8	(81)	81	0.9	1.7	Jimmy LAM	SELL	11.50
1055 China Southern Airlines (A+H)	Dec	4.04	16	67	75	10,997	0.05	0.44	86.6	9.1	854	0.0	1.1	DU Jianping	BUY	4.62	
1199 COSCO Pacific (R)	Dec	10.66	(9)	7	94	11,821	0.71	0.83	15.1	12.8	(22)	18	2.7	4.2	Jimmy LAM	BUY	15.00
2866 CACL (H+H)	Dec	3.31	7	18	146	10,441	(0.26)	(0.08)	n.m.	n.m.	0.0	0.0	0.0	Jimmy LAM	SELL	1.50	
0525 GS Railway (A+H)	Dec	3.05	(2)	(4)	18	4,364	0.22	0.22	13.9	14.0	11	(1)	3.0	2.8	Patrick LI	HOLD	3.20
0357 Hainan Mellan Airport	Dec	9.70	(1)	3	5	2,202	0.43	0.48	22.3	20.3	(3)	10	2.3	1.5	DU Jianping	BUY	10.50
0177 Jiangsu Expressway (A+H)	Dec	7.33	0	6	39	8,863	0.46	0.55	15.8	13.3	29	19	4.8	6.0	LIU Huiming	BUY	7.90
0548 Shenzhen Expressway (A+H)	Dec	3.94	(3)	3	14	2,921	0.47	0.33	8.4	11.8	187	(28)	3.5	4.2	LIU Huiming	HOLD	4.30
0716 Singamas (R)	Dec	1.42	1	17	19	2,087	(0.16)	0.10	n.m.	14.1	0.0	2.2	Jimmy LAM	BUY	1.70		
0368 Sinotrans Shipping (R)	Dec	3.55	(4)	(1)	22	4,535	0.23	0.15	15.2	24.1	(61)	(37)	2.0	1.3	Jimmy LAM	BUY	4.25
Average			1	16	61	12,133	0.32	0.45	40.2	15.4	5	201	2	2			
Utilities																	
0392 Beijing Enterprises	Dec	50.55	(6)	(10)	94	23,834	2.02	2.39	25.0	21.2	6	18	1.3	1.6	Peter YAO	HOLD	55.00
0257 China Everbright Int'l	Dec	3.89	(2)	(3)	29	6,247	0.11	0.16	36.0	24.6	2	46	0.5	0.8	Peter YAO	BUY	4.90
2380 China Power Int'l	Dec	1.79	(3)	(8)	10	2,842	0.18	0.09	10.2	21.1	(52)	2.5	2.1	Peter YAO	HOLD	2.00	
0836 China Resources Power	Dec	15.92	(4)	3	118	26,094	1.15	1.25	13.8	12.7	189	9	2.3	2.6	Peter YAO	HOLD	18.00
0916 China Longyuan Power	Dec	8.26	(10)	(18)	214	17,263	0.20	0.32	41.7	26.2	160	59	0.0	0.6	Peter YAO	BUY	12.81
0735 China Power New Energy	Apr	0.91	8	63	94	3,769	0.02	0.03	41.4	26.8	1,000	55	0.0	0.0	Peter YAO	BUY	0.90
0182 China WindPower Group	Mar	0.86	(4)	(3)	30	2,817	0.03	0.04	26.9	19.5	88	38	0.0	0.0	Peter YAO	BUY	1.10
0991 Datang Int'l Power (A+H)	Dec	3.30	(6)	(1)	76	17,216	0.16	0.18	21.2	18.7	114	13	2.5	2.7	Peter YAO	BUY	4.90
0270 Guangdong Investment (R)	Dec	4.06	(3)	(10)	28	9,880	0.33	0.38	12.4	10.7	9	16	2.7	3.3	Peter YAO	BUY	3.81
1071 Huadian Power (A+H)	Dec	1.88	(4)	(9)	16	11,966	0.22	0.14	8.7	13.5	(36)	2.1	1.5	Peter YAO	HOLD	2.15	
0902 Huaneng Power (A+H)	Dec	4.53	0	3	135	61,902	0.47	0.37	9.7	12.1	(20)	5.3	4.2	Peter YAO	BUY	5.40	
1193 China Resources Gas	Dec	11.68	8	2	15	12,387	0.31	0.45	37.2	25.9	(49)	44	0.7	1.0	Peter YAO	BUY	14.40
1083 Towngas China	Dec	3.40	(9)	9	13	1,797	0.14	0.15	25.2	23.0	31	10	0.6	0.8	Peter YAO	SELL	3.10
Average			(3)	1	67	15,232	0.41	0.46	23.8	19.7	155	15	1.6	1.6			

HK – HK

RIC Company	Y/E	Price (30/4/10)	1M chg (%)	YTD chg. daily T/O	3M avg. daily T/O (\$m)	Free float (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\$)
Consumer Products																	
0330 Esprit Holdings	Jun	56.70	(7)	10	369	59,858	3.82	3.97	14.8	14.3	(26)	4	5.0	4.2	Ashley CHEUNG	HOLD	57.11
0709 Giordano Int'l	Dec	3.62	16	57	9	5,293	0.19	0.29	18.8	12.7	3	48	4.4	4.0	Ashley CHEUNG	BUY	3.40
0494 Li & Fung	Dec	38.05	(0)	18	339	92,617	0										

