SinoPac

Dec 2011

Hong Kong/China Strategy 2012:

Waiting for further liquidity injection

龍

2012 Star Sectors

- Auto Dealership
- Coal
- Gold
- Menswear
- Railway Equipment

Best-of-our-universe stock picks

8 Convition Buy stocks (see Pg.1)

Hong Kong/China Investment Strategy

Waiting for further liquidity injection

HSI, HSCEI, HSCCI

Sector performance	chg (%)
Utilities	0.9%
Energy	-13.1%
Information Technology	-19.4%
Services	-19.7%
Consumer Goods	-22.0%
Financials	-23.6%
Conglomerates	-25.3%
Property & Construction	-26.3%
Industrial Goods (Materials)	-39.2%

- The Hong Kong market fell sharply in 2011. As of December 9, the Hang Seng Index ("HSI") closed at 18,586 points, down 19.3% from December 31, 2010, while the Hang Seng China Enterprise Index ("HSCEI") finished at 10,067 points, down 20.7%.We attribute the sharp decline to the following: (1) China's persistently high inflation pressures resulted in longer- and stronger-than-expected macroeconomic regulation, adding to concerns about liquidity tightening and economic slowdown; (2) the U.S. economy remained weak; and (3) the spreading European debt crisis led to further risk aversion.
- Looking into 2012, we expect the HK market to remain volatile, due to the significant uncertainties over external economies, especially the European countries which will struggle to meet terribly heavy debt payments during Feb-Apr. 2012. In addition, the slowdown in China's economy and corporate earnings will add to concerns about risks of earnings forecast downward revision and ratings downgrade. Before a full relaxation of monetary policies in China, these negative factors will continue to plague the HK market in the coming months and keep investors out of the market.
- However, we expect the HK market sentiment to improve gradually from 2Q12 and anticipate a round of market rebound afterwards due to the following: (1) the European debt crisis will abate after the peak period for debt payments; (2) once reining in the inflation pressures, the Chinese government will unveil a series of easing policies, such as loosening bank credit, slashing RRR and increasing infrastructure construction expenditure, in order to maintain economic growth. These policies will give support to the HK-listed China stocks; (3) H-share profits are expected to continue to grow 11.9% y-o-y in 2012; and (4) the HK market has reflected the bulk of the negative news and is attractively valued.
- According to Bloomberg, the average PE multiples for the HSI and the HSCEI in the past ten years were 15.5x and 13.9x respectively. Now, the HSI is trading at PERs of 10.1x for FY11F and 9.3x for FY12F, while the HSCEI is trading at PERs of 8.3x for FY11F and 7.4x for FY12F, at the lower end of their respective historical PE bands. We forecast the 12-month target to be 22,055 for the HSI and 12,159 for the HSCEI, implying 11x and 9x 2012 EPS respectively.
- We believe the HK market will rebound on a full relaxation of monetary policies in China. And we recommend investors to focus on the following investment themes: (1) the building materials, coal and railway equipment sectors that will benefit from monetary easing; (2) the gold sector which can serve as a hedge against inflation; and (3) the consumer sector which is riding on continuing economic growth. In our coverage, we select 8 Conviction Buy stocks that either carry 15%+ upside potential or have potential catalysts for us to raise target prices.

Wendy Huang, CFA
(86) 21 6886 5225
wendy.huang@sinopac.com

Conviction BUY stock

Code	Company	Close (HK$)	TP (HK$)	Upside(%)	EPS (RMB) FY10	EPS (RMB) FY11F	EPS (RMB) FY12F	PER (x) FY10	PER (x) FY11F	PER (x) FY12F	DPS (RMB) FY10	DPS (RMB) FY11F	DPS (RMB) FY12F	Yield FY11F
3898	CSR Times Electric	17.18	26.38	53.6	0.786	1.085	1.407	18.8	12.8	9.8	0.305	0.423	0.549	3.0%
3323	CNBM	9.64	14.56	51.0	0.662	1.690	1.967	12.5	4.6	4.0	0.100	0.170	0.190	2.2%
0819	Tianneng Power	3.73	5.50	47.5	0.315	0.560	0.762	10.2	5.4	4.0	0.098	0.169	0.229	5.6%
2099	China Gold Int'l	20.65	28.80	39.5	0.138	0.202	0.275	19.2	13.1	9.6	N/A	N/A	N/A	N/A
1234	China Lilang	6.95	9.07	30.5	0.347	0.498	0.599	17.2	11.3	9.3	0.170	0.324	0.360	5.8%
1088	China Shenhua	34.45	43.00	24.8	1.917	2.378	2.931	15.5	11.7	9.4	0.767	0.951	1.172	3.4%
0489	Dongfeng Motor	12.36	14.76	19.4	1.274	1.304	1.532	8.3	7.7	6.5	0.180	0.196	0.230	2.0%
0881	Zhongsheng Holdings	13.16	15.55	18.2	0.560	0.722	1.152	18.8	14.1	8.9	0.105	0.214	0.339	2.1%

Source: Bloomberg, Sinopac Securities

Contents

Market review -cont'd

The Hong Kong Market fell sharply in 2011

The Hong Kong ("HK") market fell sharply in 2011. As of December 9, the Hang Seng Index ("HSI") closed at 18,586 points, down 19.3% from December 31, 2010, while the Hang Seng China Enterprise Index ("HSCEI") finished at 10,067 points, down 20.7%.

We attribute the sharp decline to the following: (1) China's persistently high inflation pressures resulted in longer- and stronger-than-expected macroeconomic regulation, adding to concerns about liquidity tightening and economic slowdown; (2) the U.S. economy remained weak; and (3) the spreading European debt crisis led to further risk aversion.

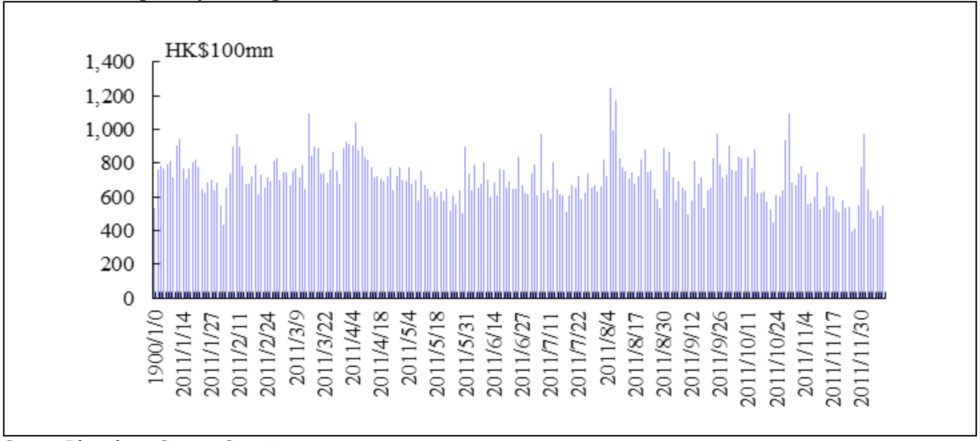
Trading volume expanded

Average daily trading volume expanded in the HK market in 2011, probably due to the share disposal by foreign investors. According to Hong Kong Exchange ("HKEx"), the average daily trading volume of the HK market for year-to-date 2011 was HK$71.2bn, down from HK$68.6bn for 2010.

In 2Q11, the HK dollar once strengthened, reflecting more capital inflow, but the trading volume did not increase accordingly, showing those foreign capital didn't enter the local stock market. In 3Q11, risk aversion became significantly stronger amid an array of negative news around the world, such as the worsening debt woes in Europe, the entrenched high inflation and therefore the continued macroeconomic regulation in China and the global economic slowdown. Consequently, the highly-liquid HK market was treated as an "ATM" by foreign investors who kept drawing out their money. Many foreign investors reduced HK shareholdings in 3Q11. Especially, ICBC and CCB encountered shareholding disposal by their respective strategic investors Goldman Sachs and BOA.

In 4Q11, the Chinese government, in view of significantly lower rate of inflation, changed its tone on macroeconomic policies, saying it will pre-tune and fine-tune the policies when appropriate. This somewhat helped market sentiment for some time. However, the upward momentum was contained by uncertainties over external economies, especially the European economy which was plagued by the highly unpredictable debt crisis. According to HKEx, the average daily trading volume of the HK market for the 4Q11 so far was HK$63.7bn, still lower than HK$72.4 for 3Q11 and HK$73.2bn in 1H11.

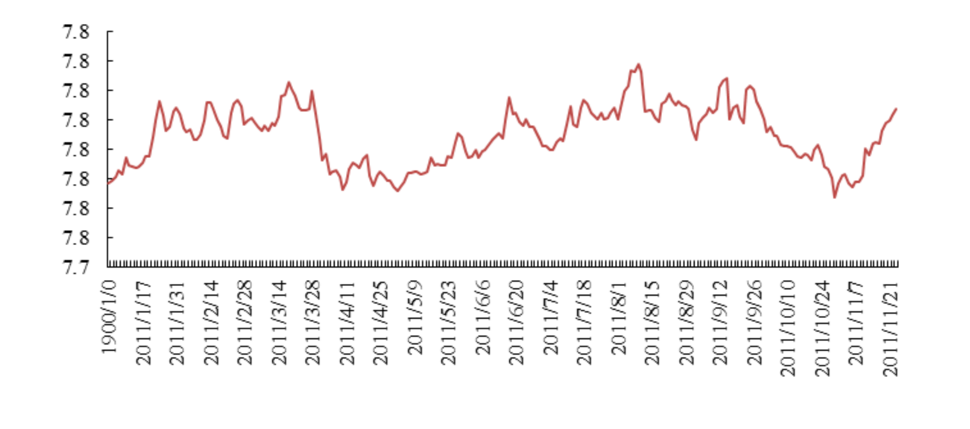
Chart 1: average daily trading volume of the HK market



Source: Bloomberg, Sinopac Securities

Market review -cont'd

Chart 2: HK dollar exchange rate trend (HK$ / US$)



Source: Bloomberg, Sinopac Securities

The HSCEI underperformed the HSI

As of December 9, 2011, the HSCEI declined 20.7% year-to-date, underperforming the HSI which declined 19.3%. The relative performance of the two indexes was nearly the same as 2010 but converse to the 6 years before 2010.

We attribute the underperformance of the HSCEI relative to the HSI to the following:

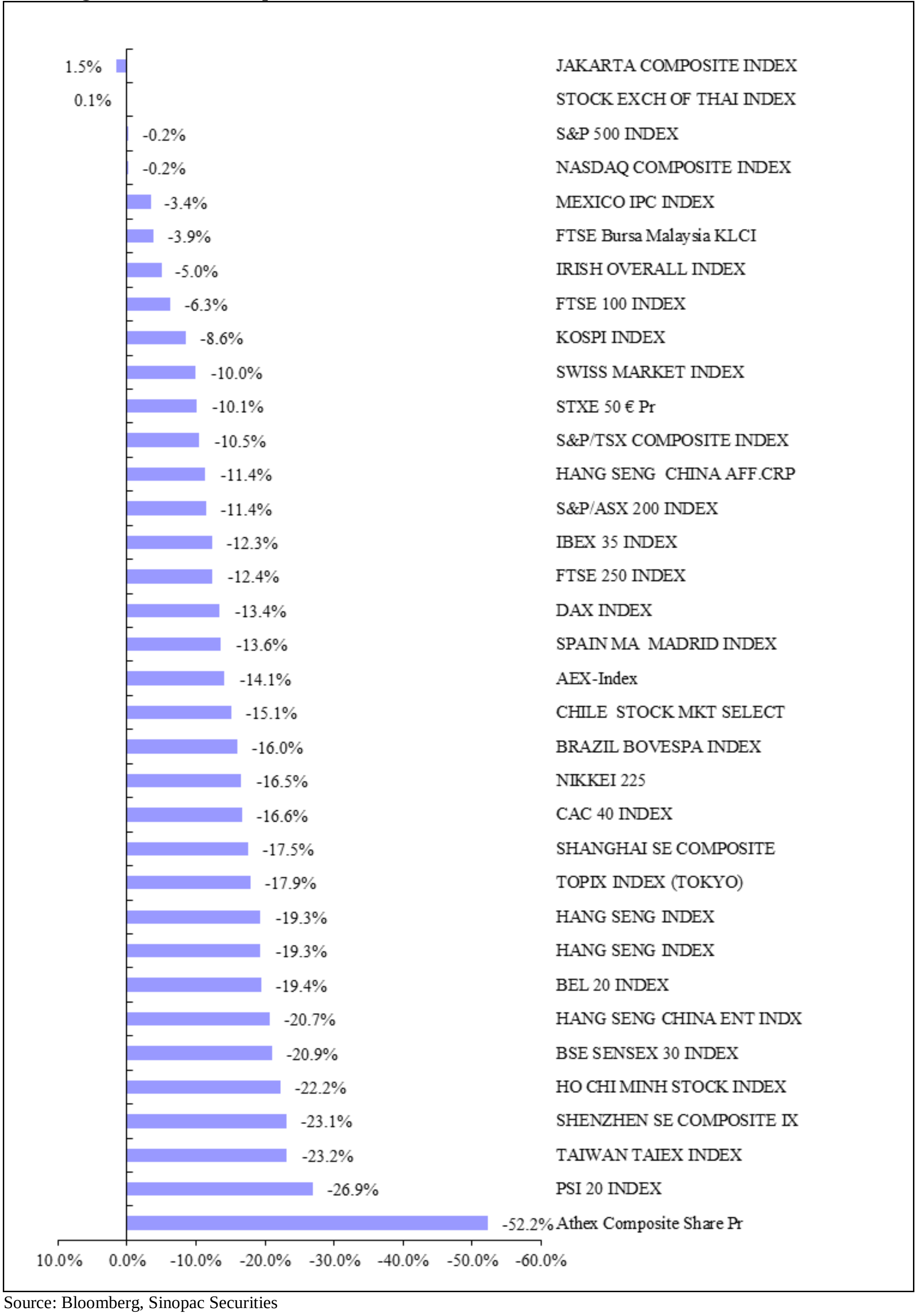
（1） the HSCEI was more volatile than the HSI.

（2） China's banking stocks were shunned by investors due to the macroeconomic regulation, crackdown on real estate industry and debt risks facing local governments' financing vehicles. In addition, ICBC (1398.HK) and CCB (0939.HK) had seen stake reduction by Goldman Sachs and Bank of America respectively. The resulting weak performance of the stocks had a stronger adverse impact on the HSCEI since China banks have a combined weighting of 41.1% in the index (the combined weighting of ICBC and CCB is 20.6%). By comparison, ICBC and CCB combine to represent 12.8 % of HSI.

（3） Moreover, the quite defensive tech, utility and consumer stocks in the HSI, which have a combined weighting of 18.8%, cushioned the index during market correction, while defensive stocks comprise less than 5% of the HSCEI.

Market review -cont'd

Chart 3: global stock markets performance for 2011



Source: Bloomberg, Sinopac Securities

Market review -cont'd

Review of H-share performance in 2011

Looking into the stock performance in the HK market in 2011, the defensive telecom and consumer sectors outperformed the index. And the cement sector also delivered a stellar performance, thanks to strong recovery of the cement industry. In addition, the resource sectors, such as oil and coal, outpaced the broad market as resource prices are expected to rise further on strong demand in the medium to long term.

On the other hand, the transport infrastructure and shipping sectors were the worst in the H-share market. The other underperformers included non-ferrous metals, steel and construction machinery sectors.

Cement sector…

The cement sector, the best-performing strong cyclical sector in the H-share market in 2011, not only outperformed the HSCEI but delivered positive return as well. For the past years, however, the sector had underperformed, primarily due to continued cement price decline caused by oversupply. Since the beginning of 2011, cement supply, especially for low-quality cement, has been effectively constrained by the government's greater energy-saving efforts such as faster elimination of backward cement capacity, while cement demand has been significantly pushed up by various construction projects which scrambled to start in 2011, the beginning year of the 12th Five-Year period, thus sending cement prices on a steady climb.

During 3Q11, the cement sector once weakened as investors balked at the continuing tight monetary policies, the slowing investment in real estate development and the sharply reduced investment in railway infrastructure construction in China. The pessimism over the sector was subsequently proven excessive by the strong 3Q11 earnings results of cement companies and other positive industry data that showed (a) the decline in the real estate and railway FAI growth could be totally offset by new rural construction, advancing urbanization, water conservancy construction and affordable housing projects; and (b) cement prices could be kept steady by the price alliances among leading cement companies. As a result, cement stocks staged a rally during 4Q11, yielding a positive double-digit return.

…coal sector…

The coal (referring to thermal coal here) sector also outperformed the HSCEI in 2011 on strong coal demand and higher coal prices. During the year, supply/demand imbalance continued in China's coal markets. On one side, coal supply was constrained by the maintenance and repair of the Daqin railway line, the accelerated coal resource integration nationwide and the upgraded coal mine safety supervision; on the other side, coal demand was boosted by a flurry of new industrial and infrastructure project starts during 2011, the beginning year of the 12th Five-Year period, and by the revival of projects that had been shut down in order to meet the energy-saving targets for the 11th Five-Year period. According to official data, for the first eleven months of 2011, China saw a still high y-o-y growth of 24.5% in FAI, implying strong coal demand for the same period. And thermal coal demand was also driven by weak hydropower generation as a result of severe drought in multiple regions in China.

After a volatile third quarter due to the continuing macroeconomic regulation and the suspension of high-speed railway projects, coal stocks rallied during 4Q11 and finished the year by outperforming the HSCEI, which we believe was mainly due to the favorable supply/demand imbalance in the coal industry and the high coal prices sustained by the strong demand in the fourth quarter, the traditional peak sales season for coal. Among the stocks, China Shenhua (1088.HK) came in as the best performer for this year, with its unique integration of coal production, electricity generation, port operation and railway transportation in China that makes it especially defensive.

Market review -cont'd

…and defensive telecom and consumer sectors…

The telecom sector was among the winners in the H-share market, thanks to the defensiveness of telecom operators which had solid operating track record, clear dividend policies and attractive valuations. Such stocks are usually favored by fund managers in volatile markets.

The consumer sector, especially the jewellery, high-end apparel and beverage & food stocks, delivered remarkable performance. Jewellery stocks were well ahead of the broad market due to hot jewellery sales in the current high inflation environment where consumers turned to inflation-proof assets such as gold. High-end apparel firms were also favored as they were more able to pass on higher costs to customers in the backdrop of high inflation. During 2011, beverage & food companies saw their gross margins squeezed by higher costs. Still, the sector, especially the leaders, outperformed due to their business defensiveness, which helped reduce the impact of China's macroeconomic regulation and external debt crisis.

…and the power sector outperformed.

The power sector also outperformed the HSCEI in 2011, contrary to their past performance. In fact, the H-share power stocks had underperformed for the past years, due to a double squeeze on their profits. On one side, coal prices, the main costs for power generation, had climbed all the way up; on the other, power companies could not pass on higher costs to customers since electricity prices are a factor concerning people's livelihood, especially in a high inflation situation. The problem was sharpened in 2011 as most power companies in China incurred huge losses year-to-date, according to an industry survey by China Electricity Council ("CEC"). Despite so, investors put the sector in their portfolio due to again the defensiveness. In addition, the power plants' losses and the recently eased inflationary pressures added to expectations of electricity price increases.

H-share banking stocks performed in-line

The normally defensive banking sector fared worse than usual and finished this year with an in-line performance, due to the macroeconomic regulation and the debt risks facing local governments' financing vehicles in China as well as the stake reduction by foreign banks.

Underperformers are the non-ferrous metals, steel, shipping, transport infrastructure and insurance sectors.

The non-ferrous metals and steel sectors continued to underperform the HSCEI in 2011 due to lower demand for non-ferrous metals and steel as a result of (a) the still weak economic recovery in the U.S. and (b) the spreading debt crisis in Europe, as well as (c) the macroeconomic regulation, the crackdown on real estate industry, the elimination of backward capacity and the greater energy saving efforts in China. And the steel sector underperformed the non-ferrous metal sector as China's steel mills faced additional risks such as higher iron ore prices.

The shipping sector lagged behind the broad market as investors feared that global demand could remain sluggish due to the weak U.S. economic recovery, the worsening European debt woes and the slowing Chinese economic growth. Worse, global shipping capacity had expanded rapidly, keeping major shipping indexes at low levels.

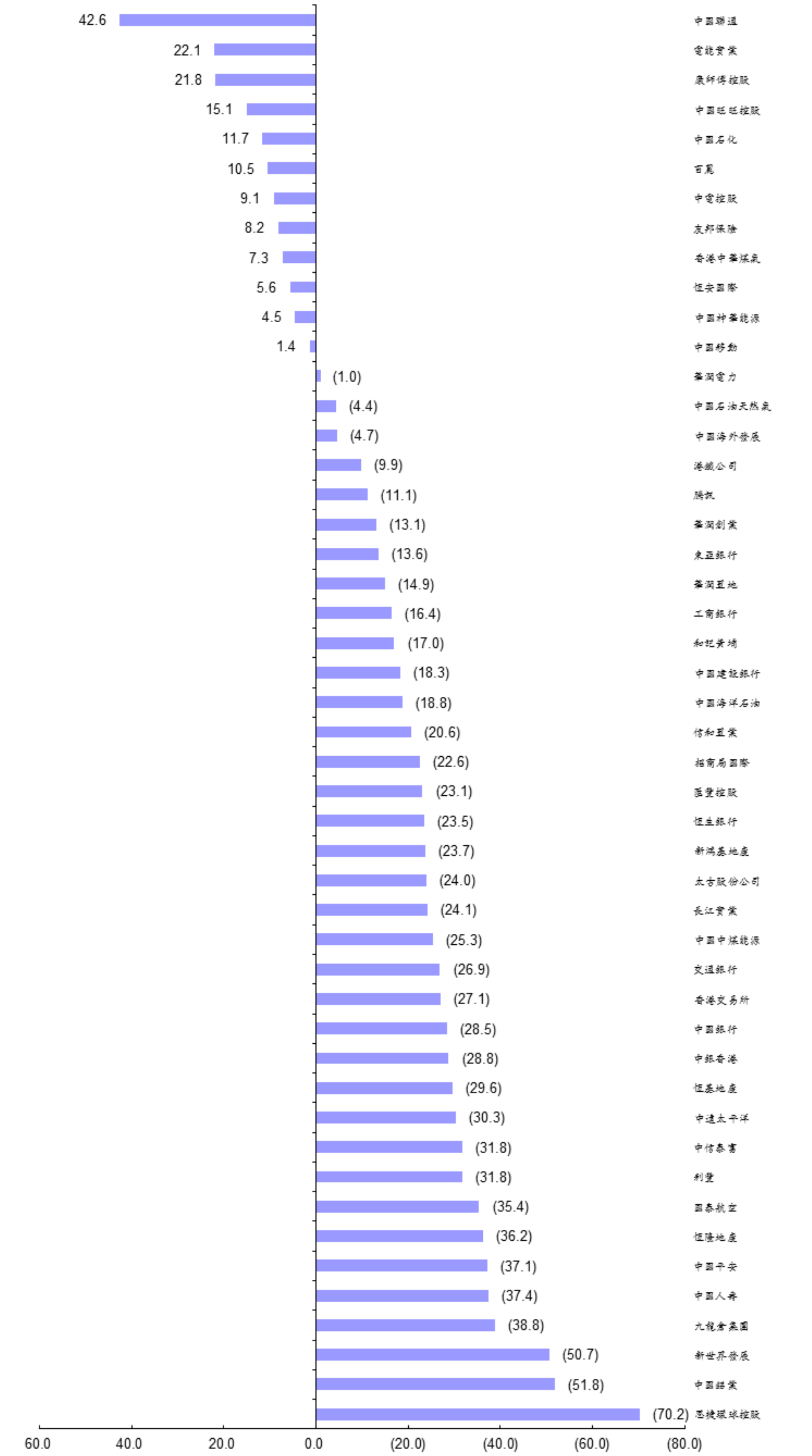
The transport infrastructure sector was among the biggest losers in the H-share market in 2011, which we attribute to the following: (1) railway investment lost momentum after high-speed railway tenders were put in suspension as a result of the July 23 high-speed train crash; (2) transport infrastructure companies had trouble collecting payments as many projects were forced to stop due to the significant funding shortage caused by the macroeconomic regulation; (3) some of the companies had incurred huge losses in their overseas projects, triggering concerns about their risk management for such projects; and (4) the companies could hardly pass on higher costs to customers because they had only one common customer, namely the MOR, and this sole customer unfortunately was under financial stress.

The H-share insurance stocks also underperformed as China's insurers posted lower-than-expected growth in premium income. Also, their investment income was disappointing amid the muted performance of global financial markets in 2011.

SinoPac

Market review -cont'd

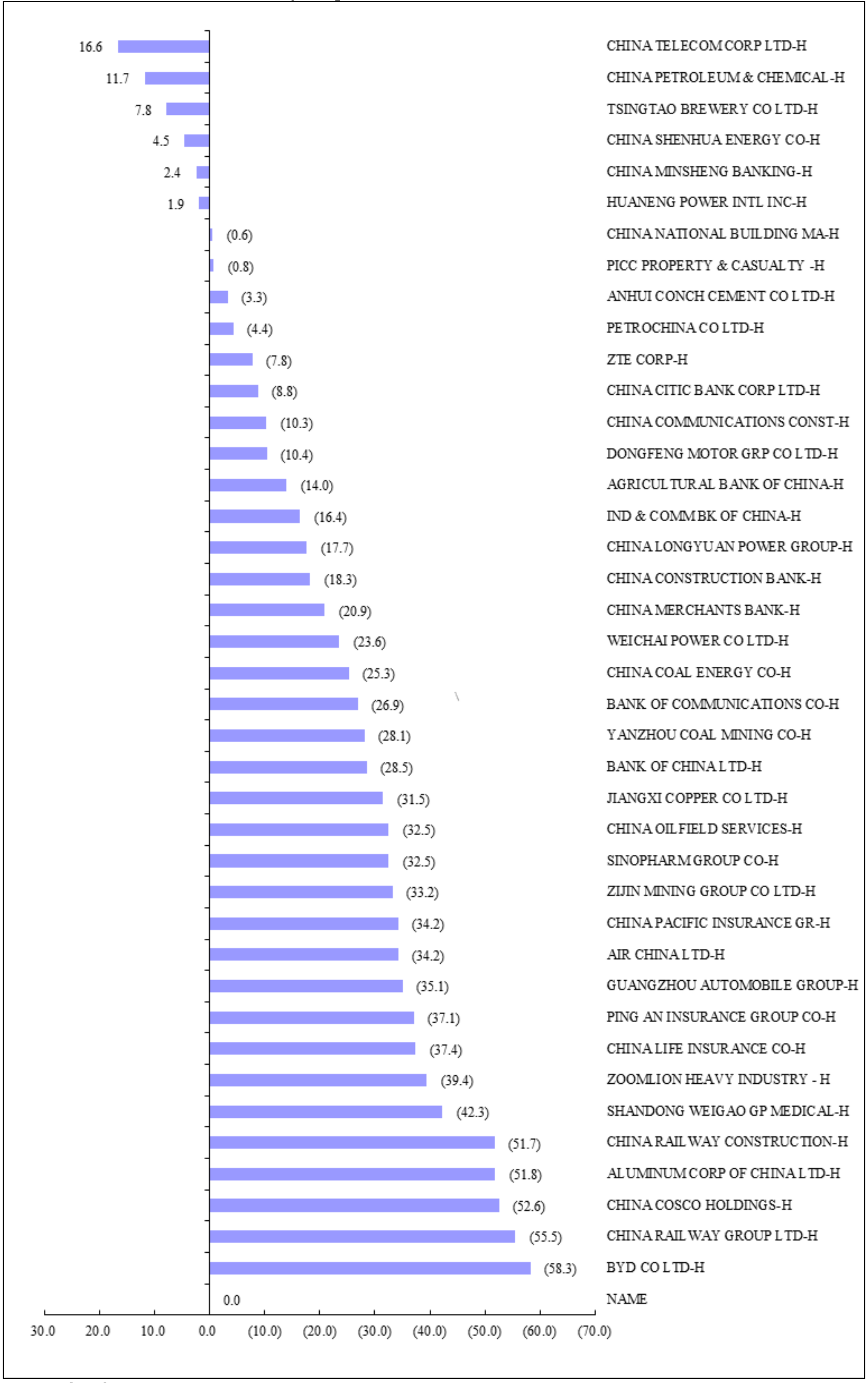
Chart 4: HSI constituent stocks y-t-d performance for 2011



Source: Bloomberg, Sinopac Securities

Market review -cont'd

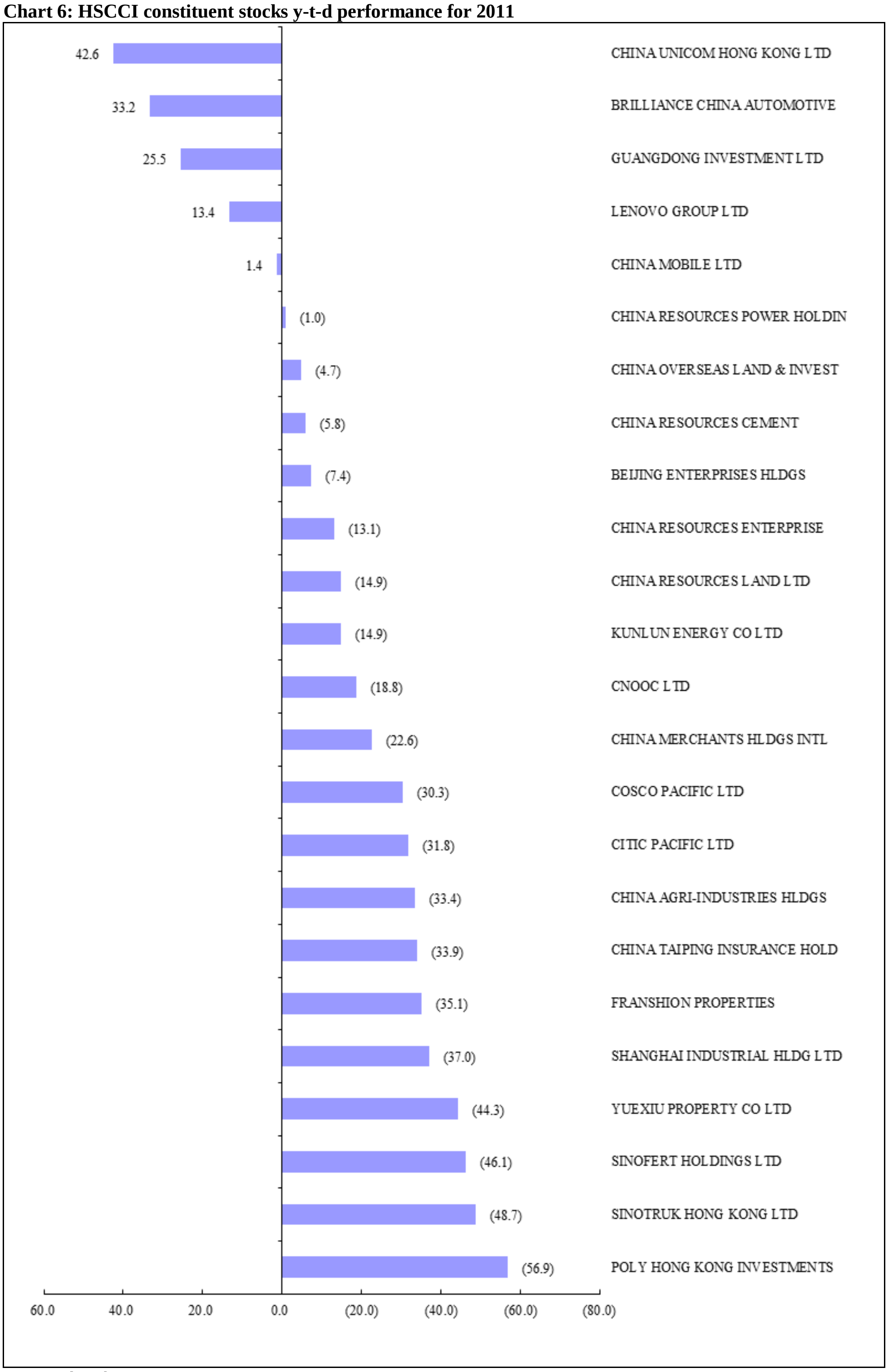
Chart 5: HSCEI constituent stocks y-t-d performance for 2011



Source: Bloomberg, Sinopac Securities

Market review -cont'd

Chart 6: HSCCI constituent stocks y-t-d performance for 2011



Source: Bloomberg, Sinopac Securities

Market outlook

There remain quite a few uncertainties over external economies, but China's relaxation of austerity measures bodes well for the HK market in 2012

We expect the HK market to remain volatile in 2012, due to the significant uncertainties over external economies, especially the European countries which will struggle to meet terribly heavy debt payments during 1Q12. In addition, the slowdown in China's economy and corporate earnings will add to concerns about risks of earnings forecast downward revision and ratings downgrade. However, we expect the HK market sentiment to improve gradually from 2Q12, which will trigger a round of rebound afterwards, as we anticipate that the Chinese government will make full relaxation of its monetary policies in 2Q12 or 3Q12 and the European debt crisis will abate for some time. We expect the HSI and the HSCEI to rise to 22,055 points and 12,159 points respectively, implying corresponding PERs of 11x and 9x for FY11F, at the lower end of their respective historical PE bands.

A number of negative factors to be seen at home and abroad in 1Q11

There will be quite a few uncertainties over external economies, especially the "PIIGS" countries (Portugal, Ireland, Italy, Greece and Spain), in 1Q11. In addition, before a full relaxation of monetary policies in China, the slowdown in China's economy and corporate earnings will keep investors worrying about the risks of earnings forecast downward revision and ratings downgrade. These negative factors will continue to plague the HK market in the coming months and keep investors out of the market.

Between February and April of 2012, the "PIIGS" will face huge debt payments, averaging EUR60bn monthly, according to media reports. Italy alone, for example, will see EUR53.8bn worth of bonds due in February. The absence of a detailed solution to the European debt woes and the unpredictable consequence of the political changes in Italy and Greece have fuelled market concerns and resulted in a sharp rise in the two countries' bond yields that suggested a higher risk of a further spreading of the crisis. If the European Union ("EU") failed to bail out its currency, or Euro and its banking systems in a timely manner, this would leave global stock markets in great volatility.

Looking back at China, its economy data show signs of slowing. According to our Economic Research Team's ("ERT") forecast, China's GDP growth will decline to 8.9% in 4Q11 from 9.7%, 9.5% and 9.1% in the first three quarters respectively, and its full-year 2011 GDP rate will be 9.3%, compared with 10.4% for 2010. Also, our ERT forecast the GDP growth to be 8.7%，8.4%，8.5% and 8.9% in the four quarters of 2012 respectively, and the full-year GDP rate to be 8.6%. In a still-tight monetary background, Chinese companies' earnings will also slow in 2012, particularly in 1Q12 when the profit growth will be rather weak compared with 1Q11 when Chinese companies as a whole posted strong earnings results because many high energy-consuming plants simultaneously released their production capacity which had been shut down in 4Q10 in order to meet the energy-saving targets for the 11th Five-Year period. All told, we expect investors to stay cautious in 2012 until a full relaxation of monetary policies in China.

Market outlook -cont'd

Investor sentiment will recover gradually from 2Q12

Despite the above-mentioned headwinds, we expect the HK investor sentiment to pick up gradually from 2Q12, due to the following:

(1) The European countries will face huge debt payments during 1Q12. If EU failed to find any effective solution, the risks relating to the debt crisis would materialize in a "one-off" manner, thus sending global stock markets to ultra-low valuation levels. If EU succeeded in bailing out and the newly-formed Italian government fulfilled its debt obligations in February, investors could regain their confidence in finding an effective solution to the crisis, thus making foreign capital flow back to emerging markets such as China and HK.

(2) Once reining in the inflation pressures, the Chinese government will unveil a series of easing policies, such as loosening bank credit, slashing RRR and increasing infrastructure construction expenditure, in order to maintain economic growth. These policies will give support to HK-listed China companies.

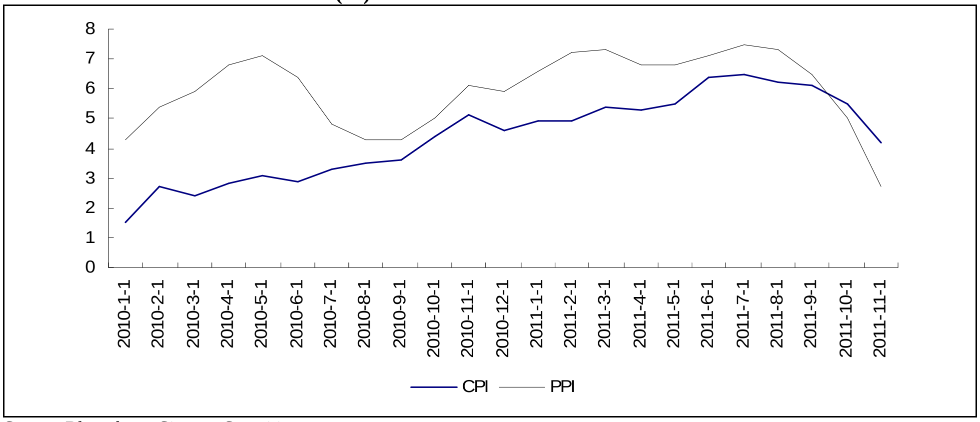
(3) According to our ERT's forecast, China's economic growth will decline from 9.3% in 2011 to a still remarkable level of 8.6% in 2012. Accordingly, we expect H-share profits to grow 11.9% in 2012.

(4) The HK market is trading at attractive PE multiples after the previous sharp correction, and the negative factors for the market have been fully reflected.

The slowing inflation rate opens opportunities for monetary policies to ease.

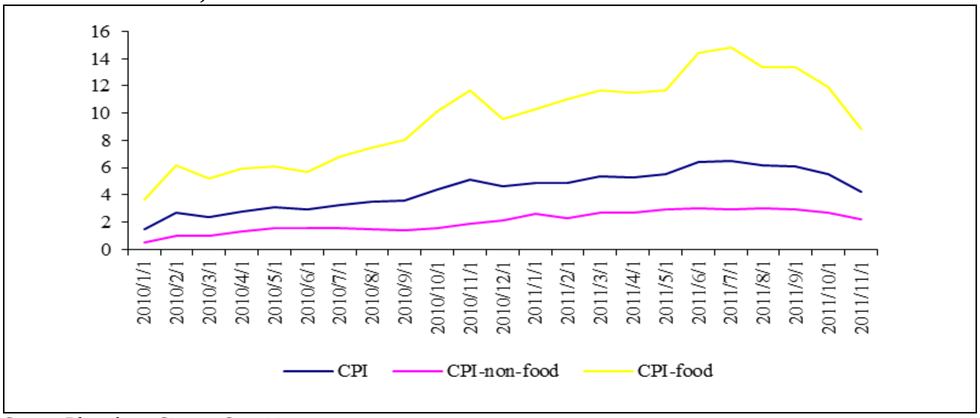
As the government's macroeconomic policies are taking effect, China's inflationary pressures are gradually easing. According to the latest official data, China's CPI rate was 4.2% in November, a continued decline from 5.5% in October, 6.1% in September, 6.2% in August and 6.5% in July.