HK – HK

RIC Company	Price Y/E	1M chg.	YTD chg.	3M avg. daily T/O	Free float mkt. cap.^	EPS 09E	EPS 10E	P/E 09E	P/E 10E	EPS gr. 09E	EPS gr. 10E	Yield 09E	Yield 10E	Analyst	Rec	Target price (HK\$)	
Property																	
2778 Champion REIT	Dec	3.64	(2)	10	21	8,704	0.14	0.11	26.8	31.9	21	(16)	7.2	6.3	Alfred LAU	SELL	3.30
0001 Cheung Kong	Dec	97.05	(3)	(3)	401	134,870	8.59	8.31	11.3	11.7	20	(3)	2.8	2.9	Manfred HO	BUY	122.30
0041 Great Eagle	Dec	22.00	1	9	15	6,694	2.05	2.10	10.7	10.5	9	2	2.4	2.5	Alfred LAU	BUY	24.80
0405 GZI REIT	Dec	3.36	2	14	5	2,257	0.23	0.25	14.4	13.2	(5)	9	7.5	7.6	Andy SO	HOLD	2.91
0010 Hang Lung Group	Jun	38.50	(7)	(0)	40	32,356	1.08	3.32	35.8	11.6	(43)	208	1.8	2.2	Manfred HO	HOLD	38.30
0101 Hang Lung Properties	Jun	28.50	(9)	(7)	164	55,549	0.57	1.90	50.0	15.0	(53)	233	2.3	2.9	Manfred HO	HOLD	28.90
0012 Henderson Land	Jun	49.85	(9)	(15)	223	49,875	6.67	2.60	7.5	19.2	(12)	(61)	2.6	2.6	Manfred HO	HOLD	59.80
0014 Hysan Development	Dec	23.05	3	5	29	14,334	2.60	1.51	8.9	15.3	69	(42)	3.0	3.1	Alfred LAU	HOLD	21.70
0683 Kerry Properties	Dec	36.40	(13)	(8)	86	24,309	2.96	2.29	12.3	15.9	44	(23)	1.9	2.6	Manfred HO	HOLD	38.70
0066 MTR Corporation	Dec	27.50	(6)	3	110	37,065	1.39	1.35	19.7	20.4	(10)	(4)	1.9	2.0	Manfred HO	BUY	32.00
0017 New World	Jun	14.06	(7)	(12)	129	33,166	0.55	1.74	25.7	8.1	(79)	218	2.1	2.8	Manfred HO	HOLD	17.10
Development																	
0808 Prosperity REIT	Dec	1.39	(4)	5	2	1,481	0.09	0.09	15.4	16.0	(14)	(3)	7.9	7.7	Alfred LAU	HOLD	1.49
0016 SHK Properties	Jun	109.70	(6)	(6)	721	163,137	4.81	5.75	22.8	19.1	9	20	2.3	2.9	Manfred HO	BUY	140.00
0083 Sino Land	Jun	14.20	(7)	(6)	124	31,909	0.77	0.87	18.5	16.4	(52)	13	2.8	2.5	Manfred HO	HOLD	14.10
0823 The Link REIT	Mar	19.14	0	(3)	110	37,570	0.85	1.01	22.5	18.9	13	19	4.4	5.2	Alfred LAU	BUY	22.40
Average			(4)	(1)	145	42,218	2.22	2.21	20.1	16.2	(6)	38	3.5	3.7			
Technology																	
0522 ASM Pacific	Dec	74.30	2	1	56	13,640	2.47	3.24	30.1	23.0	(1)	31	2.3	3.5	Frank HE	BUY	65.00
2342 Comba Telecom	Dec	11.26	13	24	64	5,171	0.51	0.69	22.0	16.4	133	34	1.6	2.2	Frank HE	BUY	12.40
2038 Foxconn International	Dec	7.10	(13)	(21)	128	14,047	0.04	0.24	182.9	29.5	(71)	520	0.0	0.0	Frank HE	HOLD	8.80
0903 TPV Technology	Dec	6.00	15	26	44	5,826	0.42	0.41	14.3	14.6	32	(2)	2.5	2.3	Frank HE	HOLD	5.40
Average			4	7	73	9,671	0.86	1.14	62.3	20.9	23	146	1.6	2.0			
Telecoms																	
2332 Hutchison Telecom	Dec	2.17	2	35	11	4,283	1.03	(0.43)	2.1	n.m.	337	n.a.	0.0	0.0	Allan NG	SELL	2.20
0008 PCCW	Dec	2.36	2	26	31	8,151	0.22	0.22	10.6	10.9	18	(3)	5.6	5.3	Allan NG	SELL	2.40
0315 SmarTone	Jun	8.74	9	37	1	2,299	0.08	0.42	112.1	21.0	(84)	435	0.9	4.5	Allan NG	BUY	7.90
Average			4	33	14	4,911	0.44	0.07	41.6	15.9	90	216	2.2	3.3			
Transport																	
0293 Cathay Pacific	Dec	16.44	0	14	80	64,691	1.19	0.98	13.8	16.8	n.a.	(18)	0.6	1.5	DU Jianping	BUY	19.58
0316 OOIL	Dec	60.00	4	65	108	12,015	(4.99)	13.34	n.m.	4.5	n.a.	n.a.	0.0	5.6	Jimmy LAM	BUY	66.10
2343 Pacific Basin	Dec	6.04	(2)	7	89	8,497	0.44	0.32	13.6	19.0	(76)	(28)	3.9	2.6	Jimmy LAM	HOLD	6.60
Average			1	29	92	28,401	(1.12)	4.88	13.7	13.4	(76)	(23)	1.5	3.2			
Utilities																	
0002 CLP	Dec	54.50	(2)	4	168	94,500	3.40	3.44	16.0	15.8	(21)	1	4.5	4.6	Peter YAO	HOLD	53.80
0003 HK & China Gas	Dec	19.00	(2)	(3)	121	68,393	0.75	0.82	25.4	23.3	16	9	2.4	2.6	Peter YAO	HOLD	18.00
0006 HK Electric	Dec	45.90	(0)	9	152	53,879	3.12	3.14	14.7	14.6	(17)	1	4.4	4.4	Peter YAO	SELL	41.00
Average			(1)	3	147	72,257	2.42	2.47	18.7	17.9	(8)	4	3.8	3.9			