Chart 7: China's CPI and PPI rates (%)



Source: Bloomberg, Sinopac Securities

Chart 8: China's CPI, food CPI and non-food CPI



Source: Bloomberg, Sinopac Securities

Market outlook -cont'd

Seeing the CPI downtrend take shape, the State Council changed its tone towards macroeconomic policies in late October, saying policies should be made in a relevant, flexible and forward-looking manner and would be fine-tuned when appropriate. The change in policy stance was then reflected in economic data and measures. According to PBOC, new Yuan loans amounted to RMB586.8bn in October, up RMB17.5bn from a year earlier and much higher than RMB470bn in September. In late November, the central bank lowered the RRR for some rural cooperative banks from 16.5% to 16%, before announcing an overall RRR cut of 50bps that will pump nearly RMB400bn into the banking system to fill capital gap.

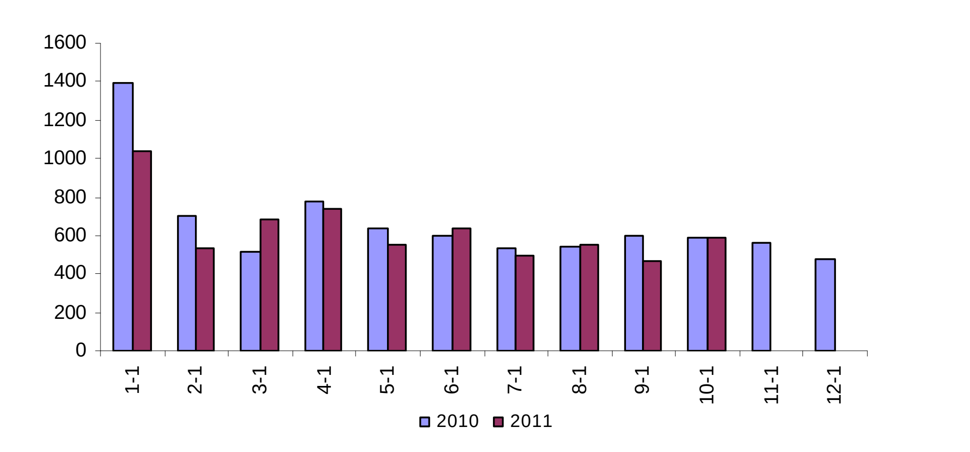
The RRR cut came much earlier than expected, due to the following, in our view:

(1) Tight monetary supply: according to official data, China's M2 and M1 growth continued to hit record lows in October. Specifically, the M2 growth fell to 12.9% from 13.0% in September, marking a four-month straight decline and hitting a 10-year low since October 2001; and the M1 growth dropped to 8.4% from 8.9%. Also, the inter-bank interest rates reflect tight monetary supply as the current 1-day, 7-day, 14-day, 21-day, 1-month, 2-month, 3-month and 6-month weighted-average collateral repo rate is 2.9649%, 3.4847%, 3.5738%, 3.9903%, 4.8614%, 5.0258%, 6.2000% and 5.4500% respectively.

(2) Decrease in funds outstanding for foreign exchange: in the background of the continuing European debt crisis, the global financial turmoil and the de-leveraging of European banks, the funds outstanding for foreign exchange in China will grow at a lower rate or even decrease for some time.

(3) Deposit-loan ratio insufficient to support economic growth: according to official data, new Yuan loans amounted to RMB6.28trn for the first ten months of 2011, meaning the new loans should average RMB610bn in November and December, based on the full-year credit target of RMB7.5trn. However, the actual new loans for November were just RMB562.2bn.

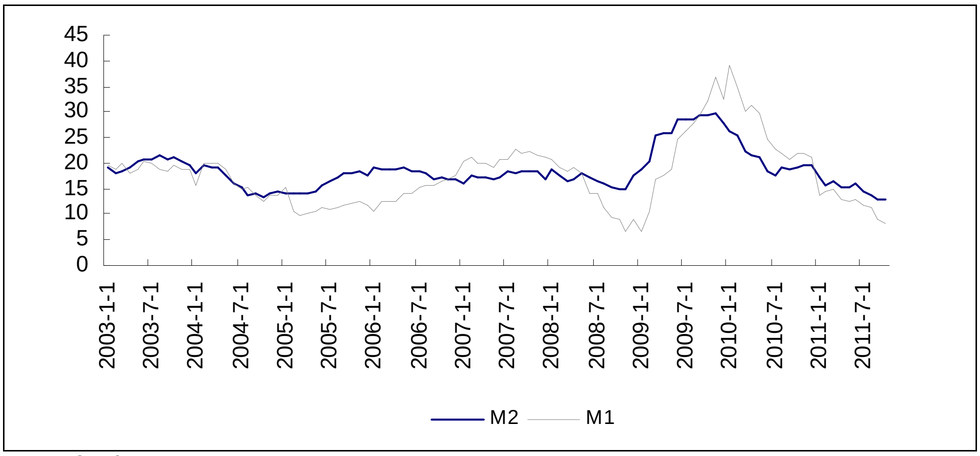
Chart 9: China's monthly new loans



Source: Bloomberg, Sinopac Securities

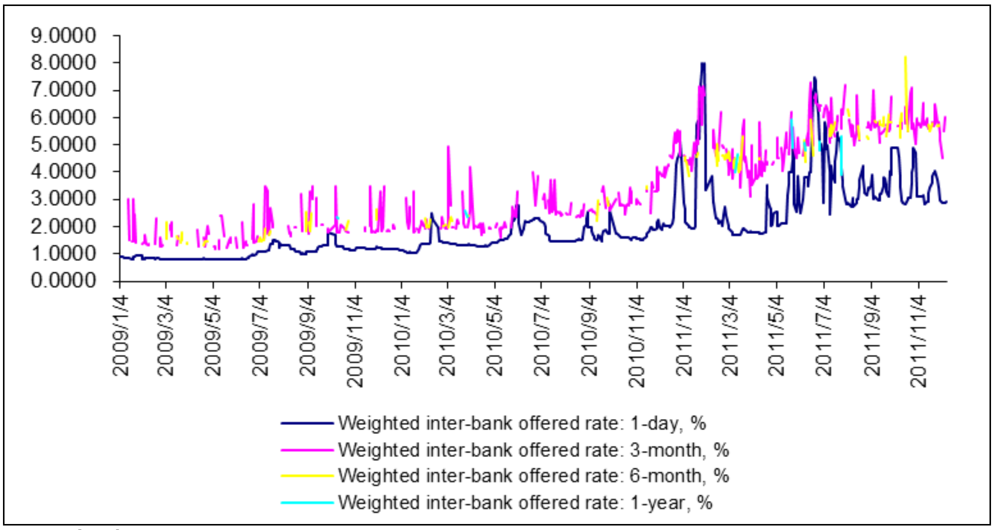
Market outlook -cont'd

Chart 10：M1&M2



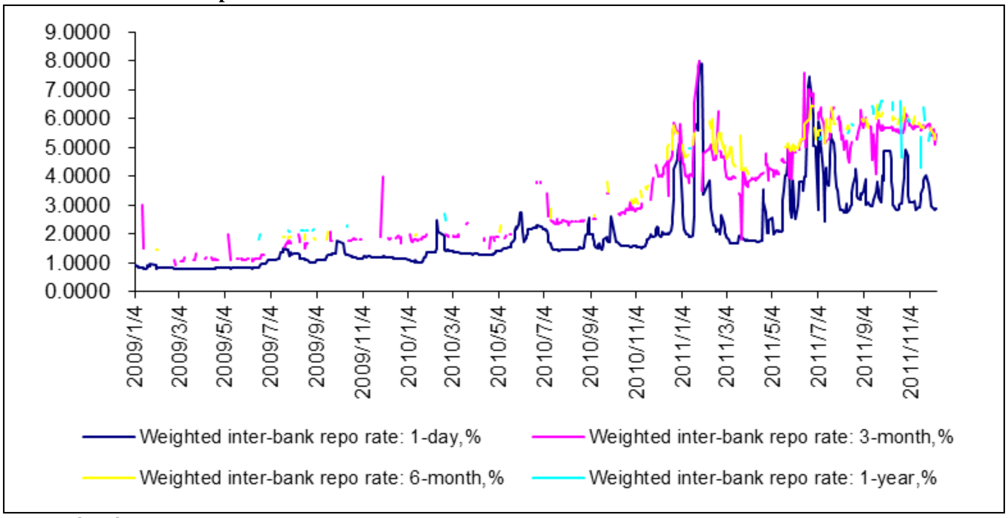
Source: Bloomberg, Sinopac Securities

Chart 11: inter-bank offered rates



Source: Bloomberg, Sinopac Securities

Chart 12: inter-bank repo rates



Source: Bloomberg, Sinopac Securities

Market outlook -cont'd

We regard this RRR cut as just an example of "fine-tuning monetary policies when appropriate", instead of a fundamental change in the policies. And we believe China is unlikely to make a full relaxation of its macroeconomic regulatory policies in the short term, due to the following: (1) the still-existing uncertainties over price trend require continuous implementation of prudent monetary policies; and (2) China's exports are expected to be gloomy in the coming two quarters; in particular, if its exports to Europe would decline sharply, China will be negatively affected.

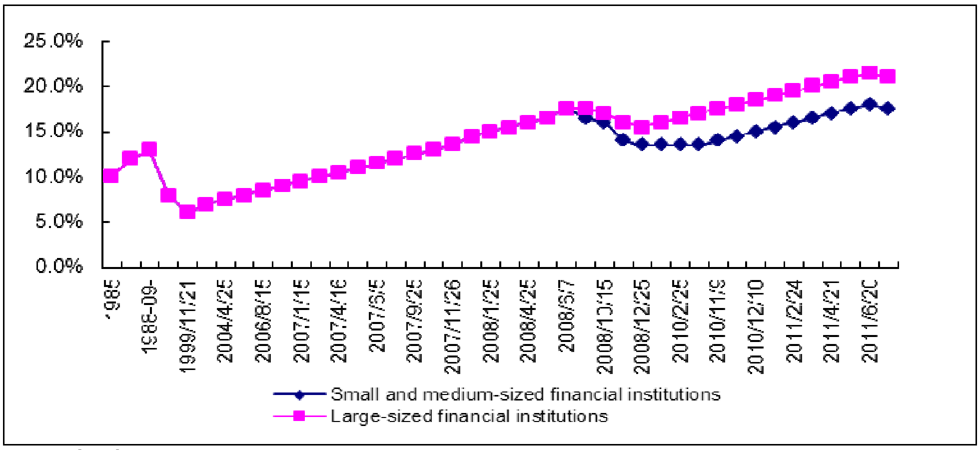
On the other hand, we expect China's inflationary pressures will continue to ease. Our ERT predicts the CPI rate will be 5.5% in 2011 and 3.8% in 2012. Given the slowing inflation, we expect China will relax its monetary policies to stimulate economic growth.

Indeed, China's Vice Premier Wang Qishan has recently emphasized that ensuring economic growth is an overwhelming task in the face of severe global economic conditions, and an imbalanced recovery will be better than a balanced recession. To that end, the Chinese government is very likely to adjust its monetary policies in 2012 by, for example, slashing RRR, loosening bank credit and cutting interest rates, in our view.

According to our ERT's forecast, in 2012, PBOC will possibly cut RRR by 50bps each quarter, or 200bps in total, to 19%. And the central bank may lower one-year deposit and lending rates by 50bps in 2Q12 or 3Q12.

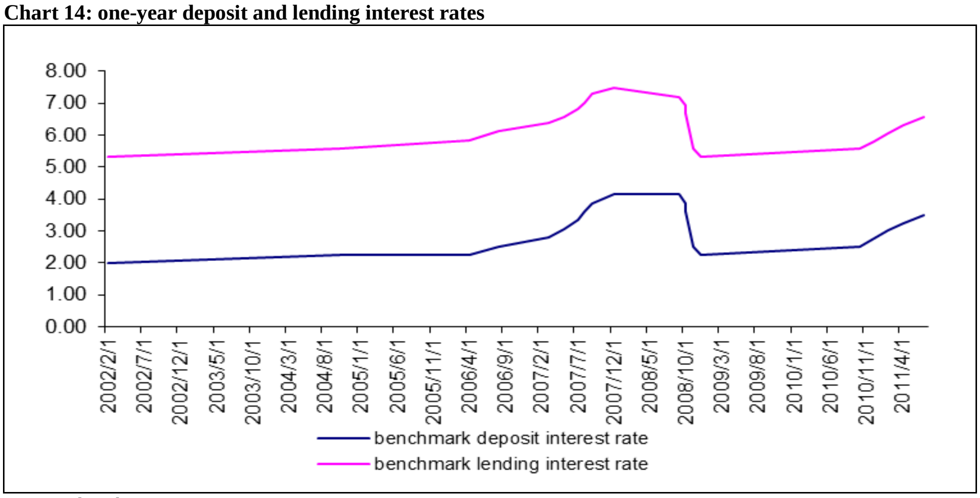
Once China makes a full relaxation of its macroeconomic regulatory policies, investor sentiment will recover and the market liquidity will improve. In addition, as 2012 is the election year, we expect many of the 12th Five-Year industry revitalization plants will be carried out then, which will energize the market.

Chart 13: RRR



Source: Bloomberg, Sinopac Securities

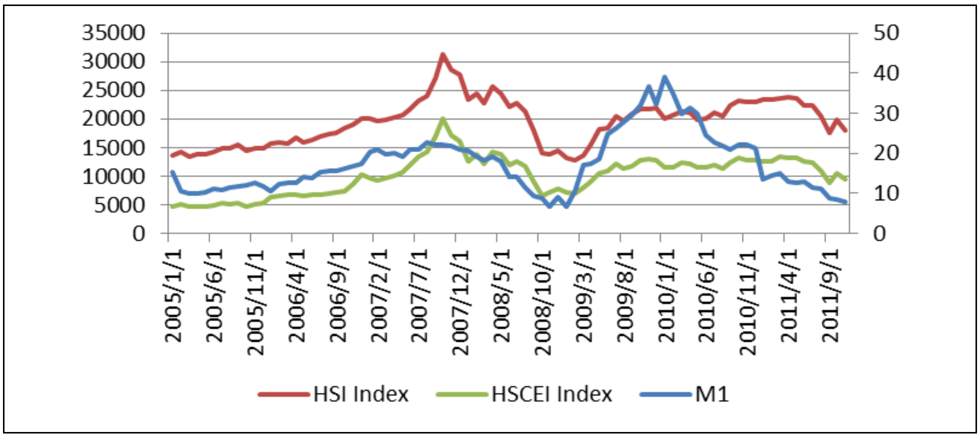
Chart 14: one-year deposit and lending interest rates



Source: Bloomberg, Sinopac Securities

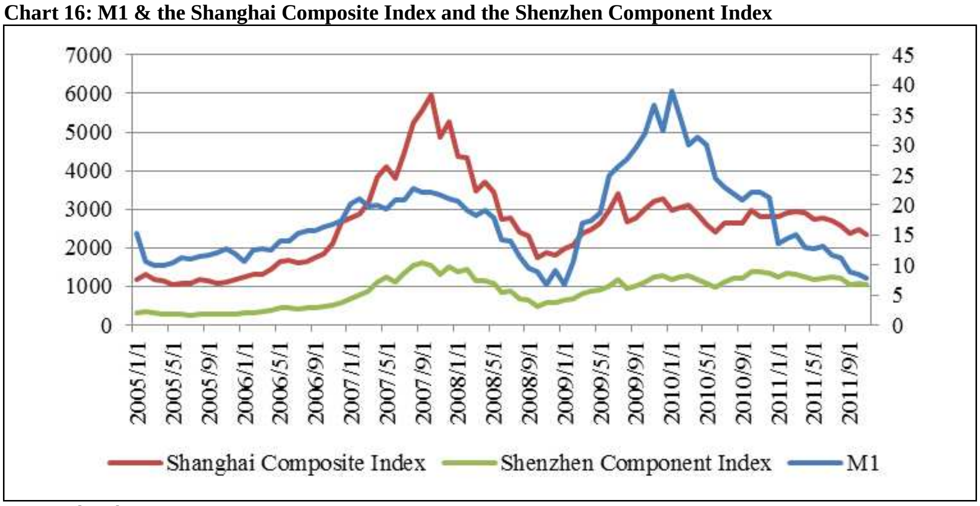
Market outlook -cont'd

Chart 15: M1 & the HSI and the HSCEI



Source: Bloomberg, Sinopac Securities

Chart 16: M1 & the Shanghai Composite Index and the Shenzhen Component Index



Source: Bloomberg, Sinopac Securities

Market outlook -cont'd

Chinese companies' earnings set to grow further

As an increasing number of economic figures show slowdown in China's economy, investors have been worried about a hard-landing in the economy and a sharp decline in Chinese corporate earnings. Behind the worry is the expected further deterioration in the market demand resulting from the spreading European debt crisis, the sluggish U.S. economic recovery and the slowing Chinese economy. In addition, the global economic downturn will pull down commodity prices, leading to inventory write-down by Chinese companies.

With China's inflationary pressures easing, however, we believe the risk of hard-landing will fade. According to our ERT, China's GDP rate will be 9.3% in 2011 and fall to a still-remarkable level of 8.6% in 2012 when we believe H-share companies will continue to post decent earnings growth, due primarily to the following:

(1) With the macroeconomic regulatory policies easing, the market liquidity and bank credit will improve. Thus, the projects suspended in 2011 due to fund shortage will revive, driving demand for industries such as energy, building materials, machinery and equipment.

(2) The rise in individual tax threshold, effective from September 2011, will continue to stimulate consumption.

(3) With the new leadership formed in 2012, the election year, many of the 12th Five-Year industry revitalization plans will be carried out then, boding well for related industries.

(4) The defensive banking sector, which has a weighing of 41.1% in the HSCEI, will less likely see significant earnings forecast downward revision as the Chinese economy achieves a soft landing.

According to average forecasts provided by Bloomberg, the average EPS will rise 13.7% for the HSI components and 29.2% for the HSCEI components in 2011, and will climb 9.1% and 11.9% in 2012. The decline in the projected EPS growth for 2012 contrasts some concerns about a negative growth in the EPS.