China – A

RIC Company	Price (30/4/10)	1M chg.	YTD chg.	3M avg. daily T/O	Free float mkt. cap.^	EPS 09E	EPS 10E	P/E 09E	P/E 10E	EPS gr. 09E	EPS gr. 10E	Yield 09E	Yield 10E	Analyst	Rec	Target price (¥)
Agriculture																
600195 China Animal Husbandry Ind.	23.63	3	17	108	4,792	0.75	0.86	31.5	27.5	79	15	1.8	2.1		BUY	23.00
002299 Fujian Sunner Development	32.49	8	30	60	1,332	0.49	0.81	66.3	40.1	0	65	0.5	0.9		BUY	32.00
Average		6	23	84	3,062	0.62	0.84	48.9	22.6	39	40	1.2	1.5			
Automotive																
600166 Beiqi Foton Motor	19.56	(4)	3	220	11,167	1.13	1.75	17.3	11.2	200	55	0.9	1.4	WANG Yusheng	BUY	28.80
000625 Changan Automobile (A/B)	11.40	(7)	(19)	189	14,368	0.46	0.95	24.7	11.9	4,520	106	0.8	1.7	WANG Yusheng	BUY	17.18
000951 Sinotruck	23.95	(12)	(13)	67	3,613	1.02	1.56	23.5	15.4	(9)	53	0.6	1.3	WANG Yusheng	HOLD	28.08
000800 FAW Car	18.79	(15)	(28)	269	14,377	1.00	1.47	18.8	12.8	50	47	2.1	2.8	WANG Yusheng	BUY	23.50
000927 FAW Xiali	7.62	(22)	(36)	67	2,431	0.19	0.29	41.2	26.3	194	57	0.4	1.1	WANG Yusheng	SELL	6.38
600660 Fuyao Group Glass Ind.	11.22	(9)	(25)	225	10,360	0.56	0.85	20.1	13.2	354	53	0.0	1.5	WANG Yusheng	BUY	15.32
600478 Hunan Corun New Energy	15.48	(12)	(9)	164	3,055	0.08	0.52	184.3	29.9	(33)	517	0.0	0.2	WANG Yusheng	BUY	23.40
600418 Jianghuai Auto	8.48	(20)	(20)	176	7,105	0.26	0.75	32.6	11.3	491	188	1.2	2.4	WANG Yusheng	BUY	15.00
000550 Jiangling Motors (A/B)	22.73	6	(1)	46	5,689	1.22	1.66	18.6	13.7	35	36	2.2	2.5	WANG Yusheng	BUY	26.40
002048 Huaxiang Electronic	12.92	(10)	(8)	220	4,752	0.53	0.50	24.5	25.7	81	(5)	0.5	0.9	WANG Yusheng	HOLD	11.07
600104 Shanghai Auto	18.85	(8)	(28)	277	27,167	1.01	1.65	18.7	11.4	906	64	0.3	0.4	WANG Yusheng	BUY	27.24
000338 Weichai Power (A/H)	63.19	(8)	(2)	259	17,897	4.09	5.85	15.4	10.8	76	43	0.8	1.1	Eric HU	BUY	99.50
000581 Weifu High Tech	16.28	(14)	(14)	86	5,502	0.65	0.86	25.1	18.9	90	33	1.0	1.2	WANG Yusheng	BUY	17.19
600686 Xiamen King Long Motor Co	9.07	(4)	(17)	62	3,656	0.47	0.55	19.1	16.6	7	15	0.6	0.7	Eric HU	HOLD	8.50
600066 Zhengzhou Yutong Bus	18.75	1	(6)	100	6,533	1.08	1.31	17.3	14.3	6	21	5.3	4.9	Eric HU	BUY	23.80
Average		(9)	(15)	162	9,178	0.92	1.37	33.4	16.2	464	85	1.1	1.6			
Chemicals																
600299 Blue Star New Chemical	12.04	(3)	(11)	80	1,879	0.36	0.49	33.1	24.5	7	35	0.8	0.9	NI Xiaoman	HOLD	12.50
600230 Changzhou Dahua	14.96	(17)	(25)	47	1,666	0.26	0.80	58.0	18.7	(60)	211	0.5	0.7	NI Xiaoman	HOLD	20.00
000839 CITIC Guoan	14.40	(3)	(1)	281	21,790	0.34	0.40	42.5	35.8	49	19	0.7	0.8	NI Xiaoman	HOLD	18.00
000589 Guizhou Tyre	14.60	(16)	(18)	136	2,485	1.02	0.86	14.3	19.9	406	(15)	2.1	1.8	CHEN Tian	HOLD	15.00
600426 Hualu Hengsheng	16.31	(14)	(31)	159	4,935	0.86	1.28	19.0	12.8	13	49	0.6	0.6	NI Xiaoman	BUY	22.00
000707 Shuanghuan Sci & Tech	8.24	(6)	(21)	130	2,854	0.72	0.84	11.4	9.8	26	17	3.6	3.6	CHEN Tian	HOLD	10.00
002037 Jiulian Development	18.53	(6)	0	48	1,577	0.57	0.75	32.6	24.8	82	31	0.4	1.2	CHEN Tian	BUY	20.00
600423 Liuzhou Chemical	13.40	(9)	(5)	53	2,174	0.08	0.52	176.3	25.8	(78)	584	0.0	0.1	NI Xiaoman	HOLD	13.52
000792 Qinghai Salt Lake Potash	45.89	(10)	(19)	222	17,939	1.60	2.38	28.6	19.3	(10)	48	3.6	0.9	NI Xiaoman	BUY	60.50
600409 Sanyou Chemical Industries	7.85	6	(9)	146	7,371	0.04	0.22	196.3	35.8	(82)	448	0.3	0.3	CHEN Tian	HOLD	6.30
000677 Shandong Helon	6.38	(21)	(27)	111	3,197	0.24	0.52	26.7	12.2		118	0.4	0.4	CHEN Tian	HOLD	9.20
600315 Shanghai Jahwa United	33.06	11	31	40	6,682	0.72	0.96	46.1	34.4	(16)	34	1.1	1.1	NI Xiaoman	BUY	38.44
600688 Shanghai Petrochem (A/H)	8.32	(16)	(24)	42	5,990	0.22	0.09	38.3	30.4		(58)	0.4	0.4			

China – A

RIC	Company	Price (30A/10)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (Y/m)	Free float nkt. cap. (^) (Y m)	EPS 09E (Y)	EPS 10E (Y)	P/E 09E (x)	P/E 10E (x)	EPS gr. (%)	EPS gr. (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (Y)
Consumer Services																	
600258	Beijing Capital Tourism	20.83	(5)	(10)	60	4,820	0.69	0.82	30.2	25.3	(14)	19	2.9	2.0	LIU Du	BUY	29.89
002251	Better Life Comm. Chain Share	24.67	(6)	(12)	44	4,862	0.60	0.70	41.0	35.5	(50)	16	2.4	0.8	ZHENG Yuan	HOLD	26.00
600828	Chengshang Group	15.68	(2)	26	28	1,051	0.53	0.71	29.7	22.2	13	34	0.8	0.8	LIU Du	SELL	24.00
601888	CITS	19.38	4	(7)	142	3,411	0.36	0.44	54.6	43.7	6	25	0.0	0.8	LIU Du	BUY	21.00
600138	CYTS	16.62	(7)	4	151	5,518	0.61	0.45	27.3	36.6	94	(25)	1.2	1.2	LIU Du	HOLD	17.92
600693	Fujian Dongbai Group	10.31	(11)	(12)	60	2,769	0.24	0.37	42.8	28.1	(38)	52	0.9	0.0	LIU Du	HOLD	11.20
002264	Fujian New Hua Du	17.28	(21)	(26)	52	462	0.64	0.79	27.2	21.8	2	25	2.5	1.6	ZHENG Yuan	HOLD	35.00
000978	Gulin Tourism	13.39	(3)	11	65	1,966	0.19	0.38	70.1	35.1	46	100	1.9	1.3	LIU Du	HOLD	13.42
000417	Hefei Department Store	15.55	2	6	55	4,478	0.35	0.47	45.1	33.0	25	37	0.6	0.6	ZHENG Yuan	BUY	18.50
600054	Huangshan Tourism (A/B)	21.54	3	16	90	2,538	0.34	0.53	63.5	41.0	(15)	55	0.0	0.9	LIU Du	BUY	22.04
600754	Jin Jiang Development (A/B)	22.73	(21)	(4)	183	10,143	0.47	0.52	48.8	44.1	3	11	1.6	1.7	LIU Du	HOLD	26.30
002033	Lijiang Tourism	19.50	2	8	51	1,402	0.39	0.23	50.6	86.3	(17)	(41)	0.8	0.5	LIU Du	HOLD	18.72
600832	Oriental Pearl	11.85	(17)	4	493	37,754	0.14	0.16	82.9	76.0	2	9	0.0	0.8	ZHENG Yuan	SELL	7.25
002024	Suning Appliance	11.20	(11)	(19)	328	52,498	0.41	0.58	27.1	19.4	34	40	0.4	0.8	LIU Du	BUY	13.90
600858	Silver Plaza	27.18	6	5	71	5,970	0.49	0.79	55.9	34.5	(9)	62	0.3	0.4	ZHENG Yuan	BUY	31.70
600859	Wangfujing Dept Store	34.24	5	(7)	61	6,795	0.90	1.09	38.3	31.5	(6)	21	0.7	0.6	LIU Du	BUY	39.70
600327	Comm. Mansion Grand Orient	16.08	18	12	63	2,778	0.57	0.66	28.1	24.4	73	15	0.3	0.3	LIU Du	BUY	17.00
000759	Wuhan Zhongbai Group	10.61	(2)	(9)	157	6,842	0.35	0.40	30.1	26.4	21	14	0.9	0.9	ZHENG Yuan	BUY	12.60
Average			(4)	(1)	120	8,670	0.46	0.56	44.1	36.9	9	26	1.0	0.9			
Energy																	
601898	China Coal (A/H)	10.97	(6)	(19)	216	17,454	0.50	0.61	22.0	18.1	17	21	1.4	1.6	Lawrence LAU	BUY	14.15
601808	China Oilfield Services (A/H)	14.77	(7)	(9)	123	7,303	0.70	0.90	21.2	16.4	1	30	0.9	1.2	Lawrence LAU	BUY	21.40
601001	Datong Coal Industry	37.49	2	(17)	405	31,379	1.78	2.21	21.0	17.0	3	24	1.4	1.8	Grace TANG	BUY	46.39
600546	Shanxi Coal International Energy	24.61	(14)	(28)	130	4,430	0.82	1.41	30.0	17.5	(43)	72	0.8	1.4	Grace TANG	BUY	30.98
600348	Guoyang New Energy	45.25	12	(6)	499	43,531	1.93	2.40	23.4	18.9	100	24	0.8	1.0	Grace TANG	BUY	51.00
000617	Jinan Diesel Engine	12.06	(13)	(23)	38	1,737	0.18	0.30	65.9	39.7	(58)	66	0.2	0.2	LUO Dan	HOLD	15.00
000852	Kingdream	11.66	(8)	(8)	103	1,539	0.27	0.30	42.9	38.4	(18)	12	0.9	0.9	LUO Dan	BUY	14.00
600123	Lanhua Sci-Tech	35.09	(13)	(20)	221	20,036	2.22	2.88	15.8	12.2	2	29	0.9	2.3	Grace TANG	BUY	48.90
601699	Lu'an Environmental Energy	39.60	(5)	(24)	323	15,041	1.83	2.40	21.6	16.5	0	31	2.5	3.3	Grace TANG	BUY	47.97
600583	Offshore Oil Engineering	8.44	(15)	(26)	263	11,844	0.50	0.61	16.9	13.7	19	23	1.8	2.3	Lawrence LAU	BUY	15.00
601857	PetroChina (A/H)	12.10	(6)	(12)	273	44,291	0.56	0.76	21.5	16.0	(9)	34	2.1	2.8	Lawrence LAU	BUY	15.38
601666	Pingdingshan Tian'an Coal	25.42	(4)	(21)	230	14,560	1.01	1.57	25.2	16.2	(59)	56	0.8	2.5	Grace TANG	HOLD	28.29
601088	Shenhua Energy (A/H)	26.52	(8)	(24)	575	47,473	1.52	1.82	17.4	14.6	17	19	2.0	2.4	Lawrence LAU	BUY	37.78
600028	Sinoprof (A/H)	10.08	(14)	(28)	693	34,958	0.71	0.68	14.3	14.8	116	(4)	1.8	1.8	Lawrence LAU	BUY	16.92
000983	Xishan Coal	33.49	(5)	(16)	801	38,154	0.92	2.03	36.4	16.5	(25)	121	0.6	1.3	Grace TANG	BUY	44.67
600188	Yanzhou Coal (A/H)	23.73	14	3	185	8,169	0.79	1.44	30.1	16.5	(39)	82	1.1	1.9	Lawrence LAU	BUY	30.82
600997	Kailuan Energy Chemical	20.99	(9)	(17)	223	15,035	0.67	1.01	31.6	20.7	1	52	0.5	0.7	Grace TANG	BUY	26.36
Average			(4)	(15)	295	20,522	1.18	1.73	25.9	18.2	1	43	1.3	1.9			
Financials																	
600816	Anxin Trust & Investment	17.11	(13)	(13)	126	7,613	0.97	1.31	17.6	13.1	33	35	0.8	1.2	ZHANG Jian	BUY	29.04
601169	Bank of Beijing	14.10	(16)	(27)	442	16,685	0.88	1.00	16.0	14.1	1	13	1.3	1.3	YUAN Lin	HOLD	16.03
601009	Bank of Nanjing	15.37	(13)	(21)	206	18,070	0.84	0.81	18.3	19.0	6	(3)	2.0	2.5	YUAN Lin	HOLD	15.52
002142	Bank of Ningbo	13.42	(16)	(23)	225	6,039	0.59	0.61	22.9	22.1	10	4	1.8	1.8	YUAN Lin	BUY	18.55
601998	China CITIC Bank (A/H)	6.06	(18)	(26)	257	21,289	0.35	0.38	17.3	16.0	3	8	1.6	1.7	YUAN Lin	SELL	6.10
000783	Changjiang Securities	14.38	(14)	(25)	202	15,966	0.63	0.55	22.8	26.0	51	(12)	2.8	0.8	ZHANG Jian	HOLD	18.90
601939	China Construction Bank (A/H)	5.25	(7)	(15)	370	49,075	0.46	0.52	11.5	10.2	15	13	3.8	4.9	YUAN Lin	HOLD	6.70
600036	China Merchants Bank (A/H)	14.27	(12)	(17)	1,068	252,481	0.95	1.00	15.0	14.3	(13)	4	1.7	1.3	YUAN Lin	BUY	20.40
600030	CITIC Securities	28.94	2	(9)	1,510	191,887	1.36	1.06	21.4	27.3	23	(22)	0.7	0.5	ZHANG Jian	BUY	38.42
000728	Guoyuan Securities	15.02	(16)	(30)	277	11,800	0.53	0.51	28.4	29.4	48	(3)	3.3	0.7	ZHANG Jian	HOLD	15.30
600837	Haitong Securities	13.43	(21)	(30)	1,152	54,146	0.53	0.55	25.4	24.3	26	4	0.8	0.8	ZHANG Jian	HOLD	15.90
600015	Huaxia Bank	12.72	(1)	2	251	48,135	0.75	0.88	16.9	14.5	23	16	1.0	0.7	SUN Peng	BUY	13.49
000562	Hong Yuan Securities	18.69	(11)	(21)	137	27,310	0.79	0.68	23.7	27.3	112	(13)	1.5	0.7	ZHANG Jian	HOLD	22.20
601398	ICBC (A/H)	4.54	(9)	(17)	510	75,822	0.38	0.43	11.8	10.5	14	13	3.8	4.3	YUAN Lin	HOLD	5.05
601166	Industrial Bank	29.87	(19)	(26)	789	149,350	2.66	2.51	11.2	11.9	17	(5)	1.5	1.3	YUAN Lin	HOLD	36.16
600016	China Minsheng Bank (A/H)	7.02	(9)	(11)	733	132,837	0.59	0.66	12.0	10.7	40	12	1.0	1.4	SUN Peng	BUY	8.11
000686	Northeast Securities	28.53	(4)	(26)	121	4,973	1.26	1.05	22.7	27.2	79	(17)	0.9	0.7	ZHANG Jian	HOLD	37.20
601318	Ping An Insurance (A/H)	49.40	(2)	(10)	1,624	113,486	1.89	2.22	26.1	22.3	895	17	0.7	0.7	YUAN Lin	BUY	59.00
600000	Pudong Dev Bank	20.59	(10)	(5)	1,108	202,272	1.50	1.43	13.8	14.4	(32)	(4)	0.7	0.6	YUAN Lin	HOLD	22.00
600109	Sinolink Securities	18.43	(10)	(24)	116	4,933	0.52	0.41	35.7	45.5	(66)	(22)	0.0	0.4	ZHANG Jian	SELL	12.90
000001	Shenzhen Development	20.56	(11)	(16)	682	71,314	1.62	1.59	12.7	12.9	690	(2)	0.0	0.8	SUN Peng	HOLD	25.67
Average			(11)	(18)	542	70,189	0.9	0.9	18.6	19.0	87.1	2.1	1.6	1.5			