Table 1: Bloomberg Market Forecast (HSI)

Measures	2010	2011F	chg	2012F	chg	2013F	chg
EPS (HK$)	1,616	1,837	13.7%	2,005	9.1%	2,246	12.0%
EPS positive (HK$)	1,628	1,837	12.8%	2,005	9.1%	2,246	12.0%
Cash flow per share (HK$)	2,923	2,722	-6.9%	3,087	13.4%	3,392	9.9%
Dividend per share(HK$)	626	736	17.6%	792	7.5%	873	10.3%
BVPS	11,886	14,315	20.4%	15,564	8.7%	16,993	9.2%
Revenue per share (HK$)	8,684	10,608	22.2%	11,517	8.6%	12,809	11.2%
EBITDA per share(HK$)	2,403	3,200	33.2%	3,457	8.0%	3,764	8.9%
Net debt per share (HK$)	1,445	613	-57.6%	226	-63.1%	200	-11.7%
EV per share (HK$)	22,177	19,191	-13.5%	18,707	-2.5%	18,692	-0.1%

Measures	2010	2011F	2012F	2013F
P/E (x)	14.10	10.09	9.25	8.26
P/E positive (x)	14.00	10.09	9.25	8.26
P/CF(x)	7.80	6.81	6.01	5.47
Yield (%)	2.80	3.97	4.27	4.71
P/B(x)	1.90	1.30	1.19	1.09
P/S(x)	2.60	1.75	1.61	1.45
P/EBITDA(x)	9.5	5.79	5.36	4.93
EV/EBITDA(x)	9.20	5.79	5.36	4.92

Source: Bloomberg, Sinopac Securities

Market outlook -cont'd

Table 2: Bloomberg Market Forecast (HSCEI)

Measures	2010	2011F	chg	2012F	chg	2013F	chg
EPS (HK$)	934	1,206	29.2%	1,351	11.9%	1,511	11.9%
EPS positive (HK$)	945	1,219	29.0%	1,359	11.5%	1,511	11.2%
Cash flow per share (HK$)	348	1,783	412.3%	2,139	20.0%	2,409	12.6%
Dividend per share(HK$)	278	380	36.5%	415	9.3%	464	11.9%
BVPS	5,731	7,198	25.6%	8,163	13.4%	9,203	12.7%
Revenue per share (HK$)	8,581	11,092	29.3%	12,202	10.0%	13,379	9.6%
EBITDA per share(HK$)		2,118		2,427	14.6%	2,750	13.3%
Net debt per share (HK$)	-2,529	759	-130.0%	621	-18.2%	1,023	64.6%
EV per share (HK$)	11,688	6,819	-41.7%	6,078	-10.9%	6,335	4.2%

Measures	2010	2011F	2012F	2013F
P/E (x)	13.40	8.31	7.42	6.63
P/E positive (x)	13.20	8.22	7.37	6.63
P/CF(x)	35.80	5.62	4.68	4.16
Yield (%)	2.20	3.79	4.14	4.63
P/B(x)	2.20	1.39	1.23	1.09
P/S(x)	1.50	0.9	0.82	0.75
P/EBITDA(x)		4.73	4.13	3.64
EV/EBITDA(x)		5.86	5.11	4.51

Source: Bloomberg, Sinopac Securities

Attractive valuation

The HK market is attractively valued after the previous sharp decline. According to Bloomberg, the average PE multiples for the HSI and the HSCEI in the past ten years were 15.5x and 13.9x respectively. Now, the HSI is trading at PERs of 10.1x for FY11F and 9.3x for FY12F, while the HSCEI is trading at PERs of 8.3x for FY11F and 7.4x for FY12F, at the lower end of their respective historical PE bands.

Then take a look at the A-share market, which has some influence on the HK market. Currently, the HuShen 300 Index is trading at PERs of 11.2x for FY11F and 9.3x for FY12F, lower than 13x when the Shanghai Composite Index hit a low of 998 in mid-2005 and 13x when it touched 1,664 at year-end 2008. Meanwhile, the overall position of A-share funds is also at historical low. According to TX Investment Consulting Corp, the position is 80.4% for A-share equity funds and 70.8% for hybrid funds, compared with their record lows of 72% and 65% at year-end 2008. This means limited downside potential in the A-share market.

We believe the HK market has digested the risk of a hard-landing in China's economy, and the earnings forecast downward revision and ratings downgrade are coming to an end. With a full relaxation of monetary policies in 2012, the market liquidity and bank credit will improve, helping investor sentiment recover. Given the probable soft-landing in China's economy and the expected growth in Chinese companies' earnings, we see opportunities for H-share stocks to stage a rebound.

We forecast the 12-month target to be 22,055 points for the HSI and 12,159 points for the HSCEI, implying 11x and 9x 2012 EPS respectively. If PBOC performed 4 RRR cuts and 2 interest rate decreases as expected by our ERT, the U.S. Fed launched QE3, and ECB kept accommodating monetary policies in place, the HSI and the HSCEI, in this best scenario, could hit 24,060 points and 13,510 points respectively, implying corresponding PERs of 12x and 10x for FY12F.

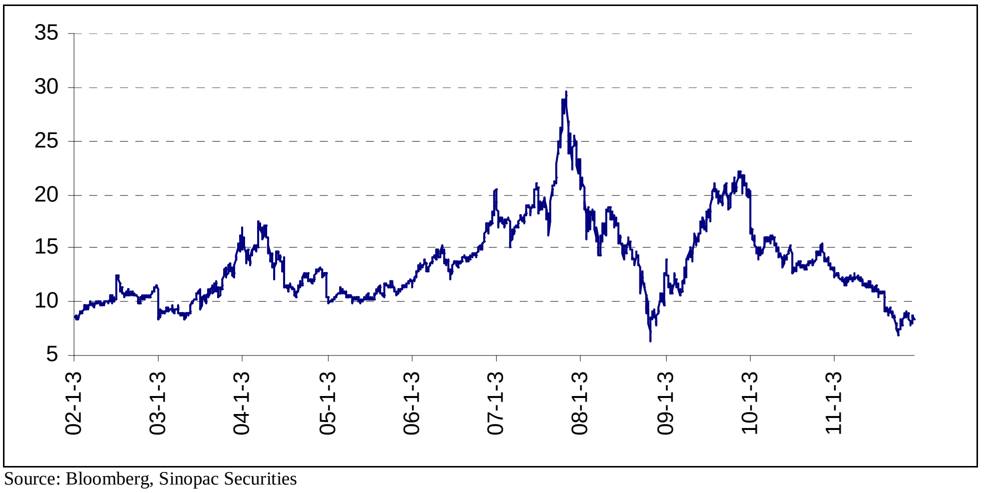
Note that if the circumstances turned out to be much worse than our expectation, this could limit the height and time of any rebound in the HK market.

Market outlook -cont'd

Chart 17: the HSI PE band

Source: Bloomberg, Sinopac Securities

Chart 18: the HSCEI PE band



Source: Bloomberg, Sinopac Securities

Sector allocation

Sector allocation

Looking to 2012, we believe the HK market will remain volatile due to a number of uncertainties over external economies. Nevertheless, we do see some rebound opportunities amid China government's decision to relax austerity measures.

We recommend investors to focus on the following investment themes: (1) the building materials, coal and railway equipment sectors that will benefit from monetary easing; (2) the gold sector which can serve as a hedge against inflation; and (3) the consumer sector which is riding on continuing economic growth.

Building materials, coal, railway equipment – beneficiaries of monetary easing

A. Cement

We believe the cement sector will benefit directly from monetary relaxation. In 2012, with the monetary policies expected to ease further, cement demand will be driven up by the following: (1) the projects suspended in 2011 as a result of the financing shortage caused by tight monetary supply are expected to revive; (2) the high-speed railway tenders halted due to the July 23 high-speed train crash are expected to resume; and (3) the continuing new rural construction, advancing urbanization, water conservancy construction and energy-saving efforts will also boost cement demand. On the other hand, cement supply, especially for low quality cement, will be effectively constrained as the government is stepping up its efforts in eliminating backward capacity, saving energy and reducing emissions. The favorable supply/demand picture for the cement industry, coupled with the price alliance among the industry leaders, should help set cement prices on steady climb.

B. Coal

We are bullish on the coal sector for 2012 as the current high coal prices are expected to be sustained by the favorable supply/demand imbalance in the coal industry. On one side, coal supply will be hampered by the ongoing coal resource integration nationwide, the persistent coal railway transportation bottlenecks and the upgraded coal mine safety supervision. On the other side, coal demand will remain strong due to the continuing economic growth, the revival of infrastructure projects as a result of the expected further monetary relaxation in 2012 and the implementation of the 12th Five-Year industry revitalization plans. In all, we believe the coal sector will continue to outperform in 2012.

C. Railway equipment

As a result of the expected further monetary easing, we believe the suspended high-speed railway projects will revive and high-speed railway tenders will resume. This will be significantly positive for the railway equipment sector as the share prices of the companies in the sector have reflected nearly all negative factors. While the MOR has reduced its 2012 railway infrastructure investment to RMB600bn from RMB700bn, the reduction will have limited impact on the railway equipment sector because (1) China's railway equipment manufacturers have leading technology, significant cost advantage and rich experience in high-speed railway-related operations, which will help them penetrate overseas markets; and (2) the higher localization rate of railway equipment production will help maintain or even raise their gross margins.

Sector allocation -cont'd

Gold - a hedge against inflation

A. Gold

We are bullish on the gold sector, given the role of gold as a type of safe heaven assets, especially in such a period as now that is characterized by high inflation and rapid monetary growth, in which gold price is usually pushed up by stronger investment demand and faster currency depreciation. Now, gold price is little influenced by supply/demand picture (on one side, real gold demand from industrial applications (mainly from jewellery and technology) is steady; on the other, global mined gold output stays above 600 tons quarterly and scrap gold volume is also stable. In the face of rapid monetary growth, central banks and private investors will continue to buy gold to fight with high inflation, thus pushing up gold price.

Consumer – benefitting from continued economic growth

A. High-end auto dealers

We believe high-end auto dealers will become investment highlights due to their greater synergy between new car sales and after-sale services and huge profit growth potential. In addition, their high profit margin and steady profit growth will put them ahead of auto makers in terms of operating results. Particularly, we are bullish on high-end and luxury auto dealers, given the expected 2009-2012 CAGR of 39.2% and 46% in their respective sales volume, which will be higher than industry average (7-10%) and the CAGR for other type of auto dealers. Since high-end customers are less price sensitive, high-end and luxury auto dealers can retain more customers and thus generate more after-sale service revenues.

B. Branded menswear

We remain bullish on menswear producers due to their stellar earnings growth and defensive profitability status. According to Euromonitor, China's menswear market size is expected to grow to RMB691.7bn in 2013 from RMB377.6bn in 2009, implying a CAGR of 16.3%, primarily due to higher residents' income levels and the government's consumption stimulus. In particular, the leading menswear producers will achieve better-than-industry-average growth with their well-recognized brand names and extensive sales networks. According to the data from the recent trade fairs for spring/summer 2012, branded menswear companies have all recorded an approximately 30% growth in order value, higher than the growth for the comparable period in 2011. While investors are concerned about the rising renting, labor and raw material cost pressures on the apparel industry, we believe premium menswear brands can maintain or even raise their gross margin, due to the following: (1) the short cotton supply seen this year will not recur in 2012 as global cotton output for 2011/12 hit a record high. They will also have less raw material cost pressures in 2H12 after digesting high-priced cotton inventory in 1H12; and (2) branded companies can pass on higher costs to customers through price increases.

Stock recommendation

Stock recommendation

Among the aforementioned sectors, we recommend **China Shenhua (1088.HK)**, **China Coal (1898.HK)**, **China Res Cement (1313.HK)**, **CNBM (3323.HK)**, **CSR Times Electric (3898.HK)**, **CSR Corp (1766.HK)**, **China Gold Int'l (2099.HK)**, **Zhongsheng Holding (0881.HK)**, **Zhengtong Auto (1728.HK)**, **China Lilang (1234.HK)** and **Trinity (0891.HK)**.

Our top pick in the coal sector is **China Shenhua (1088.HK)** and **China Coal (1898.HK)**, mainly because: (1) both the companies have huge coal reserves and are accelerating their capacity release, with asset injections from their respective parents; (2) Shenhua is stepping up its acquisition of power plants to achieve stronger synergy between its power generating and coal mining business segments and thus enhance its overall profitability; and (3) China Coal has significant technological edges in coal mining machinery and a large share of the market for such machinery in China. As the national coal resource integration is drawing to a close, China's coal machinery market will enter a golden period of growth.

We are bullish on cement companies as they are the direct beneficiaries of the expected further monetary easing in China. We recommend **China Res Cement (1313.HK)** due to its regional leadership position and bright earnings growth outlook. The company sells cement mainly in South China (including Guangdong, Guangxi, Hainan and Fujian) as well as Shanxi and Inner Mongolia. South China, with the most favorable cement supply/demand picture in China, will very likely see strong cement demand in 2012. The company also has significant market presence in Shanxi and Inner Mongolia where the cement supply/demand relationship is improving. With a rapid capacity expansion, the company has a bright earnings growth outlook. We also recommend **CNBM (3323.HK)**, the largest and fastest-expanding cement enterprise in China. The company makes 75% of total sales in East China which has a high cement market concentration and sees favorable cement supply/demand relationship as a result of severe production suspension caused by power rationing. Also, the company's high leverage will also enable it to benefit from the expected further monetary easing in 2012.

In the railway equipment sector, we recomend **CSR Corp (1766.HK)** because CSR, as one of the two dominant raiway equipment manufactureres in China, will ride on the growth of the whole industry. The company has technological advanges in railway equipment and enjoys a larger market share for locmotives, EMU trains and urban rail vehicles. And it is expanding into the fast-growing emerging industries with its highly competitive core technolgoies. We also recommend **CSR Times Electric (3898.HK)** because CTE, a subsidiary of CSR that has clear product positioning and strong technological capablities, provides electircal systems and power supply control systems that are critical for railway equipment. Although its 2H11 earnings results are expected to be adversly impacted by decreaed order inflow, we expect its earnings to improve in 2012 due to recovery in order inflow.

Given the expected strong growth in the gold sector's earnings and the global economic uncertainties, we believe the sector will outperform and recommend **China Gold Int'l (2099.HK)** as the company has significantly increased its mineral reserves and its overall output will be considerably driven up by its planned Phase 2 capacity expansion. With mineral asset acquisitions in consideration, the company is trading at attractive valuation multiple relative to the sector average.

Among the high-end auto dealers, we recommend **Zhongsheng Holdings (0881.HK)** and **Zhengtong Auto (1728.HK)** as we expect Zhongsheng and Zhengtong to post a profit growth of 61.2% and 98% respectively in 2012 as a result of their sales network expansion. Zhongsheng and Zhengtong are currently trading at PERs of 8.9x and 8.3x for FY12F, which we believe are undervalued and therefore present investors with opportunities.

We also like menswear companies with attractive valuation, strong earnings growth and defensive profitability status. We recommend **China Lilang (1234.HK)** as the company has a leading market share in tier-2 and -3 cities and its newly-introduced brand "L2" will contribute to its overall customer base and become a new earnings growth driver. We also recommend **Trinity (0891.HK)** as the company, which is focused on high-end menswear market segment and is armed with high entry barriers by its six well recognized European menswear brands, will see stronger demand for high-end menswear from the rising middle class in China. Currently, Lilang and Trinity are trading at 11x and 17x 2011 EPS respectively, which are at the low end of their respective PE bands and are both well below the average of 22-29x for its A-share peers. The relatively low PE multiples, coupled with an expected growth of around 30% in their net profits, have revealed the investment value of both the companies.

Sector analysis

Auto Makers －IN-LINE

Positives	Negatives	Recommendations
● Backed by stronger purchasing power in in-land regions, China's auto industry will continue steady growth in the long term. ● Demand from in-land regions is expected to increase significantly in 2012, driving up overall car sales by 10-15%. ● The new-energy vehicle subsidy policies may help speed up the development and use of such vehicles in 2012.	● The weakening property and equity markets may dent auto sales. ● Yuan appreciation may reduce the competitiveness of Chinese cars in overseas markets. ● Aggressive capacity expansion in 2010 may lead to overcapacity and lower utilization rate. ● Domestic auto makers need to grab market share and digest excess capacity through price cuts.	**Dongfeng Motor (0489.HK, BUY, TP: HK$14.76)** ● China's second largest auto maker ● Diversified product portfolio including passenger vehicles, commercial vehicles and engines. ● DFM's leadership position helps it benefit from the industry consolidation trend. ● Its joint ventures with three foreign partners bring it expertise in technology and production. ● Having design and manufacturing advantages in new-energy vehicles, with strong financial condition and technological capabilities. **Great Wall Motor (2333.HK, BUY, TP: HK$13.15)** ● GWM's leadership position in the SUV market should help it benefit from SUV up-cycle. ● Significant gross margin improvement thanks to better product mix and greater economies of scale, especially in its sedan business segment. ● Enriched new model pipeline leads to stronger market recognition and better brand reputation. ● Home brands are gradually increasing their market share. As the largest SUV manufacturer in China, GWM will benefit from the trend. **Geely Auto (0175.HK, NEUTRAL, TP: HK$2.20)** ● Sales are expected to be flat in 2011 vs. 2010, missing target. ● Gross margin is expected to shrink in 2011, due to weak sales and intense competition.

Auto Dealership－OUTPERFORM

Positives	Negatives	Recommendations
● China's auto industry will continue stable growth in the long term, mainly due to higher demand in rural areas and stronger purchasing power in in-land regions resulting from greater wealth effect. ● The passenger vehicle penetration rate in China, although rising to 69.9 per 1,000 persons in 2010 from 49.7 in 2008, remains far lower than those in developed countries. ● Luxury car sales have been growing faster than the overall sales for China's auto industry. ● Second-hand car business, although currently representing a limited portion of auto dealers' revenues, will become another earnings driver as the synergy between new car sales and after-sale service gets increasingly strong. ● China's car rental market has substantial growth potential.	● Sales commissions for dealership depend heavily on auto OEMs. ● Auto dealers have weaker bargaining power than OEMs. ● Dealership M&A costs are expected to increase in coming years due to more intense competition between local dealers. ● Luxury car sales have shown signs of slowing.	**Zhongsheng Holdings (0881.HK, BUY, TP: HK$15.15)** ● One of Zhongheng's approaches to driving earnings is increasing outlets. The number of its 4S stores is projected to be 137 in 2011 and 211 in 2013. ● Since the after-sale service business segment brings steadily-growing profits, Zhongsheng will strive to expand the business segment as a percentage of total revenues, with the business revenues expected to rise at a CAGR of 30%-35%. ● Japanese car sales saw strong rebound in 3Q11; in particular, GAC-Toyota, GAC-Honda and FAW Toyota saw their sales up by 25%, 31% and 27% in 3Q11 vs. 2Q11 respectively. In 2012, Japanese car sales are projected to increase more than 20% y-o-y. **Zhengtong Auto (1728.HK, BUY, TP: HK$8.87)** ● Zhengtong will benefit from higher luxury car demand as a result of consumption upgrade caused by greater wealth effect. ● It has a diversified auto business portfolio, including after-sales services, logistics and lubricants trading, as well as auto loans and second-hand car trading. ● Zhengtong is focused on luxury car 4S store network expansion, with the number of its 4S stores (mostly for luxury cars) expected to rise to 75 in 2012 from 56 in 2011.

Sector analysis -cont'd

Sportswear – IN-LINE

Positives	Negatives	Recommendations
• Consumption is driven by higher per capita disposable income as a result of steady economic development and residents' stronger purchasing power after the individual income tax threshold rise. • Sports enthusiasm increased by the upcoming 2012 London Olympic Games. • Raw material cost pressures expected to ease in 2012, due to the slowing inflation rate.	• The "store-opening" business model will be unsustainable due to elevated inventory levels, intensifying price wars and more intense retail-end competition. • Branded sportswear companies need to identify their own competitive advantages to reduce the currently serious homogeneity of their products. • Brand dealers and distributors are under higher rental and labor cost pressures.	**Anta Sports (2020.HK, NEUTRAL, TP: HK$7.63)** • One of the leading branded sportswear companies in China that has high brand recognition and diversified product portfolio. • Order growth fell sharply for 1H12 collections and is expected to continue to decline for 2H12 collections. The company was challenged by higher retail-end inventory levels and greater discount rates throughout the year. **361 Degrees (1361.HK, NEUTRAL, TP: HK$3.63)** • One of the leading branded sportswear companies in China that is expanding into kids' wear market segment, with its operating metrics all ranked first in the industry. • Order growth remained decent for 1H12 collections but fell for 3Q12 collections due to intensified retail-end competition, with the slowdown expected to recur for 4Q12 collections. Its full-year development focus will be shifted to organic growth from store opening. **Xtep (1368.HK, NEUTRAL, TP: HK$3.2)** • Targeting the fashionable sportswear market segment; planning to step into kids' wear market segment to find new earnings driver. • Operational data deteriorated in 3Q11 and order growth slowed for 1Q12 and 2Q12 collections. The company and even the entire sportswear industry need to reform business model. So 2012 is set to be a year of "adjustment"; in particular, the company will focus on retail-end promotion. **Peak Sport (1968.HK, SELL, TP: HK$1.68)** • One of the leading sportswear companies in China that has become one of the official partners with NBA. Focused on international marketing, Peak exports its products to more than 70 countries. • Order growth slowed significantly for 1H12 collections, with the growth driven more by higher ASP than by order volume increase. **Li Ning (2121.HK, NEUTRAL, TP: HK$7.23)** • China's leading domestic sportswear brand that is positioned and well recognized in mid to high-end market segments and has diversified product portfolio. • Facing excess inventory, the company is working to consolidate its sales network by phasing out low-efficient distributors and opening self-owned stores. It will continue adjusting its business model in 2012 when the retail-end operating environment will further deteriorate due to intensifying price war. **China Dongxiang (3818.HK, SELL, TP: HK$1.46)** • High-end fashionable sportswear brand that now has difficulty in penetrating lower-tier market segments. • It has made a series of repurchases in order to reduce the retail-end pressures caused by excess inventory, although there has been no significant improvement in its operation so far.