China – A

RIC	Company	Price (30A/10)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (Y/m)	Free float nkt. cap. (^) (Y m)	EPS 09E (Y)	EPS 10E (Y)	P/E 09E (x)	P/E 10E (x)	EPS gr. (%)	EPS gr. (%)	Yield 09E (%)	Yield 10E (%)	Analyst	Rec	Target price (Y)
Industrials																	
600585	Anhui Conch (A/H)	37.15	(16)	(25)	237	38,052	2.01	2.60	18.5	14.3	36	30	0.9	1.4	Patrick LI	HOLD	45.50
600761	Anhui Heli	13.19	(9)	(7)	103	2,967	0.31	0.75	42.1	17.7	(41)	139	0.4	0.8	Eric HU	HOLD	13.45
601106	CFHI	5.22	(3)	n.a.	0	10,580	0.26	0.24	20.1	21.8	18	(8)	0.8	0.8	SHI Qi	BUY	6.36
601299	China Northern Rolling	5.35	(3)	(13)	289	8,881	0.16	0.26	33.4	20.6	(16)	63	0.4	0.7	SHI Qi	BUY	6.50
601390	China Railway (A/H)	5.18	(11)	(18)	269	24,273	0.32	0.40	16.0	13.0	521	23	1.2	1.9	Patrick LI	BUY	6.40
601186	China Railway Construction (A/H)	7.95	(6)	(13)	224	19,617	0.54	0.70	14.9	11.4	81	30	2				

China – A

RIC	Company	Price (30/4/10)	1M chg.	YTD chg.	3M avg. daily	Free float T/O	EPS mkt. cap. [^]	EPS 09E	EPS 10E	P/E 09E	P/E 10E	EPS gr. 09E	EPS gr. 10E	Yield 09E	Yield 10E	Analyst	Rec	Target price (Y)
		(Y)	(%)	(%)	(Y m)	(Y m)	(Y)	(Y)	(X)	(X)	(%)	(%)	(%)	(%)				
Media																		
600037	Beijing Gehua CATV	16.48	6	16	348	9,154	0.31	0.29	53.0	57.6	0	(8)	0.0	0.0	Allan NG	SELL	14.30	
600880	B-ray Media	31.35	3	16	75	7,524	0.70	0.89	44.7	35.1	34	27	0.5	0.6	LIU Du	BUY	35.73	
600825	Xinhua Media	13.35	1	13	150	7,907	0.27	0.30	49.8	44.5	(36)	12	0.4	0.7	LIU Du	HOLD	15.02	
	Average		3	15	191	8,195	0.43	0.49	49.2	45.7	(0)	10	0.3	0.5				
Metals & Mining																		
000898	Angang New Steel (A#)	9.51	(19)	(41)	288	11,009	0.10	0.75	96.1	12.7	(76)	657	0.5	3.9	Belle CHAN	BUY	19.93	
600019	Baosteel	6.89	(13)	(29)	500	32,578	0.33	0.23	20.9	30.0	(11)	(30)	2.9	1.3	Belle CHAN	HOLD	7.18	
601600	CHALCO (A#)	11.51	(10)	(20)	235	46,702	(0.34)	0.25	n.m.	46.2			0.0	0.0	Belle CHAN	BUY	26.94	
600497	Chihong Xizhe	20.94	(6)	(21)	173	18,364	0.34	0.43	62.1	49.2	71	26	1.7	1.8	LE Yukun	HOLD	25.00	
601005	Chongqing Iron & Steel (A#)	5.09	(7)	(13)	39	2,798	0.03	0.06	154.2	80.8	(90)	91	0.2	0.4	Belle CHAN	SELL	4.73	
000831	Shanxi Guanlu	5.95	(30)	(38)	88	2,564	0.01	0.10	595.0	59.5	0	900	0.0	0.2	LE Yukun	HOLD	3.40	
600362	Jiangxi Copper (A#)	33.84	(5)	(16)	308	40,919	0.83	1.25	41.0	27.2	9	51	0.7	1.1	Belle CHAN	SELL	22.94	
601958	Jinduicheng Molybdenum	16.50	(3)	(13)	208	10,649	0.17	0.36	96.5	46.1	(81)	109	1.8	0.8	LE Yukun	BUY	21.10	
600808	Maanshan Iron & Steel (A#)	3.93	(8)	(22)	114	4,842	0.05	0.10	77.1	38.9	(58)	98	0.5	0.9	Belle CHAN	SELL	3.49	
600282	Nanjing Steel	4.64	(13)	(24)	46	3,753	0.16	0.32	29.0	14.3	119	103	1.6	3.1	LE Yukun	BUY	7.90	
600219	Nanshan Aluminium	10.32	(11)	(22)	205	5,173	0.20	0.22	51.6	46.9	(57)	10	0.3	0.4	LE Yukun	HOLD	4.40	
000629	Panzhuhua Steel	8.44	1	10	61	16,306	0.05	0.04	172.2	201.0	(14)	0.0	0.0	XU Minle	HOLD	9.30		
600547	Shandong Gold	72.07	3	(10)	619	25,144	1.05	1.45	68.8	49.6	17	39	0.2	0.4	LE Yukun	BUY	75.00	
000825	Taigang Stainless Steel	6.95	(13)	(27)	218	15,835	0.04	0.65	158.0	10.7	(80)	1373	0.1	2.0	LE Yukun	BUY	11.00	
000709	Tangshan Iron & Steel	4.71	(12)	(34)	278	8,368	0.13	0.17	36.5	28.5	(71)	28	1.7	2.2	LE Yukun	BUY	7.80	
000630	Tongling Nonferrous Matel	18.03	(5)	(19)	200	10,032	0.47	0.54	38.4	33.3	1	15	0.7	0.7	LE Yukun	HOLD	19.00	
000612	Wanfang Aluminium	23.50	(9)	(16)	248	11,280	0.40	1.12	58.5	21.0	(42)	178	0.8	2.2	LE Yukun	BUY	31.00	
600005	Wuhan Steel	5.62	(16)	(32)	303	17,620	0.25	0.39	22.9	14.4	(63)	59	2.0	3.2	LE Yukun	BUY	9.50	
600888	Xinjiang Joinworld	18.87	1	20	171	6,444	0.52	0.68	36.4	27.9	80	30	0.4	0.5	LE Yukun	HOLD	20.20	
000807	Yunnan Aluminium	10.75	(12)	(21)	113	6,364	0.04	0.27	250.0	39.8	(35)	528	0.3	2.3	LE Yukun	HOLD	12.60	
000960	Yunnan Tin	24.00	6	(9)	259	9,612	0.20	0.46	118.8	52.5	477	126	0.5	1.1	LE Yukun	BUY	27.30	
601899	Zijin Mining (A#)	8.01	(2)	(17)	534	34,942	0.24	0.41	32.8	19.6	16	68	1.5	2.4	Belle CHAN	BUY	11.20	
	Average		(8)	(19)	237	15,514	0.24	0.47	105.6	43.2	6	212	0.8	1.4				
Pharmaceuticals																		
600085	Beijing Tongrentang	24.92	7	18	139	5,842	0.55	0.63	45.5	39.5	10	15	0.9	1.0	HE Changming	HOLD	25.25	
000423	Dong-E E-Jiao	32.98	17	26	164	16,608	0.60	0.88	55.0	37.5	9	47	1.1	1.3	HE Changming	HOLD	35.20	
600252	Guangxi Wuzhou Zhongheng Group	37.37	(0)	41	111	6,244	0.47	0.81	80.2	46.3	117	73	0.4	0.9	HE Changming	BUY	28.28	
600332	Guangzhou Pharm. (A#)	13.04	8	15	122	2,641	0.54	0.64	24.1	20.4	6	19	2.1	2.9	HE Changming	SELL	9.73	
600276	Hengrui Medicine	42.78	9	(2)	72	10,892	1.07	1.25	39.9	34.3	31	17	0.0	0.9	HE Changming	HOLD	49.95	
000963	Huadong Medicine	24.98	10	36	40	5,097	0.87	0.90	28.6	27.7	125	3	1.3	1.1	HE Changming	BUY	31.53	
002007	Hualan Biological	72.02	15	30	188	14,001	1.69	1.15	42.6	62.8	103	(32)	0.2	0.6	HE Changming	SELL	45.83	
600557	Kanion Pharmaceutical	24.54	9	17	72	5,811	0.50	0.63	49.0	39.3	(6)	25	0.6	0.8	HE Changming	BUY	25.02	
002252	Shanghai RAAS	41.52	(6)	12	62	1,661	0.85	1.34	49.0	31.0	29	58	1.8	2.6	HE Changming	HOLD	46.90	
600535	Tianjin Tasly Pharmaceuticals	28.00	8	25	90	6,832	0.65	0.85	43.1	33.1	24	31	1.4	1.8	HE Changming	BUY	33.86	
600161	Tiantan Biological	26.52	9	(0)	158	5,698	0.43	0.56	61.1	47.8	10	28	0.0	1.0	HE Changming	HOLD	24.99	
600529	Shandong Pharm. Gating	16.97	7	14	108	3,533	0.60	0.70	28.3	24.4	9	16	0.6	0.7	HE Changming	BUY	14.50	
000999	Sanjiu Medical	27.23	13	36	104	9,330	0.73	0.88	37.6	30.9	42	21	0.7	1.0	HE Changming	BUY	33.42	
002223	Yuyue Medical	47.25	11	38	25	1,611	0.65	1.05	72.6	45.2	9	61	0.2	0.7	HE Changming	BUY	57.58	
600479	Zhouzhou Sanjin	28.39	6	6	58	3,899	0.60	0.75	47.2	37.7	(16)	25	1.8	1.3	HE Changming	BUY	34.32	
000538	Yunan Baiyao	65.80	19	9	104	16,163	1.13	1.58	58.2	41.6	30	40	0.3	0.5	HE Changming	BUY	81.21	
600351	Yabao Pharmaceuticals	20.22	(3)	21	166	5,303	0.41	0.67	49.4	30.3	(24)	63	0.5	1.7	HE Changming	BUY	28.16	
	Average		8	20	105	7,127	0.73	0.90	47.7	37.0	30	30	0.8	1.2				