Lead-acid Batteries – OUTPERFORM

Positives	Negatives	Recommendations
• Lead-acid batteries will remain dominant in the market because the replacement effect of lithium batteries is still weak in this area due to electric bike consumers' high price sensitivity. • The companies in the industry that can maintain normal production will enjoy super profits because battery prices are being pushed up by the substantial supply/demand gap resulting from the capacity shutdown during the recent government's environmental actions. • The industry leaders, as the first beneficiaries of the actions, will expand faster and grab more market share. • Entry barrier to the industry will be raised by the upcoming new industry access standards.	• Environment-related input and expenses to be pushed up by higher environmental standards. • The replacement effect of lithium batteries would increase on lower costs as a result of faster-than-expected development of such batteries.	**Tianneng Power (0819.HK, BUY, TP: HK$ 5.50)** • One of the leading lead-acid battery manufactures in China, with production capacity expected to increase rapidly to 78m units in 2012. • Having R&D input in lithium batteries, new-type lead-acid batteries, wind & solar energy storage batteries, with advantages in building industry chain. Cost control and overall business strength will be enhanced after its waste lead-acid battery recycling business comes on stream. **Chaowei Power (0951.HK, BUY, TP: HK$5.00)** • One of the leading lead-acid battery manufactures in China, with production capacity expected to increase rapidly to 72m units in 2012. • Having R&D input in lithium batteries, new-type lead-acid batteries, storage batteries and enhancement of its own environmental standards.

Sector analysis -cont'd

Beer - OUTPERFORM

Positives	Negatives	Recommendations
● Beer, as a type of basic consumer goods, is less affected by macroeconomic conditions. China's basic consumption will increase further during the 12th Five-Year Period, due to stronger purchasing power in part resulting from the policy to double residents' income. ● The continual merger and acquisition has been raising the beer industry concentration and strengthening beer companies' bargaining power. ● Beer companies will face less cost pressures in 2012 as global barley prices are expected to fall from high levels as a result of greater supply from Australia.	• Beer companies have weak bargaining power due to difficulty in hiking prices in the short term and the intense competition between low-end products. • Beer sales will be severely impacted by cool summer caused by, for example, heavy rain. • Few quality targets left after previous large-scale M&A activities in the industry. And M&A costs may be pushed higher by major players' efforts to grab market share.	**Tsingtao Brew (0168.HK, NEUTRAL, TP: HK$42.73 元)** • One of the leading beer companies in China that is an early entrant to high-end market segment and has well-recognized brand name. In 1Q12, the company's sales are expected to slow significantly, due primarily to the high-base effect from 1Q11 when its distributors hoarded beer. From 2Q12 or 3Q12, however, the sales growth is expected to pick up. • The company plans to achieve sales of 10m kiloliter of beer by 2014, implying a higher CAGR of 12% in 2011-14. In 2012, it will focus on grabbing share of low-end market segment with its sub-brands.

Cement - OUTPERFORM

Positives	Negatives	Recommendations
● Cement demand will remain strong in the mid to long term due to the advancing urbanization, continuing new rural construction and a number of infrastructure and real estate projects in China. ● With the industry concentration rising, major cement producers have achieved regional price control through price alliance. ● The elimination of backward capacity and the introduction of stricter requirements for new cement production lines will constrain new cement supply in 2012, thus easing the current overcapacity problem in the industry.	● Short-term cement demand will be substantially curbed by the suspension of constructions resulting from the stringent property regulation and the financing problems facing local governments. ● With the exception of Northeast and South China, most regions in China have been faced with overcapacity. Therefore, the cement price surge caused by short supply as a result of electricity rationing in 1H11 and 2H10 will not recur in the short run. ● Cement gross margin will be squeezed by higher production costs, especially electricity and coal costs.	**China Res Cement (1313.HK, BUY, TP: HK$ 7.20)** ● Having 85% of production capacity in South China which has the most favorable cement supply/demand relationship in China; enjoying stable demand that comes more from infrastructure projects and rural construction than from real estate development ● Actively seeking M&A opportunities in South China, Shanxi Province and Inner Mongolia to expand capacity, while maintaining financial health. ● Having good relationship with domestic and foreign banks, with large credit line and favorable interest rate terms. **Shanshui Cement (0691.HK, BUY, TP: HK$7.54)** ● Leading cement company in Shandong Province and Northeast China, with gross margin raised significantly by strong demand and high price in 2011 ● Planning for massive capacity expansion, supported by its strong cash flow and light financial burden. **CNBM (3323.HK, BUY, TP: HK$ 14.56)** ● China's largest cement company that has rich experience in M&A; its subsidiaries are vigorously seeking M&A opportunities in Huaihai Economic Zone, Southeast Economic Zone and North China Economic Zone in order to consolidate the local cement industries; the company is moving forward with its consolidation of the local cement industry in South-western regions. ● Expected to issue 1bn A-shares in 2012 to raise about RMB15bn, which will significantly improve its financial condition and provide sufficient funds for its M&A. **Anhui Conch (0914.HK, BUY, TP: HK$34.92)** ● China's second-largest cement company that has been steadily growing its capacity through self-building of production lines. With strong financial status and sufficient cash in hand, it is attempting to expand into other markets such as South-western regions through the combination of organic and non-organic growth. ● The most financially robust cement company in China that has maintained high gross margin for years with outstanding cost control and strong technological capabilities.

Sector analysis -cont'd

Coal - OUTPERFORM

Positives	Negatives	Recommendations
• With "maintaining stable economic growth" becoming the main tone for macroeconimic policies for 2012, China's overall econmy and FAI are expected to continue high growth, thus supporting the growth in coal demand. • The increasing concentration of coal resource as a result of the ongoing national coal resource integraton is conducive to stronger bargaining power of coal companies. • Global coal supply is expected to remain tight in 2012 because coal export growth in major Asia-Pacific countries is limited by their still weak coal transport infrastructure, while coal demand is expected to return to normal levels. • Global coal prices are expected to be kept high by the increase in coal production costs in Australia reflecting the levying of carbon tax and mineral resouce tax there.	• The global economy is on the bumpy road to recovery. Any deterioration in the economic conditions will limit the growth in coal demand. • Coal companies' profitability will be weakened by the Chinese government's capping of spot coal prices and ever-increasing taxation on coal production. • The government may make greater-than-expected efforts to save energy and reduce emission by, for example, promoting the use of clean energies, which will adversely affect coal demand. • Coking coal demand from steel production may decline due to the drop in investment in real estate development as a result of the expected continuous property market regulation in 2012.	**China Shenhua (1088.HK, BUY, TP: HK$43.00)** • Having the largest coal reserves among the listed coal companies in China; non-organic growth expected to be significantly driven by asset injections from its parent. • Stepping up acquisition of power plants during the weakness of the power industry in China, with rapid growth in controlled installed capacity. The recent electric price hikes will help boost its power-generation business segment profit. • Having an integrated industry chain made up of coal mining, power generation, railway transportation, port handing and shipping, with strong synergy between them. • Overall coal ASP is expected to be raised by the higher proportion of spot coal sales in total coal sales and the expected contract coal price increases in 2012. **China Coal (1898.HK, BUY, TP: HK$ 12.70 元)** • Coal reserves being increased by asset injections from its parent, with considerable non-organic growth potential. • Overall coal ASP is expected to be raised by the higher proportion of spot coal sales in total coal sales and the expected contract coal price increases in 2012. • Having a significant market share for coal machinery in China with strong technological capabilities in this area; coal machinery profit expected to be boosted by a surge in coal machinery demand after the completion of national coal resource integration. • Improvement achieved in coal quality and cost control. **Yanzhou Coal Mining (1171.HK, BUY, TP: HK$ 23.00)** • Significant profitability due to 75% of its coal being sold in spot markets and spot coal price being RMB200/ton higher than contract coal price on average. • Vigorously seeking coal asset acquisition opportunities at home and abroad; planning to double capacity by 2015 and to speed up its coal business growth in the longer term. • Food and potash demand have been growing steadily due to the increasing world population. In 2011, the company acquired 19 potash assets in Canada, which will become new earnings driver in the future. **Shougang Res (0639.HK, BUY, TP: 4.50 元)** • Coking coal prices will be on steady climb in the long run because the government is enhancing the requirements for protective development of coking coal resource which has been increasingly scarce in China. • Overall coal ASP is being driven up by better product mix as a result of a significant increase in raw coking coal and refined coking coal output through technological innovation for its mines. • Having substantial cash reserves to support its future acquisition. Indeed, it is vigorously seeking M&A opportunities to further increase its capacity. • China's FAI growth will be sustained by the advancing urbanization, boding well for demand for steel and coking coal.

Food & Beverage —IN-LINE

Positives	Negatives	Recommendations
• The advancing urbanization and increasing personal income will help drive consumption. • The accelerating industry consolidation is positive for F&B leaders. • Consumer staples are more defensive than discretionary goods, so staples manufacturers are less impacted by the weakening economy. • Consumers' stronger awareness of food safety is positive for the F&B makers with solid track record in this aspect.	• F&B players may face price intervention by the government as they did in 2008, due to high inflation. • Their profit margin may be pressured by higher advertising expenses and raw material costs. • Some food sales are subject to seasonality and production is affected by weather conditions. • Food safety will remain as the top risk facing investors.	**Want Want China (0151.HK, NEUTRAL, TP: HK$7.07)** • Leader in the market segments of rice crackers and dairy drinks. • Its multi-brand strategy widens customer base and fends off competitors. • Higher raw material prices have weighed on its gross margin, which was the largest risk in 2011. **Yurun Food (1068.HK, NEUTRAL, TP: HK$14.82)** • A string of food safety incidents in 2011 rekindled investors' worries about its product quality. Also, its corporate governance became one of the concerns. • China's largest pork processor

SinoPac

Sector analysis -cont'd

Gold - OUTPERFORM		
Positives	**Negatives**	**Recommendations**
• In the face of the European debt crisis and the U.S. quantitative easing, global major currencies will continue to depreciate • More investment demand from central banks	• Gold grade and operating expenses fluctuate in the course of production • Gold price could correct after the previous sharp rise.	**China Gold Int'l (2099.HK, BUY, TP: HK$28.80)** • Unit cost expected to be lower in 2012 vs. 2H11 • Phase 2 capacity expansion in progress • Actively seeking overseas acquisition opportunities
Menswear – IN-LINE		
Positives	**Negatives**	**Recommendations**
• Consumption is driven by higher per capita disposable income as a result of steady economic development and residents' stronger purchasing power after the individual income tax threshold rise. • Menswear companies will face lower raw material cost pressures as cotton prices have fallen sharply and cotton supply will be sufficient in 2012. • Still substantial room for store-opening due to menswear companies' relatively small scale and varied brands. In the short term, their non-organic growth will be sustainable.	• Sales were primarily driven by larger-than-usual price cuts as retail-end demand was weakened by significantly higher apparel prices year-to-date. • Weak control of sales network due to insufficient ERP system coverage. Seeing the poor transparency of sales network, investors are worried the companies will be slow in responding to excess inventory • Brand dealers and distributors are under higher rental and labor cost pressures.	**Trinity (0891.HK, BUY, TP: HK$7.35)** • Targeting high-end menswear market segment which has high entry barrier. With six well-recognized brands, the company has stronger abilities to pass on cost pressures to its target customers who are less price-sensitive. Its gross margin is expected to stay high in 2012. • Diversified brand portfolio conducive to earnings growth, with store-opening pushed forward by the rising middle class in China. The non-organic growth, coupled with rapid organic growth, will ensure its earnings growth. **China Lilang (1234.HK, BUY, TP: HK$9.07)** • A famous menswear brand focused on tier-2 and -3 cities with strong abilities to pass on cost pressures; gross margin expected to continue rising in 2012 • With high brand recognition and abundant orders in hand, the company will accelerate store-opening in 2012 to significantly increase its sales volume
Railway Equipment - OUTPERFORM		
Positives	**Negatives**	**Recommendations**
• Railway equipment demand will remain strong in the long term, with rail vehicle procurement expected to represent a larger share of total railway FAI. • Indigenous development of high-end equipment manufacturing vigorously encouraged by the government's 12th Five-Year Plan • Urban rail system construction is booming nationwide, with rail vehicle purchase expected to amount to RMB127bn in the 12th Five-Year Period. • Duopoly competition in the industry with high entry barrier in terms of technology and policy	• Change in the long-term railway construction plan • Funding shortage facing MOR • Overcapacity in the short run	**CSR Corp (1766.HK, BUY, TP: HK$ 6.77)** • One of the duopoly in China's railway equipment industry that has technological advantages over the other of the duopoly, namely CNR, and will be more competitive in an increasingly free market. • Expanding fast into new industries with core technologies **CTE Times Electric (3898.HK, BUY, TP: HK$ 26.38)** • Subsidiary of CSR that has leading technologies in AC traction drive and control system. • Gross margin expected to rise on the expected resumption of railway tenders and the unfreezing of demand for indigenous technologies and products
Transport Infrastructure – IN-LINE		
Positives	**Negatives**	**Recommendations**
• Monetary supply will improve in 2012 vs. 2011 as the slowing PMI and CPI rates open opportunities for the government to fine-tune policies. • Funds will be guaranteed for key infrastructure projects under construction now because infrastructure construction remains critical to stable economic growth during the 12th Five-Year Period.	• Slowdown in real demand for infrastructure • Hard to deal with the huge debts piled up in the previous years • Still tight monetary supply at present	**China Comm Cons Corp (1800.HK, BUY, TP: HK$6.00)** • Its dredging business segment, the primary revenue source for the company, is expected to see revenues grow at a CAGR of 15%; engineering segment is dragged down mainly by decline in infrastructure constructions; and port machinery segment has seen narrower losses. • It takes a long time to see the positive effects of the improved management on profitability. **China Railway (0390.HK, NEUTRAL, TP: HK$2.04)** • Its railway infrastructure business segment, the main revenue source for the company, has been adversely impacted by the suspension of railway constructions. Other business segments such as real estate development and mineral production are far from contributing meaningful earnings. • Having the problems such as extensive management and lack of abilities to expand gross margin that are common for traditional state-run companies. **China Rail Cons (1186.HK, NEUTRAL, TP: HK$4.56)** • Its railway infrastructure business segment, the main revenue source, has been adversely impacted by the suspension of railway constructions. Other business segments such as real estate development and mineral production are far from contributing meaningful earnings. • Having the problems such as extensive management and lack of abilities to expand gross margin that are common for traditional state-run companies.

Sector analysis -cont'd

New Materials – OUTPERFORM

Positives	Negatives	Recommendations
• The recently-unveiled 12th Five-Year Plan for New Material Industries has proposed that breakthrough be made in the R&D of the forward-looking, urgently needed generic technologies and the self-sufficiency rate for such technologies be raised to 70% by 2015, which will move China's new material industries into a golden period of growth. • According to the 12th Five-Year Plan for Fluorine Chemical Industry, the total capacity for various fluorine chemical products will amount to 4.5m tons by 2015, with mid to high-end products as a percentage of overall products to be raised to 20%. The total output value for the industry is expected to be RMB150bn by 2015, implying a CAGR of 30%. • The entry barrier to the fluorine chemical industry has been significantly raised as the government has been strengthening its protection of fluorite, which is a type of upstream resource for the industry, and has stopped the approval of new traditional refrigerant capacity. Also, the government is working to raise the output of new fluorine materials in the industry, and is taking various measures to support the growth of the industry leaders.	• The global economic slowdown will reduce demand for fluorine chemical products. • The winding-up of the "home appliances going to countryside" policy may lead to slowdown in air conditioner sales, thus trimming demand for fluorinated refrigerants.	**Dongyue Group (0189.HK, BUY, TP: HK$12.80)** • China's leading fluorine chemical company with a vertically-integrated industrial chain and solid profitability; having significant economies of scale with industry-leading R22 and PTFE capacity. • With strong R&D capabilities, the company became the third in the world to master the ionic membrane technology for caustic soda production. And the business segment is expected to become new earnings driver in 2013. • The company is attractively trading at 6x 2011 EPS. With air conditioner production expected to pick up in 2012, demand for refrigerants will get strong again, helping boost its share price. **Lumena New Materials (0067.HK, BUY, TP: HK$3.40)** • Its principal product PPS, due to its outstanding physical and chemical properties, is widely applied in the fields such as electrical & electronics engineering, automobile, industry, coating, screening equipment as well as filter bag and aerospace. With the continually rapid growth of China's economy, PPS demand from these fields has been rapidly increasing. • As the sole company in China that is capable of commercial production of PPS products, Lumena has a market share of 52% for PPS products in China. And the share is expected to rise further as the company plans to double its capacity within the coming two years. • Lumena is also the largest thenardite producer in China. The company has been striving to strengthen its thenardite business segment profitability by adding capacity through M&A and increasing high-margin specialty thenardite and medical thenardite sales as a percentage of total sales. **Yizheng Chem (1033.HK, BUY, TP: HK$ 2.75)** • Having significant economies of scale as China's largest producer of chemical fiber and chemical fiber raw materials and also the world's seventh largest polyester manufacturer. • The company has been optimizing its product mix and raising the differential rate of its chemical fiber products. As it is moving forward with its 30m-ton high-performance polyethylene project and 10m-ton 1,4-butanediol project, the company will have increasingly strong competitiveness and profitability. **China Liansu (2128.HK, BUY, TP: HK$5.40)** • Demand for plastic pipe will be sustained by the government's target to build 36m units of affordable housing as well as other related infrastructure projects in the coming five years. • The central government's No.1 Document proposed a total investment of RMB4trn be made in water infrastructure, agricultural water conservation and rural drinking water projects in the next ten years, giving a long-term support to domestic plastic pipe demand. • The decline in global oil prices will lead to lower raw material costs and better profitability for the company.

Sector analysis -cont'd

Wind Power Equipment — IN-LINE

Positives

- Benefiting from the government's greater awareness of energy saving and environment protection.
- Rapid growth expected in installed wind power capacity in coming years - experts predict the capacity will total 100GW by 2020.
- The Chinese government has planned to increase renewable energy as a percentage of national primary energy consumption to 10% by 2010 and 15% by 2020.
- Wind power, as a type of infrastructures, will benefit from the government's stimulation packages.

Negatives

- Wind power projects may face financing problems, especially in financial crisis.
- The change in the approval procedures in 2011 will impede the construction of new wind farms.
- During 2011, a series of accidents occurred in wind farms, and new connections of wind farm electricity to the sate grid were called off.
- Overcapacity arose in the industry in 2011.

Recommendations

Gold Wind (2208.HK, NEUTRAL, TP:HK$4.52)
- Order inflow decreased, wind turbine prices dropped significantly and gross margin shrank. Full-year 2011 net profit expected to plunge 80%.

CHST (0658.HK, NETURAL, TP: HK$5.39)
- Order inflow decreased, wind turbine price dropped significantly and gross margin shrank. Full-year 2011 net profit expected to drop 45%.
- Slow development in other business segments.

Shipping – IN-LINE

Positives

- Shipping demand remains on rise, although modest.
- Better supply/demand relationship and industry alliance will help shipping rates rebound from their current historical lows.

Negatives

- Shipping markets plagued by over-capacity
- Massive shipbuilding order book set to contain freight rates
- New larger vessels poised to push up overall capacity and squeeze profitability of other types of vessels.
- Oil prices may rise further from current highs.

Recommendations

China Ship Dev (1138.HK, NEUTRAL, TP: HK$5.15)
- Overall profitability protected by its domestic shipping business segment which accounts for 50% of total sales
- Dry bulk and international oil shipping business segments could incur losses due to stubbornly low freight rates
- Excessively fast new vessel deliveries set to increase its operating pressures.

CSCL (2866.HK, NEUTRAL, TP: HK$1.40)
- Shipping demand negatively impacted by the European debt crisis
- Costs pushed up by higher oil prices
- Limited downside potential for its valuation which is at historical low now

China COSCO (1919.HK, SELL, TP: HK$3.10)
- Serious overcapacity in dry bulk market set to be aggravated by substantial new vessel orders to be delivered
- Slowing demand for container shipping business
- High operating leverage due to the large proportion of chartered ships in its fleet

TV Set – IN-LINE

-

Positives

- Consumption is driven by higher per capita disposable income as a result of steady economic development and residents' stronger purchasing power after the individual income tax threshold rise.
- Replacement and upgrade needs for a great number of CRT TV sets currently in use in China will translate into annual sales of 40m-50m units in the coming 3-5 years.
- TV manufacturers will face less cost pressures because flat panel prices will be contained in 2012 when domestic major flat panel producers will put their production lines into operation.

Negatives

- On November 30, the "home appliances going to the countryside" policy expired in Henan, Shandong and Sichuan provinces as well as in Qingdao City, which combined to take a 30% share of the total consumption under the policy. The expiration is expected to negatively impact home appliances sales in such regions in 2012.
- The expected lower flat panel prices may rekindle a price war in the already highly competitive TV industry. The earlier-than-usual 2012 Spring Festival will result in earlier promotion campaigns by TV brands.
- TV exports may be adversely impacted by the various uncertainties over the global economic situation.

Recommendations

Skyworth Digital (0751.HK, NEUTRL, TP: HK$3.48)
- China's leading TV manufacturer. In the April-September period, its TV business segment maintained steady growth, while its set-top box sales slowed. Despite the significant improvement in gross margin due to product line upgrade, its profit was eroded by greater expenses spent in expanding rural markets.
- The company aims to double its revenues within 5 years, implying a CAGR of 15% in revenues. For 2012, it aims for sales of 9m units of TV sets, showing its stable operational style, although its set-top box sales is projected to remain weak. Full-year gross margin expected to rise further on better product mix.

Economic Outlook

1. GDP review for 2011

In 2011, China still saw relatively healthy domestic and external demand. However, as a result of the persistent monetary tightening and backward capacity elimination in China as well as the worsening economic conditions in the U.S. and Europe, China's GDP rate declined in the first three quarters in a row, reaching 9.7%, 9.5% and 9.1% respectively, and was 9.4% for the three quarters as a whole, with final consumption contributing 4.5ppt, capital formation 5.0ppt and net exports of goods and services -0.1ppt, showing consumption and investment remained as the backbone of its economic growth.

Fixed asset investment (FAI) is expected to coninue high growth, of more than 24% for full-year 2011 on steady investment in the primary and sencondary industries. Energy saving and emission reduction as well as backward capacity elimination stayed as one of the main policy themes for 2011. In addition, inventory levels for industrial goods were still high, growing 22.8% on average for the first ten months of 2011, singificantly higher than 8.0% for 2010. This, coupled with the slowing demand from the U.S. and Europe, caused the industrial production growth to decline to 14.1% for the first ten months of 2011 from 15.7% for 2010.

With regard to urban FAI, the growth in investment in real estate development fell to 31.1% for the first ten months of 2011 from 33.2% for 2010, due to stringent property market regulation. And the growth in railway transport investment swung to -21.9% from 12.5% after the July 23 high-speed train crash and other railway-related accidents, causing the growth in investment in the tertiary industry to decline to 23.3% from 25.6% for 2010. On the other hand, the growth in investment in the primariy industry rose to 28.2% for the first ten months of 2011 from 18.2% for 2010 due to the central government's greater investment in water conservancy construction. And the growth in investment in the secondry industry climbed to 26.9% from 23.3% due to increased investment in mining and equipment manufactring. As a result, the growth in overall investment went up to 24.9% for the first 10 months of 2011 from 24.5% for 2010. For full-year 2011, the overall FAI is expected to continue high growth, of more than 24%, given the steady investment in the primary and secondary industries.

Consumption is expected to continue high growth, of more than 16% for full-year 2011 despite significantly higher inflation. In 2011, the beginning year of the 12th Five-Year period, China, in its continued efforst to restructure econmy by expanding domesic demand, unveiled a series of consumption stimulus policies, such as raising the individual income tax threshhold to RMB3,500 per month from RMB2,000 and the tax rebate program for Hainan Island. Togher with the local minimum wage increases, the y-o-y growth in per capita disposable income of urban residents rose to 13.7% for the first nine months of 2011 from 11.3% for 2010, and the growth in per capita cash income of rural residents climbed to 20.7% from 13.1%.

However, China's inflation rate rose sharply to 5.7% for the first ten months of 2011 from 3.3% for 2010. This, coupled with the exacerbated European debt woes and the ecomic downturn in the U.S. and Europe, held consumers back. In addition, after the car-purchase rush in late 2010 caused by the expiration of the car trade-in policy, China's car sales lost momentum in 2011 as the sales growth fell to 17.0% for the first ten months from 18.4% for 2010. However, given (a) the positive effects of the November 30 expiration of the "home appliaces going to countryside" policy in the first batch of pilot regions including Shandong, Henan and Sichuan provinces and Qingdao city as well as (b) the year-end shopping season, China's consumption is expected to continue high grwoth, of more than 16% for full-year 2011.

Exports are expected to slow due to economic downturn in the U.S. and Europe. The global economy is expected to continue growth in 2011, although at a significantly slower pace of 4.0%, compared with 5.1% in 2010, according to IMF. In particular, the GDP rate is projected to be 1.6%, 1.5%, -0.5%, and 5.3% for Europe, the U.S., Japan and ASEAN respectively, which are all the major export destinations for China, down from 1.8%, 3.0%, 4.0% and 6.9% in 2010.

Economic Outlook -cont'd

The economic slowdown was primarily due to the continuous noise from the European debt crisis and the global demand slump. Consequently, China's monthly exports to major destinations, although hitting record highs, suffered sharp decline in terms of y-o-y growth: its exports and imports amounted to US$1.55trn and US$1.42trn respectively for the first ten months of 2011, much higher than US$1.27trn and US$1.12trn for 2010, but the y-o-y growth in exports and imports fell to 22.0% and 26.8% respectively, from 31.3% and 38.9%. For full-year 2011, with the support from the inflow of orders for delivery within 3 months and the shopping demand during the Spring Festival, China's exports and imports are expected to reach US$1.9trn and US$1.7trn respectively, although growing at a lower y-o-y rate of 20% and 25%.

The GDP rate is expected to be 8.9% for 4Q11 and to fall to 9.3% for full-year 2011 from 10.4% for 2010 as a result of declined domestic and external demand. China's exports are expected to weaken from previous years due to the expected continued slowdown in both consumption and investment for 4Q11 in China as well as the continuous strong headwinds facing the European and the U.S. economies. Therefore, we expect China's GDP rate to fall to 8.9% in 4Q11 from 9.1% in 3Q11, and slide to 9.3% for full-year 2011 from 10.4% for 2010.

Table 1: China's main economic indicators

	Item	2010	2011/1Q	2011/2Q	2011/3Q	2011/10
Y	GDP rate	10.4	9.7	9.5	9.1	
C	Retail sales growth (% y-o-y)	18.4	16.3	17.2	17.3	17.2
I	PMI	53.8	52.8	51.9	50.9	50.4
	Urban FAI growth (aggregate, % y-o-y)	24.5	25.0	25.6	24.9	24.9
	Industrial production growth for enterprises above designated scale (% y-o-y)	15.7	14.9	13.9	13.8	13.2
T	Export growth (%)	31.3	26.4	23.1	20.6	15.9
	Exports (US$ bn)	1578	399.7	474.8	518.1	157.5
	Import growth (%)	38.7	32.8	13.8	24.8	28.7
	Imports (US$ bn)	1394	400.4	428.1	454.4	140.5
	Trade balance (US$ bn)	184.5	-7.1	46.7	63.8	17.0
F	M2 growth (% y-o-y)	19.7	16.6	15.9	13.0	12.9
	New Yuan loans (RMB bn)	7950.0	2240.0	1925.1	1511.1	586.8
P	CPI rate (%)	3.3	5.1	5.7	6.3	5.5

Source: Bloomberg、CEIC；Sinopac Holdings

Economic Outlook -cont'd

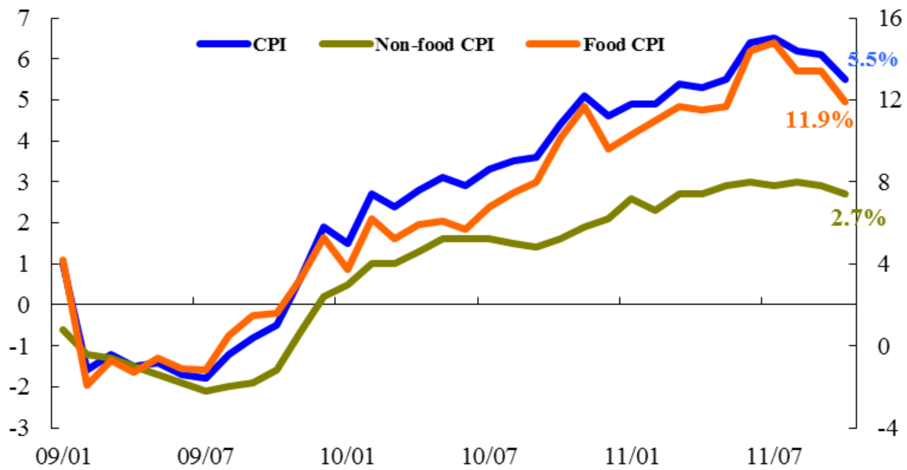
Price trend

China's inflation rate was on a steady climb during much of 2011, with its CPI rate hitting a high of 6.5% in July, as a result of (a) continued rise in meat, vegetable and other food prices, (b) crude oil breaking above US$100/barrel and (c) persistently high consumer goods prices. The overall CPI rate rose to 5.7% for the first ten months of 2011 from 3.3% for 2010, with the reading for the ten months each above the official target of 4%.

For November and December, however, wholesale prices for farm produce have showed signs of decline, according to the statistics by both the Ministry of Commerce ("MOC") and the Ministry of Agriculture ("MOA"). Also given the sharply decreased tail-raising factors, we expect the CPI rate for the two months will retreat to the territory of 4% from 5%. For full-year 2011, however, we expect the reading will be still as high as 5.5%.

Looking to 2012, price pressures will remain substantial in the first half due to tail-raising factors. However, given the sign of decline in prices for farm produce such as pork and vegetable and the continued drop in global raw material prices as well as the purchasing price sub-index under PMI falling below 50 in November that suggested imported inflationary pressures would ease, we expect the monthly CPI rate will move from high to low in the course of 2012, with the full-year reading likely to fall below 4% to estimated 3.8%.

Chart 1: CPI trend



Source: Bloomberg, Sinopac Holdings

Economic Outlook -cont'd

3. Macroeconomic regulation

Monetary policies: changing from "tight" to "loose" during 2H11

During 1H11, the People's Bank of China ("PBOC") furthered its monetary tightening in 2H10 by increasing the required reserve ratio ("RRR") by 50bps for each of the six months to a record high of 21.5% in June, because (1) the CPI rate continued rising and broke above 6% in June; and (2) new foreign exchange reserves stayed above RMB300bn and increased by more than 100% y-o-y in May and June, although the M2 growth fell below the official target of 16%. In addition to the RRR increases, PBOC raised one-year deposit and lending interest rates by 25bps in February, April and July each to 3.50% and 6.56% respectively.

During 2H11, however, PBOC paused interest rate hikes because: (1) China's CPI growth showed signs of slowing in 3Q11; (2) liquidity pressures had eased; and (3) Brazilian, Russian, Indonesian, Australian central banks and the European Central Bank (ECB) lowered their benchmark interest rates on August 31, September 14, October 11, November 1 and November 3 respectively, in view of increased uncertainties over the global economy.

Furthermore, PBOC lowered the interest rate on its 3-year bills to 3.96% on October 20, and cut its 1-year bills interest rate on both November 8 and 15 to 3.4875%. Separately, the State Council eased the policies for small businesses on October 12 by proposing to increase loans to and reduce taxes on them. Also in the month, new Yuan loans increased to RMB596.8bn. On November 30, PBOC announced to cut RRR by 0.5ppt to 21.0%, effective December 5. All the above-mentioned developments suggested the Chinese monetary policies as a whole were changing from "tight" to "loose".

Table 2: RRR and benchmark interest rate adjustment for large financial institutions in 2011

Monetary instrument	Announcement date	Effective date	Before adjustment	After adjustment	Change
RRR	2011/11/30	2011/12/5	21.5%	21.0%	-0.5%
Benchmark interest rate	2011/7/6	2011/7/7	deposite:3.25% lending:6.31%	deposite:3.50% lending:6.56%	0.25%
RRR	2011/6/14	2011/6/20	21.0%	21.5%	0.5%
RRR	2011/5/12	2011/5/18	20.5%	21.0%	0.5%
RRR	2011/4/17	2011/4/21	20.0%	20.5%	0.5%
Benchmark interest rate	2011/4/5	2011/4/6	deposite:3.00% lending: 6.06%	deposite:3.25% lending:6.31%	0.25%
RRR	2011/3/18	2011/3/25	19.5%	20.0%	0.5%
	2011/2/18	2011/2/24	19.0%	19.5%	0.5%
Benchmark interest rate	2011/2/8	2011/2/9	deposite:2.75% lending:5.81%	deposite:3.00% lending:6.06%	0.25%
RRR	2011/1/14	2011/1/20	18.5%	19.0%	0.5%

Source: Sinopac Holdings

Real estate policies: regulation expected to be kept stringent for prevention of retaliatory price rebound

In early 2011, as home prices showed few signs of deline, the municipalities of Chongqing and Shanghai both announced on January 27 that they would start pilot property tax projects on January 28, with the tax rate set at 0.6% in Shanghai and 0.5-1.2% in Chongqing. Other local governments unveiled their property purchase restriction policies from February, in order to curb property specutlaion in an effective manner.

For the first ten months of 2011, the average commercial housing price fell 0.2% on an m-o-m basis to RMB5,502/sq.m. from RMB5,514, with the y-o-y rate for the price moderating from 9.1% to 7.7%. On November 6, China's premier minister Wen Jiabao stressed that it was a frim national policy to lower property prices. Also given the government's stated commitment to prevent retaliatory house price rebound, we believe the property market regulaion will remain stringent in the foreseeable future. Using a house-price-to-income multiple of 6x, the upper limit of the range of 3x-6x which World Bank considers reasonable, and considering the per capita disposable income of urban residents, the average commericial housing price and the per capita living space in China, we regard as reasonable an average commericial housing price of RMB4,000/sq.m., implying more than 25% downside potential from current level.

Economic Outlook -cont'd

The 12th Five-Year plan: to focus on expanding domestic demand and fostering seven strategic emerging industries

Of the 12th Five-Year Plan staring from 2011, attention should be paid to the following parts: (1) economic development: GDP will grow at an average annual rate of 7% to exceed RMB55trn by 2015; (2) economic reshaping and restructuing: the service industry will be developed at a faster pace so as to raise the industry output value as a percentage of GDP by 4ppt to 47% from 43% in 2010; and (3) livelihood improvement: per capita disposable income of urban residents and per capita net income of rural residents will grow at an average annual rate of more than 7%, compared with 5% for the 11th Five-Year period.

Both the economic priorities for 2011 and the main targets set in the 12th Five-Year Plan show the government's commitment to expanding domestic demand. In practice, the government will continue to encourage private investment by, for example, lowering the barriers for private capital to such industries as utility and infrastructure during the five-year period, so as to compensate for the slowdown in public investment and thus sustain a strong overall economic growth. In addition, the government has raised the individual income tax threshhold in order to strengthen residents' purchasing power. For economic restrucuturing, the government has been working to advance the urbanization rate to 51.5% by 2015 from 47.5% in 2010. The increase in urban population will help drive consumption and construction and, ultimately, the overall domestic demand. According to Li Guoxiang, researcher of the Rural Development Institute under the Chinese Academy of Social Sciences ("CASS"), every 1ppt rise in the urbanization rate will directly lead to a 1.5ppt GDP growth, and every one person added to the urban population will demand construction investment of RMB100,000.

With regard to industries, the government will prioritize the development of seven strategic emerging industries of energy saving, new energies, high-end manufacturing, next-generaton IT, new materials, biotech and new energy vehicles, with a total investment of RMB10.8trn in the five-year period. And the Ministry of Industry and Information Technology ("MIIT"), in an effor to meet the energy-saving and emission-trimming targets, has been pushing the elemination of backward capacity in the 10 industries of steel, iron alloy, calcium carbide, electrolytic aluminum, copper smelting, lead smelting, zinc smelting, cement, plate glass and paper.

Table 3: China's key social and economic development targets for the 12th Five-Year period

Key social and development targets for the 12th Five-Year period (【】5-year aggregate)					
Indicator		**2010**	**2015**	**Average annual rate**	**Nature of indicator**
Economic development					
GDP (RMB trn)		39.8	55.8	7	projected
Service industry as % of GDP (%)		43	47	【4】	projected
Urbanization rate (%)		47.5	51.5	【4】	projected
Science and Technology					
Stability rate for 9-year compulsory education (%)		89.7	93	【3.3】	binding
Gross enrolment ratio in senior high schools (%)		82.5	87	【4.5】	projected
Research and development expenditure as % of GDP (%)		1.8	2.2	【0.4】	projected
Number of invention patens per 10,000 persons		1.7	3.3	【1.6】	projected
Resources and Environment					
Cultivated land stock (100m mu)		18.18	18.18	【0】	binding
Decrease in water consumption per unit of industrial added				【30】	binding
Effective utilization coefficient of agricultural irrigation water		0.5	0.53	【0.03】	projected
Share of non-fossil energy in primary energy consumption (%)		8.3	11.4	【3.1】	binding
Decrease in energy consumption per unit of GDP (%)				【16】	binding
Decrease in carbon dioxide emission per unit of GDP (%)				【17】	binding
Decrease in total emission of major pollutants (%)	Chemical oxygen demand			【8】	binding
	Sulfur dioxide			【8】	
	Ammonia			【10】	
	Nitrogen oxides			【10】	
Forest growth	Forest coverage (%)	20.36	21.66	【1.3】	binding
	Forest reserves (100m cb.m.)	137	143	【6】	
Livelihood					
Per capita disposable income of urban residents (RMB)		19109	> 26810	> 7	projected
Per capita net income of rural residents (RMB)		5919	> 8310	> 7	projected
Registered urban unemployment rate (%)		4.1	< 5		projected
New jobs for urban residents				【4500】	projected
Number of urban residents covered by the basic pension		2.57	3.57	【1】	binding
Coverage of the three basic medical insurance systems in				【3】	binding
Urban affordable housing construction (10,000 units)				【3600】	binding
Total population (10,000 persons)		134100	< 139000	< 7.2%	binding
Average life expectancy (year)			74.5	【1】	projected

Source: Sinopac Holdings

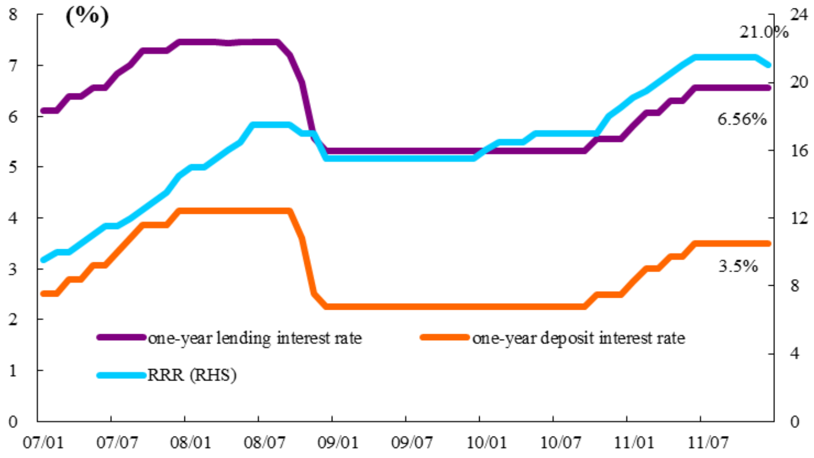
Economic Outlook -cont'd

4. Interest rate outlook

In 1H11, the Chinese government kept tight montary policies in place as it did in 2H10. During 2H11, however, the government paused interest rate increases and RRR lift in view of the slowing CPI rate and lower liquidity pressures in China, as well as uncertainties over the European and U.S. economies and interest rate cuts by some other countries.