China – A

RIC	Company	Price (30/4/10)	1M chg.	YTD chg.	3M avg. daily	Free float T/O	EPS mkt. cap. [^]	EPS 09E	EPS 10E	P/E 09E	P/E 10E	EPS gr. 09E	EPS gr. 10E	Yield 09E	Yield 10E	Analyst	Rec	Target price (Y)
		(Y)	(%)	(%)	(Y m)	(Y m)	(Y)	(Y)	(X)	(X)	(%)	(%)	(%)	(%)				
Property																		
000043	CATIC Real Estate	12.24	(16)	(19)	30	1,698	0.28	0.63	43.3	19.5	665	122	0.0	1.0	ZHOU Lu	HOLD	14.71	
000918	Calxon	9.14	(24)	(29)	60	1,055	0.83	1.30	11.0	7.0	n.a.	57	0.0	0.3	TIAN Shixin	BUY	17.50	
600675	China Enterprise	8.36	(22)	(26)	192	6,276	0.59	0.64	14.3	13.0	37	10	0.0	0.6	TIAN Shixin	HOLD	13.31	
000024	China Merchants Property (A#)	17.67	(27)	(34)	418	11,529	0.96	1.17	18.4	15.1	37	22	0.6	0.5	TIAN Shixin	HOLD	18.97	
000002	China Vanke (A#)	7.80	(18)	(28)	708	72,897	0.54	0.63	14.5	12.4	50	17	0.0	0.6	TIAN Shixin	BUY	11.43	
600007	China World Trade Centre	9.67	(18)	(21)	42	9,741	0.29	0.12	33.7	78.6	(18)	(57)	1.4	0.6	ZHOU Lu	HOLD	12.22	
600067	Clychamp Dartong	8.92	(26)	(23)	192	4,592	0.53	1.14	16.9	7.8	87	116	0.0	0.3	TIAN Shixin	HOLD	14.68	
000402	Financial Street	8.86	(20)	(27)	292	21,322	0.55	0.67	16.1	13.2	31	22	1.7	2.3	ZHOU Lu	BUY	15.56	
600383	Gemdale	12.15	(14)	(12)	715	29,577	0.72	0.97	16.9	12.5	120	36	0.8	0.6	TIAN Shixin	BUY	16.70	
600325	Huafa Industrial Share	12.33	(26)	(34)	182	7,585	1.10	1.31	11.2	9.4	38	19	0.8	1.1	TIAN Shixin	BUY	26.38	
600048	Poly Real Estate Group	12.35	(22)	(28)	534	22,171	0.98	1.36	12.6	9.1	54	39	0.0	0.9	TIAN Shixin	HOLD	21.95	
600639	Jinqiao Exp. Processing Zone (A#)	11.16	(16)	(18)	41	9,419	0.43	0.61	26.2	18.4	29	42	1.0	1.1	ZHOU Lu	BUY	14.25	
600823	Shanghai Shimao	11.82	(25)	(29)	81	5,675	0.18	1.08	67.2	11.0	102	511	0.0	1.8	ZHOU Lu	BUY	20.36	
000069	Shenzhen Overseas Chinese Town	12.72	(21)	(26)	456	19,365	0.55	0.75	23.2	16.9	14	37	0.0	0.6	TIAN Shixin	HOLD	13.70	
000006	Shenzhen Zhenye Group	9.52	(20)	(16)	124	1,014	0.64	0.76	14.8	12.6	45	18	1.1	1.2	TIAN Shixin	HOLD	11.20	
600683	Metro Land Corporation	7.12	(21)	(13)	76	2,005	0.22	0.80	32.5	8.9	81	265	0.7	0.9	TIAN Shixin	HOLD	12.13	
002146	Risesun Real Estate Devel.	15.23	(29)	(26)	76	2,729	0.68	1.02	22.4	14.9	64	50	0.3	0.5	TIAN Shixin	BUY	23.40	
000961	Zhongnan Construction	15.08	(25)	(33)	130	2,												

Germany

RIC	Company	Price (30/4/10) (€)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (€ m)	Free float mkt. cap. [^] (€ m)	EPS 09E (€)	EPS 10E (€)	P/E 09E (x)	P/E 10E (x)	EPS gr. 10E (%)	EPS gr. 09E (%)	Yield 10E (%)	Yield 09E (%)	Analyst	Rec	Target price (€)
Agriculture																	
5AB	Asian Bamboo AG	35.75	10	55	3	200	1.96	2.22	18.2	16.1	59	13	0.5	0.6	Jenny CHAN	BUY	14.48
Average			10	55	3	200	1.96	2.22	18.2	16.1	59	13	0.5	0.6			
Industrial																	
ZEF	ZhongDe Waste Tech	15.36	(10)	27	0	102	1.09	1.55	14.1	9.9	(37)	42	0.0	0.0	Frank LAI	BUY	16.90
Average			(10)	27	0	102	1.09	1.55	14.1	9.9	(37)	42	0.0	0.0			