For 2012, with respect to China's CPI, the reading is expected to stay above 4% in 1Q12 as the 2012 Spring Festival comes earlier than usual, in January. With the tail-raising factors diminishing, we expect the CPI rate will trend down from more than 4% in 1H12 to the 3% territory in 2H12, and will be 3.8% for full-year 2012. Given that (1) the CPI rate is expected to slow further; (2) inflationary and liquidity pressures will diminish as PBOC's open market operations show the amount of money due 2012 in the open market will be significantly lower compared to 2011; and (3) the U.S. and European economic growth are both slowing (IMF predicts the U.S. economic growth will be 1.8% in 2012, lower than its trend growth of 3%, and the Eurozone economic growth will be 1.1%, lower than 1.6% for 2011), we see the possibility of a 50bps cut each quarter or a full-year 200bps cut in RRR, to 19%. We also expect a 50bpt downside potential in one-year deposit and lending interest rates, perhaps in 2Q12 or 3Q12.

Chart 2: China's one-year deposit and lending interest rates and RRR



Source: Bloomberg, Sinopac Holdings

Economic Outlook -cont'd

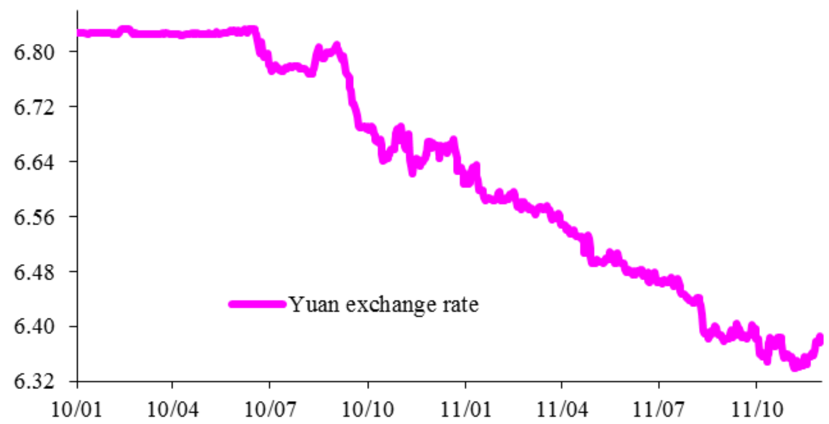
5. Yuan outlook

During 2011, on a monthly basis, China's overall exports hit several record highs, with its exports to the U.S., Europe, Japan and ASEAN each having hit record highs and its trade surplus to the U.S. once breaking above US$20bn. In response to the strong exports, the U.S. and other countries have been urging a faster Yuan revaluation. Separately, China's PPI and raw materials and fuel purchasing price jumped 7.5% and 11% y-o-y respectively in July, marking their record high growth since September 2008 and May 2010. To calm the clamor for a faster Yuan revaluation and to reduce the stubborn inflationary pressures, PBOC let Yuan central parity rate against US dollar go up all the way from 6.6227 at the end of 2010 to a high of 6.3165 and Yuan exchange rate to climb from 6.607 to a high of 6.6336, implying a year-to-date appreciation of 3.6% as of November 30, 2011.

In 2H11, global stock markets were thrown into turmoil and the world's trade was much threatened by the European debt crisis. In such a gloomy background, China's trade surplus growth swung to -2.9% from 13.4% in 2Q11. Yuan also weakened by 0.05% in September, the first drop in 12 months, and then continued to show signs of moderation in growth. During 2012, the "PIIGS" countries, namely Portugal, Italy, Ireland, Greece and Spain, will face terribly heavy debt payments nearly each month, and the Eurozone governments newly-elected in late 2011 will face severe fiscal challenges, thus stoking market worries. All told, for 2012, we expect China's export growth will probably fall below 20% and, therefore, Yuan will see a moderated rise of 1%, heading for 6.25 toward year-end.

For the recent sharp fall in Yuan caused by hot money outflow, our views are as follows: (1) during the global financial crisis, in the face of a 13-month straight decline in export growth since November 2008, the Chinese government kept Yuan central parity rate at 6.80, and under its U.S. dollar-pegging policy, the monthly fall of Yuan during the period had never been more than 1%.; (2) Yuan has received more welcome as a reserve currency. During 2011, New Zealand and China announced a currency swap facility sized at RMB25bn on April 18, followed by Mongolia (RMB5bn) on May 6 and Kazakhstan (RMB7bn) on June 13. South Korea and China agreed on October 26 to double their Yuan-Won swap line to RMB360bn from RMB180bn for the next 3 years, and Hong Kong signed a similar agreement with PBOC on November 22 to double their currency-swap line to RMB400bn from RMB200bn for the next 3 years. Now, the currency swap facility established with PBOC has totalled RMB1.2trn, and an increasing number of countries have expressed their intention to include Yuan in their foreign exchange reserves; and (3) the U.S. and Europe are unlikely to change their posture for a faster Yuan revaluation in the short run. Therefore, we expect no change in the upward trend of Yuan's value, despite the recent fall.

Chart 3: Yuan exchange rate



Source: Bloomberg, Sinopac Holdings

Economic Outlook -cont'd

6. GDP growth forecast

For 2012, we expect China's GDP growth will decline to 8.6%.

Consumption: we expect China's retail sales to decline from 2011, because (1) the "home appliances going to countryside" policy and the car trade-in policy, among others, have or are expiring; (b) China's car sales are expected to continue weak growth; and (3) global consumption will remain anaemic as Europe has been hit hard by its debt crisis and the U.S. has been trapped below its trend economic growth of 3%.

Still, we expect the retail sales will continue a 15%+ growth, of 15.7% in 2012, given that: (a) for the first three quarters of 2011, China's per capita disposable income of urban residents and per capita cash income of rural residents increased 13.7% and 20.7% y-o-y respectively, higher than 11.3% and 13.1% for 2011; (b) the individual income tax threshold has been significantly raised to RMB3,500 per month from RMB2,000, effective from September and (3) the government is expected to unveil consumption stimulus plans since it has put domestic consumption on top agenda.

Investment: With the property market regulation intensifying, the growth in investment in real estate development is expected to fall below 30%. Concerned about economic outlook, foreign-capital enterprises will also be more prudent on their overseas investment. These factors, among others, will inhibit the overall investment growth in China.

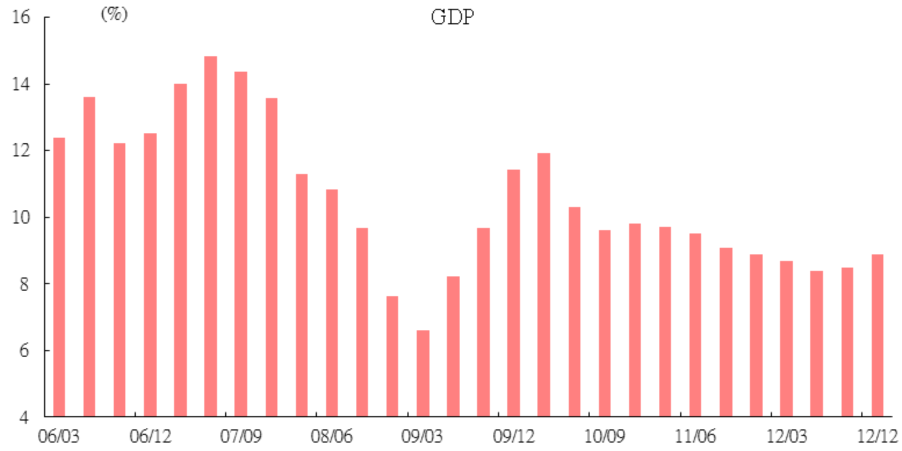
However, China is now planning for continuous affordable housing construction in 2012. Its investment in water conservancy construction will help keep the investment in the primary industry growing at a high rate. And its investment in railway construction is expected to return to positive growth after resumption of railway transport-related tenders. All told, we expect China's overall investment will continue high growth, of more than 22% in 2012.

Foreign trade: IMF expects the global economic growth to be 4.0% in 2012, flat with 2011; in particular, the GDP rate will be rather slow, at 1.8% and 1.1% respectively for the U.S. and Europe, which are the major destinations of China's exports. The persistent European debt crisis will probably drag down China's exports further in 2012, as can be demonstrated by the 3-month straight decline in its exports to Europe. Overall, we expect China's exports to grow 14% in 2012, much lower than 22.0%% for the first ten months of 2011.

With respect to China's imports, although expanding domestic demand is already an official policy, the import growth is expected to track the export growth lower in 2012 as the still weak domestic demand in China and the drop in global raw material prices will hinder the growth in the import value. Given the policy of expanding domestic policy, however, we expect the import growth will outpace the export growth to reach 17% in 2012, lower than 26.8% for the first ten months of 2011.

Overall, given the slowdown in both domestic and external demand, we expect China's GDP growth will be 8.7%, 8.4%, 8.5% and 8.9% for the four quarters of 2012 respectively, and the full-year GDP rate will be 8.6%.

Chart 4: China's GDP growth forecast



Source: Bloomberg, Sinopac Holdings

Auto Dealership

OUTPERFORM

Reason for note	Sector update

Investment highlights in the future

- **Strong new car sales growth in China.** We believe China's auto industry is being driven by: (1) the upcoming third auto boom pushed by depressed demand in 3rd tier cities and car replacement waves in 1st tier cities; (2) growing population of affluent people; and (3) China's shift towards a domestic demand-driven economy from investment-driven as well as policies designed to sustain the growth of auto industry.

- **Low PV penetration rate.** With consumers' purchasing power further released in the next five years, we expect China's passenger vehicle (PV) sales to grow at a CAGR of 7-10% and the PV penetration rate will reach 100 units per 1,000 persons by 2015. By 2020, it is expected that the sales will reach 25m-30m units annually and the penetration rate will rise further to 140 units per 1,000 persons. And China's auto sales are expected to grow at a CAGR of 5% during 2016-2020. The long-term steady growth in auto sales will bring stable revenue and profit stream to auto makers and dealers.

- **Huge potential in second-hand car market.** We believe the ongoing market-oriented development of China's second-hand car market will present auto dealers with more opportunities. The synergies between new car sales, after-sales services and second-hand car business will create a substantial growth driver for auto dealers, although after-sales and second-hand car businesses currently represents a rather limited proportion of their revenues.

- **Robust growth of luxury and mid to high-end car segments.** According to an industry survey, sales for luxury cars and high-end brand cars in China will grow at a CAGR of 39.2% and 46% respectively in 2009-2012. We are therefore optimistic about the future sales in the two market segments.

- **Auto services industry.** We are positive for growth of China's auto services industry in the next 5-10 years. The increasing number of cars in operation and car ownership and higher replacement demand leads to the rapid growth of after-sales service. With a higher and stable gross margin, we believe auto services will become a major profit driver for auto dealers.

- **Investment strategy.** We see auto dealers as new investment spot lights in the future, and we believe auto dealers will outperform auto makers, given their advantages such as the synergies between new car sales and after-sales services, huge profit growth potential, high gross margin and steady profit growth. We are especially bullish on auto dealers for high-end brand and luxury cars due to luxury cars' stronger sales growth than other segments, and more stable price than other segments. We recommend **Zhongsheng Holdings (0881.HK)** and **Zhengtong Auto (1728.HK)** as we expect Zhongsheng and Zhengtong to post a profit growth of 58% and 98% respectively in 2012 as a result of their sales network expansion. Zhongsheng and Zhengtong are currently trading at 8-9x F12 EPS, which we believe are undervalued and therefore present investors with opportunities.

Vivien Chan
(852) 2586 8278
vivien.chan@sinopac.com

Peer comparison

Company	Code	Rating	Closing price (09/12/11, local currency)	Target price (HK$)	Upside (%)	PER (x) FY11	PER (x) FY12	Yield (%) FY11	ROE (%) FY11
Zhongsheng HLDG	0881	BUY	13.16	15.15	15.1	15.1	9.6	1.9	21.0
Zhengtong Auto	1728	BUY	6.72	8.87	32.0	15.6	8.3	1.9	17.5
Dah Chong Hong	1828	Not rated	9.64	N/A	N/A	11.2	9.3	2.7	20.6

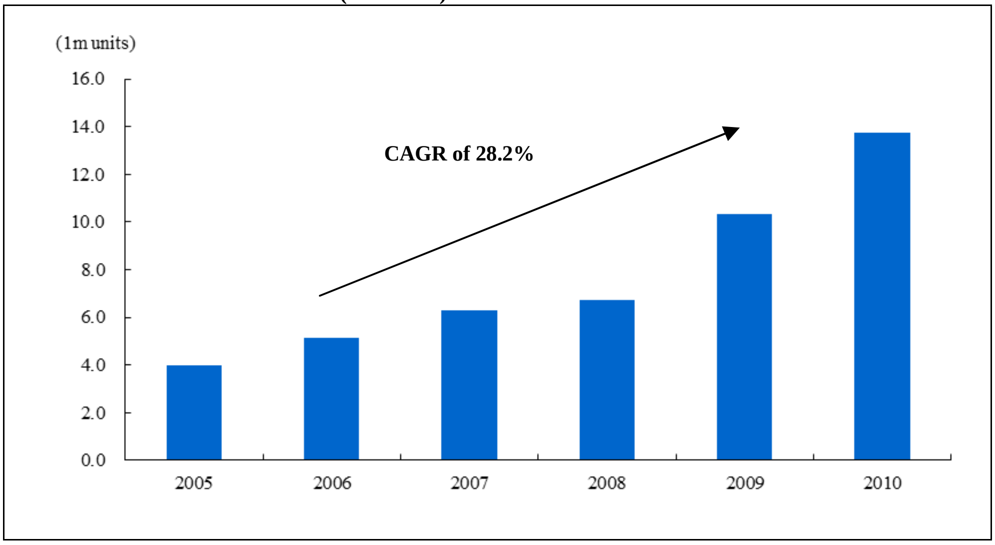
Source: Company data, Bloomberg, Sinopac Securities

Auto dealership -cont'd

Strong new car sales growth

In 2009, China became the world's largest auto market with a y-o-y growth of 45.5% in new car sales. In 2005-2009, the country saw a CAGR of 28% in new PV sales (see Chart 1). The ballooning wealth effect as a result of rapid economic growth, coupled with declining car prices, has turned cars from luxurious goods to home necessities in affluent cities. In 2010, China posted a y-o-y growth of 32.5% in car output, outshining the traditionally three major auto markets of the U.S., Japan and Europe, which all suffered a y-o-y decline. We believe China's auto industry is being driven by: (1) the upcoming third auto boom pushed by renewed demand in 3rd tier cities and car replacement waves in 1st tier cities; (2) growing population of affluent people; and (3) China's shift towards a domestic demand-driven economy from investment-driven as well as new policies designed to sustain the growth of auto industry. Despite the slowdown in new car sales in 2011 that may inaugurate the transition of China's auto market from high growth to steady growth, we still expect an annual growth of 7-10% in its car sales beyond 2012. And we believe auto dealers, especially those with extensive sales network and line-up of mid to high-end brand and luxury cars, will benefit from the medium to long-term growth of China's auto industry.

Chart 1: China's national PV sales (2005-2010)



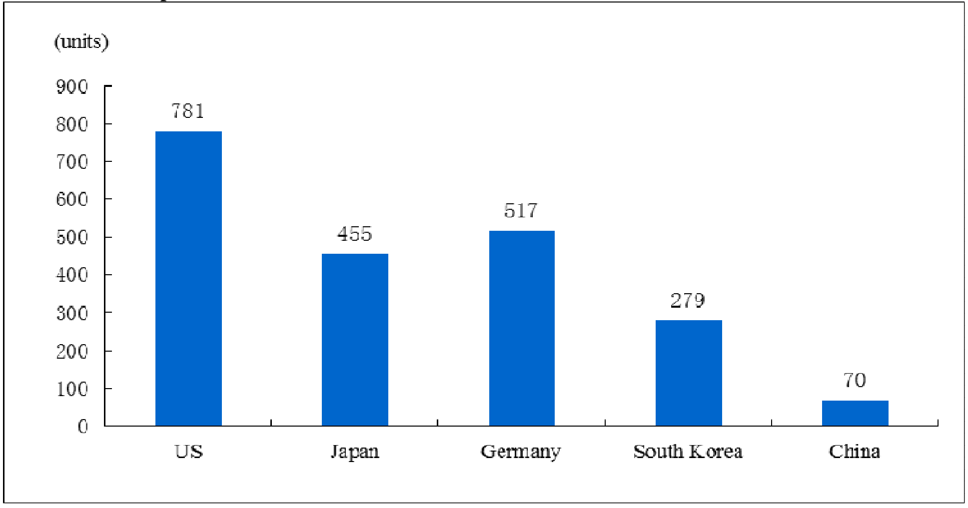
Source: WIND, Sinopac Securities

Still low penetration rate of PVs

After years of rapid growth, China's PV penetration rate rose from 49.7 units per 1,000 persons in 2008 to 69.9 units in 2010 (see Chart 2), still much lower than 810 units for the U.S., 511 for the U.K. and more than 400 for Japan, implying a huge car demand growth potential in China for the next 5-10 years. Furthermore, according to China's 12th Five-Year plan, the central government will be committed to increase residents' income rapidly at a rate parallel to overall economic growth during the five-year period, with some local governments even coming up with plans to double local residents' income. With residents' purchasing power further released in the next five years, we expect China's passenger vehicle (PV) sales to grow at a CAGR of 7-10% and the PV penetration rate will reach 100 units per 1,000 persons by 2015. And in the 2016-2020 period, China's car sales are expected to grow at a CAGR of 5%; by 2015, it is expected that the sales will reach 25m-30m units annually and the penetration rate will rise further to 140 units per 1,000 persons. The expected long-term steady growth in car sales will bring stable revenue and profit stream to auto makers and dealers.

Auto dealership -cont'd

Chart 2: The PV penetration rate is much lower in China than in other countries.



Source: WIND, Sinopac Securities

Huge potential in second-hand car market

China has been far behind those mature auto markets in the development of second-hand car markets. In developed countries, car owners normally replace theirs cars in 3-5 years, thus driving the development of their second-hand car markets with a high brand variety. The ratio of second-hand car transactions to new car sales is 2.5-3x in the U.S., 2x in Germany and 1.4x in Japan, compared with less than 0.3x in China. And the profit margin of second-hand car transactions is around 20% in foreign mature second-hand car markets. Therefore, we see a huge potential in China's second-hand car market.