Singapore

RIC	Company	Price (30/4/10) (S\$)	1M chg. (%)	YTD chg. (%)	3M avg. daily T/O (S\$m)	Free float mkt. cap. [^] (S\$m)	EPS 09E (S\$)	EPS 10E (S\$)	P/E 09E (x)	P/E 10E (x)	EPS gr. 10E (%)	EPS gr. 09E (%)	Yield 10E (%)	Yield 09E (%)	Analyst	Rec	Target price (S\$)
Consumer Product																	
CZAI	China Zaino International	0.28	12	20	1	120	0.06	0.06	4.5	4.9	(33)	(7)	4.8	4.2	Frank LAI	BUY	0.37
Average			12	20	1	120	0.06	0.06	4.5	4.9	(33)	(7)	4.8	4.2			
Consumer Services																	
CHHS	China Hongxing Sports	0.14	(3)	(26)	3	263	0.01	0.01	14.6	9.9	(71)	48	2.9	3.1	Frank LAI	BUY	0.27
Average			(3)	(26)	3	263	0.01	0.01	14.6	9.9	(71)	48	2.9	3.1			
Industrial																	
Midas	Midas Holdings	1.06	3	15	11	521	0.04	0.05	25.2	20.8	8	21	0.9	1.2	Frank LAI	BUY	1.59
Average			3	15	11	521	0.04	0.05	25.2	20.8	8	21	0.9	1.2			
Property																	
YLLG	Yanlord Land	1.73	(7)	(20)	15	1,176	0.16	0.17	11.0	10.1	34	9	1.0	1.0	Frank LAI	BUY	3.76
Average			(7)	(20)	15	1,176	0.16	0.17	11.0	10.1	34	9	1.0	1.0			

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	Apr10	11/5
Retail sales	Apr10	11/5
VAIO	Apr10	11/5
FAI	Apr10	11/5

Economic data (Hong Kong)

	Description	Date
Unemployment rate	Feb10-Apr10	18/05
Composite CPI	Apr10	20/05
Trade balance	Apr10	27/05
Retail sales value	Apr10	01/06

Results announcements (Hong Kong)

Company	Date
Hang Seng Bank (0011.HK)	1Q10 5/4/2010
CSCL (H/A) (2866.HK)	1Q10 5/6/2010
Yantai North Andre Juice (H) (8259.HK)	1Q10 5/10/2010
CLP Holdings (0002.HK)	1Q10 5/10/2010
Wumart Store (8277.HK)	1Q10 5/11/2010
Tencent Holdings (0700.HK)	1Q10 5/12/2010
HK Exchanges & Clearing (0388.HK)	1Q10 5/12/2010
China Hongxing Sports (CHHS.SP)	1Q10 5/12/2010
Yanlord Land (YLLG.SP)	1Q10 5/12/2010
Alibaba.com (1688.HK)	1Q10 5/13/2010
Asian Bamboo AG (5AB.GR)	1Q10 5/13/2010
Midas Holdings (MIDAS.SP)	1Q10 5/13/2010
Oriental Press (0018.HK)	FY09 5/14/2010
Tingyi Holding (0322.HK)	1Q10 5/17/2010
China Resources Enterprise (0291.HK)	1Q10 5/20/2010
Lenovo Group (R) (0992.HK)	FY09 5/20/2010
Parkson Group (3368.HK)	1Q10 5/20/2010
Gome Electrical (0493.HK)	1Q10 5/26/2010
Media Chinese International (0685.HK)	FY09 5/26/2010

Results announcements (China)

Company	Date
CSCL (A/H) (601866.SS)	1Q10 5/6/2010

Major Published Research

Date	Title	Sector	Author(s)	Tel.	Email
4-May	Zhongsheng Group	CONSUMER SERVICES - Retail	Eric HU WANG Yusheng Ashley CHEUNG	(8621) 6860 4866 ext 8520 (8621) 6860 4866 ext 8523 (852) 2905 2102	eric.hu@bocigroup.com yusheng.wang@bocigroup.com ashley.cheung@bocigroup.com
30-Apr	Wind Power Sector	UTILITIES	Peter YAO	(852) 2905 2105	peter.yao@bocigroup.com
23-Apr	Shui On Land	PROPERTY - Developer	Andy SO	(852) 2905 2167	andy.so@bocigroup.com
19-Mar	International Mining Machinery	ENERGY - Machinery & Equipment	Lawrence LAU	(852) 2905 2130	lawrence.lau@bocigroup.com
14-Apr	Huaqiao In The Middle Kingdom - Apr10	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
7-Apr	AviChina	INDUSTRIALS - Miscellaneous	XU MinLe Eric HU	(8621) 6860 4866 ext 8589 (8621) 6860 4866 ext 8520	minle.xu@bocigroup.com eric.hu@bocigroup.com
23-Mar	G-Resources	METALS & MINING - Precious Metals	Belle CHAN	(852) 2905 2103	belle.chan@bocigroup.com
9-Mar	Huaqiao In The Middle Kingdom - Mar10	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
4-Mar	UC RUSAL	METALS & MINING - Non-ferrous Metals	Belle CHAN	(852) 2905 2103	belle.chan@bocigroup.com
25-Feb	China Banks	FINANCIALS - Banking	YUAN Lin	(8610) 6622 9070	lin.yuan@bocigroup.com
9-Feb	Huaqiao In The Middle Kingdom - Feb10	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
8-Feb	Shimao Property	PROPERTY - Developer	Andy SO	(852) 2905 2167	andy.so@bocigroup.com
28-Jan	China Power and Renewable Energy	UTILITIES	Peter YAO	(852) 2905 2105	peter.yao@bocigroup.com
27-Jan	China Minsheng Bank	FINANCIALS - Banking	YUAN Lin SUN Peng YIN Jinhua	(8610) 6622 9070 (8610) 6622 9072 (8610) 6622 9348	lin.yuan@bocigroup.com peng.sun@bocigroup.com jinhua.yin@bocigroup.com
20-Jan	China Property Outlook	PROPERTY	Manfred HO Andy SO Alfred LAU	(852) 2905 2107 (852) 2905 2167 (852) 2905 2109	manfred.ho@bocigroup.com andy.so@bocigroup.com alfred.lau@bocigroup.com
19-Jan	Kaisa Group	PROPERTY - Developer	Alfred LAU	(852) 2905 2109	alfred.lau@bocigroup.com
15-Jan	China Economy Update	MACRO & STRATEGY - China Economy	CHENG Manjiang LI Tao YE Bingnan	(8610) 9922 9128 (8610) 6622 9064 (8610) 6622 9081	mj.cheng@bocigroup.com tao.li@bocigroup.com bingnan.ye@bocigroup.com
14-Jan	China Longyuan Power	UTILITIES - Electricity	Peter YAO	(852) 2905 2105	peter.yao@bocigroup.com
14-Jan	Huaqiao In The Middle Kingdom - Jan10	Monthly	Anthony LOK CHENG Manjiang	(852) 2905 2108 (8610) 9922 9128	anthony.lok@bocigroup.com mj.cheng@bocigroup.com
5-Jan	China Coal Industry	ENERGY - Coal	Lawrence LAU Grace TANG	(852) 2905 2130 (8610) 9922 9077	lawrence.lau@bocigroup.com qian.tang@bocigroup.com

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