China's second-hand car market is held back by: (1) psychological difference. 84% of prospective car purchasers choose new cars in China, while 70% in foreign markets opt for second-hand cars; (2) substantial differences in tax policies. In China, second-hand car transactions are subject to local tax policies which vary significantly from region to region; and (3) insufficient protection of second-hand car buyers' interests due to arbitrary pricing caused by a lack of genuinely professional evaluation agencies and uniform national pricing standards for used cars. Despite so, China's second-hand car market is growing up, as evidenced by its declining ratio of new car sales to second-hand car transactions.

For full-year 2010, China saw total car sales of more than 18m units, of which second-hand car transactions accounted for 22.2%, or 4m units. According to China Automobile Dealers Association (CADA), the total second-hand car transactions for the 31 provinces of China amounted to 871,000 units in 1Q11, an increase of 104,300 units, or 13.6% from a year earlier, representing 17.5% of the overall car consumption for the quarter, with the value of the transactions rising 10.7% to RMB37.38bn. According to the forecast by the Ministry of Commerce (MOC), second-hand car transaction volume will increase 15-20% this year, 5ppt higher than the expected weak growth of new car sales, and the second-hand car transaction value will grow at CAGR of 14.1% to RMB156.0bn in 2012 from RMB105.0bn in 2009. In mature auto markets such as Europe, the U.S. and Japan, second-hand car transactions generally account for 70% of their total car consumption. We believe the ongoing market-oriented development of China's second-hand car market will present auto dealers with more opportunities. The synergies between new car sales and after-sales services will create a substantial growth driver for auto dealers, although second-hand car business currently represents a rather limited proportion of their revenues.

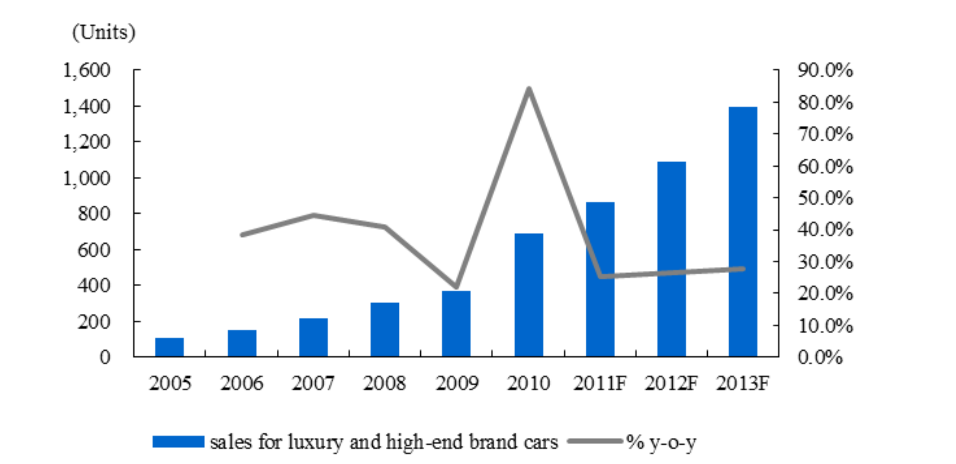
Auto dealership -cont'd

Overview of luxury and mid to high-end brand car market segments

Global luxury brands and services have been in a sweet spot in China since 1990s, seeing explosive growth in their sales. We believe the trend will continue for luxury car sales. In our view, the high growth in mid to high-end brand and luxury cars sales will be sustained by: (1) increase in residents' income as a result of continuing economic growth and fast urbanization; (2) the growing number of affluent people; and (3) swarming of international luxury brands, which has made China the largest market for luxury goods.

In China, the luxury car market segment has been growing at a higher rate than the overall car market. Sales for luxury and high-end brand cars increased to 10,000 units and 363,000 units respectively in 2009 from 1,300 units and 107,000 units in 2005, implying a CAGR of 66.5% and 35.7% respectively, compared with 25.5% for mid-end brand car sales in the same period. For the first 10 months of 2011, luxury car sales increased 17.2% from the year-ago period to 348,000 units, higher than 6.2% for overall PV sales and 3.5% for overall car sales. Currently, luxury car sales represent only 3.5% of overall PV sales in China, implying further growth potential. According to an industry survey, sales for luxury cars and high-end brand cars in China will grow at a CAGR of 39.2% and 46% respectively in 2009-2012. We are therefore optimistic about the future sales in the two market segments.

Chart 3: Sales for luxury and high-end brand cars in China



Source: WIND, Sinopac Securities

Auto services industry

With the strong growth of China's auto manufacturing from 2005 to 2009, we expect its auto services industry will be growing up in the next 5-10 years. Demand for after-sales car services is being significantly driven by the growing number of cars in service, the increasing car owners in mainland China and the rising car replacement rate in 1st tier cities. We see huge growth potential in after-sales car services, although the business currently represent a rather low proportion of auto dealers' revenues in China.

Auto dealers generally derives more profits from after-sales car services, which have a gross margin of 30-50%, than new car sales, which have a gross margin of only 2-10%. Therefore, we believe after-sales car services will serve as a major growth engine of profits for auto dealers. While new car sales gross margins vary from car models and are sometimes pressured by auto makers' price cuts as a move to clear up inventory, after-sales car services gross margins are relatively stable. In particular, high-end car owners tend to pay more for car maintenance and repair usually in original dealership stores, which is conducive to more after-sales profits for auto dealers. Therefore, we believe high-end auto dealers will become investment highlights in the future.

Cement

OUTPERFORM

Reason for note	Sector update

Demand highly influenced by macroeconomic policies

- **Investment themes:** Based on the assumption that exteranl economies may get into recession, we belive the Chinese government will gradually ease monetary policies and introduce positive fiscal policies in 2012 in order to sustain GDP growth. And China's cemnt demand will gradually recover on demand from infrastructure projects and rural construction after reaching a low in 2Q12. We prefer regional leading cement companies that are to ride on cement demand from infrastructure projects and rural construction, see their peak sales season come in the second-half year and enjoy a favorable supply/demand picture, such as **China Res Cement (1313.HK)** and **Shanshui Cement (0691.HK)**. In addition, given the uncertainties over external markets, we believe there may be a scenario where major foregin economies will deteriorate dramatically in 1H12 and China will therefore see its exports contract sharply. Since China's consumption is unlikely to improve materially soon, the government will introduce anohter huge economic stimulus by advancing relaxation of monetary and fiscal policies and will increase its support for certain industries, such as relaxing its regulaiton of property markets. In the scenario, we prefer cement companies that expand agressively with high financial leverage and have signiciant market presence in regions where the most strict property puchase restrictions are currently imposed, such as **China National Building Material („CNBM", 3323.HK)**. Overall, China's record high required reserve ratio (RRR) and relatively low fiscal deficits mean the government still has sufficient resources to boost economy. Then any policy easing will benefit the cement sector as it is much influenced by monetary supply.
- **Better cement supply/demand picutre expectd in 2012 vs. 2011:** In 2012, cement demand is expected to increase 5%, while cement capacity is projected to increase 3.5% nationwide, meaning a better cement supply/demand picture compared with 2011. The construction of high-speed railways are expected to resume after being halted due to the July 23 high-speed train crash and the serious fuding problem facing the Ministry of Railways (MOR); the water conservancy construction can offset the negative effects of decreased high-speed railway projects; and the affordable housing construction will compensate for the 27% decline in investmetn in real estate development. Geographically, in 2012, Northeast China and South China will see the most favorable cement supply/demand picutre in China, due to strong infrastructure construction demand, low competition and less new capacity there; North China, East China and Central-South China will see faster-than-national-average restructuring of cement industry; and West China and Southwest China will see neutral cement supply/demand picture due to excess new capacity and the entrace of CNBM and **Conch Cement (0914.HK)**.
- **Higher coal and electricity costs:** Of cement production costs, coal represents 40% and electricity 25%. We expect both coal and electricity prices to rise in 2012: (a) coal prices will continue to rise as a result of sluggish hydropower generation and strong coal demand; and (b) electricity prices are expected to be raised for a second time because power producers have incurred huge losses due to excessively high coal prices and China's CPI growth is declining. Therefore, cement production costs will be higher in 2012 than in 2011.
- **China Res Cement** sells cement mainly in South China (including Guangdong, Guangxi, Hainan and Fujian) as well as Shanxi and Inner Mongolia. South China, with the most favorable cement supply/demand picture in China, will very likely see strong cement demand in 2012. And the company has significant market presence in Shanxi and Inner Mongolia where the cement supply/demand relationship is improving. It will expand its cement and clinker capacity to 59.40m tons and 78.70m tons respectively in 2012, up 34.4% and 23.5% from the year-end 2011.
- **CNBM**, the largest and fastest-expanding cement enterprise in China, plans to increase its capacity to 300m tons by the end of the 12th Five-Year period and to 600m tons in the long term, from 200m tons at the end of 2010, with an aim to become the world's largest cement producer. The company makes 75% of total sales in East China which has the highest cement market concentration in China and saw favorable cement supply/demand relationship from 2H10 to 1H11 as a result of severe production suspension caused by power rationing there. However, cement sales has been weak in the region during 2H11, the traditional peak sales season for cement sales, due to the crackdown on the real estate markets and the suspension of infrastructure projects there. We expect infrastructure investment will recover as monetary policies ease, but real estate markets will remain kept in check.

Zhou Yu
(86) 21 6886 5358 Ext163
Yu.zhou@sinopac.com

Peer comparison

Company	Code	Rating	Closing price (09/12/11, local currency)	Target price (HK$)	Upside (%)	PER (x) FY10	PER (x) FY11	Yield (%) FY11	ROE (%) FY11
Shanshui Cement	691	BUY	5.72	7.54	31.8	12.8	4.6	6	31.8
Anhui Conch	914	BUY	24.75	35.64	44.0	19.2	8.6	1.2	28.6
CNBM	3323	BUY	9.64	14.56	51.0	12.8	4.6	2.2	22.37
China Res Cement	1313	BUY	5.71	7.20	26.1	18.2	7.9	2.1	27.9

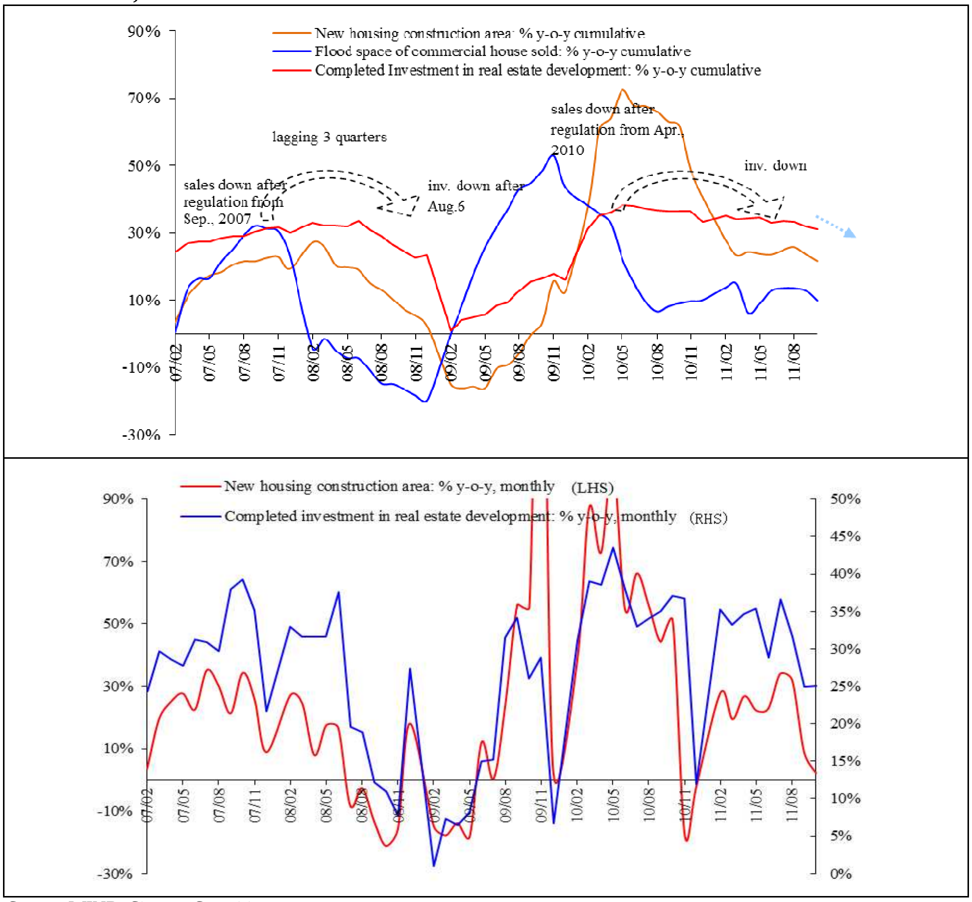
Source: Company data, Sinopac Securities

Cement -cont'd

Cement demand: real estate investment slowing, infrastructure investment steady

The new regulatory policies on property markets have taken effect. The significantly lower growth in real estate sales area in 2011 means a probably significant decline in new construction area for commercial houses in 2012. The new housing starts this year comprise a considerable proportion of affordable housing (or slightly above 10m units). And the affordable housing to be constructed in 2012 will be 6m-8m units, according to a work report submitted by the Ministry of Housing and Urban-Rural Development (MHURD) to the standing committee of the National People's Congress. The decline in new affordable housing stars in 2012 vs. 2011 may lead to a negative growth in overall new housing starts. Based on the relationship between construction area and new construction area, we estimate the construction area growth for 2012 will slow significantly but will not turn negative. Based on the stable relationship between investment in real estate development and new construction area, we expect the investment in real estate development will grow 15% y-o-y in 2012, compared with 31% for the first 10 months of 2011.

Chart 1: sales, new construction and investment for real estate



Source: WIND, Sinopac Securities

Commercial housing sales generally come 9 months ahead of new construction area growth. According this pattern, new construction area for commercial housing will reach low level in 1H12 and construction area for commercial housing is expected to decline significantly before picking up gradually, subject to the government's stance on real estate regulation and credit relaxation. We expect the regulatory policies on property markets will remain in place at least for the next 6 months.

According to the planned construction of 36m units of affordable housing for the 12th Five-Year period, construction work for 10m units will begin in 2011 and 2012 each. As the work fell behind schedule in 1H11, local governments stepped up their efforts in this regard during 2H11. As a result, the 10m units for this year had seen their construction all begin as of the end of October. Now, the target for 2012 has been revised down to 8m units. Based on the assumption that 60% of the construction started in 2011 will be completed within the year and 70% in 2012, there will be 9.6m units of affordable housing to be completed and 12m units under construction during 2012, which in our view will offset the negative effects of a 27% decline in new construction area.

Cement -cont'd

Table 1: new construction area for affordable housing

(1m sq.m.)	New construction area
2010	1,638
The first 10 months of 2011 (annualized)	1,764
New construction area for 2012	480
As % of total for2010	29%
As % of total for2011	27%
Completed area for 2012	576
Construction area for 2012	720

Source: WIND, Sinopac Securities
*: Based on the assumption of 60 sq.m. per unit

As the affordable housing construction will effectively compensate the 27% decline in commercial house investment, the overall investment in real estate development will grow at a relatively high rate.

Investment in water conservancy construction will total RMB1.8trn for the 12th Five-Year period (averaging RMB360bn a year), which is well above the total of RMB0.6trn for the 11th Five-Year period and will effectively compensate for the decline in investment in railway infrastructure construction. For the first 10 months of 2011, the FAI in water conservancy projects represented 61% of the FAI in railway projects. After the July 23 high-speed train crash, the high-speed railway construction has been in suspension or semi-suspension nationwide, meaning there will be virtually no room for further decline in high-speed railway-related investment in 2012. And the government has recently unveiled a series of policies to help the MOR meet its financing challenges. We believe the high-speed railway construction is very likely to resume in 2012, especially after the investigation results of the July 23 accident are released. When the water conservancy investment shifts to drinking water safety projects from large-scale hydropower projects, cement consumption will increase significantly.

Chart 2: railway investment planning over the past years

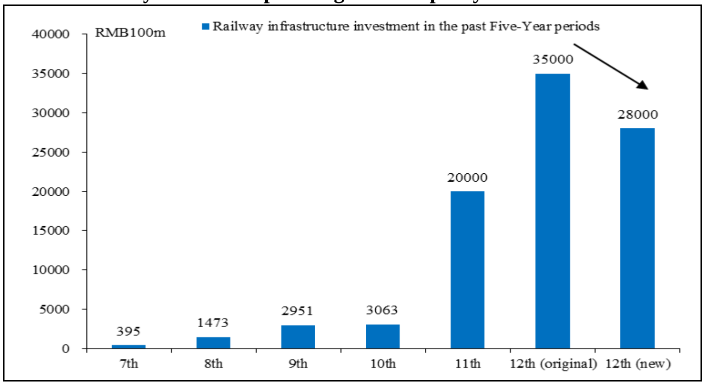
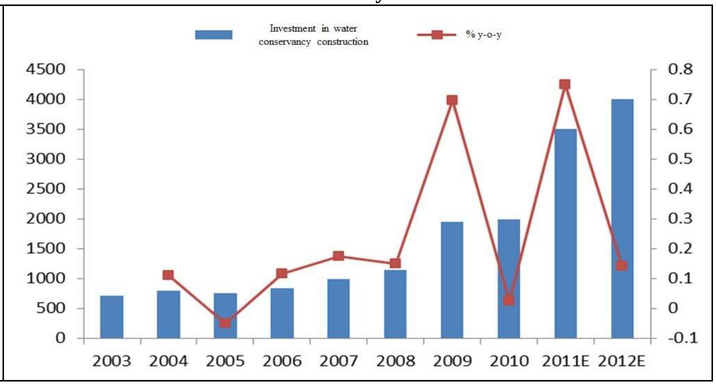


Chart 3: investment in water conservancy constructions



Source: WIND, Sinopac Securities

Table 2: summary of cement demand from downstream industries

	2007	2008	2009	2010	2011E	2012E	2013E
Investment in real estate development (RMB100m)	25,280	30,580	36,242	48,267	56,955	65,498	74,013
% y-o-y	30%	21%	18%	32%	18%	15%	13%
Cement consumption for the Investment (10,000 tons/RMB100m)	1.70	1.50	1.50	1.30	1.20	1.10	1.05
Cement consumption (10,000 tons)	42,976	45,870	54,363	62,747	68,346	72,048	77,714
As % of total (%)	32%	33%	33%	33%	33%	33%	34%
Investment in infrastructure construction (RMB100m)	16,879	20,678	29,093	34,483	39,655	44,414	48,856
% y-o-y	20%	33%	35%	19%	15%	12%	10%
Cement consumption for the Investment (10,000 tons/RMB100m)	2.55	2.20	2.00	1.80	1.70	1.65	1.50
Cement consumption (10,000 tons)	43,041	45,492	58,186	62,069	67,414	73,283	73,283
As % of total (%)	32%	33%	36%	33%	33%	34%	32%
Rural construction (RMB100m)	19,859	24,228	29,800	36,655	44,352	53,666	64,399
% y-o-y	19%	22%	23%	23%	21%	21%	20%
Cement consumption for the Investment (10,000 tons/RMB100m)	1.20	1.00	0.90	0.90	0.90	0.85	0.85
Cement consumption (10,000 tons)	23,831	24,228	26,820	32,989	39,917	45,616	54,739
As % of total (%)	18%	17%	16%	18%	19%	21%	24%
Other (RMB100 m)	35,497	46,501	58,817	74,528	89,434	105,532	122,417
% y-o-y	34%	31%	29%	30%	20%	18%	16%
Cement consumption for the Investment (10,000 tons/RMB100m)	0.70	0.50	0.40	0.40	0.35	0.25	0.20
Cement consumption (10,000 tons)	24,848	23,251	23,527	29,811	31,302	26,383	24,483
As % of total (%)	18%	17%	14%	16%	15%	12%	11%
Total (100m tons)	13.5	13.9	16.3	18.8	20.7	21.7	23.0
% y-o-y	12%	3%	17%	15%	10%	5%	6%

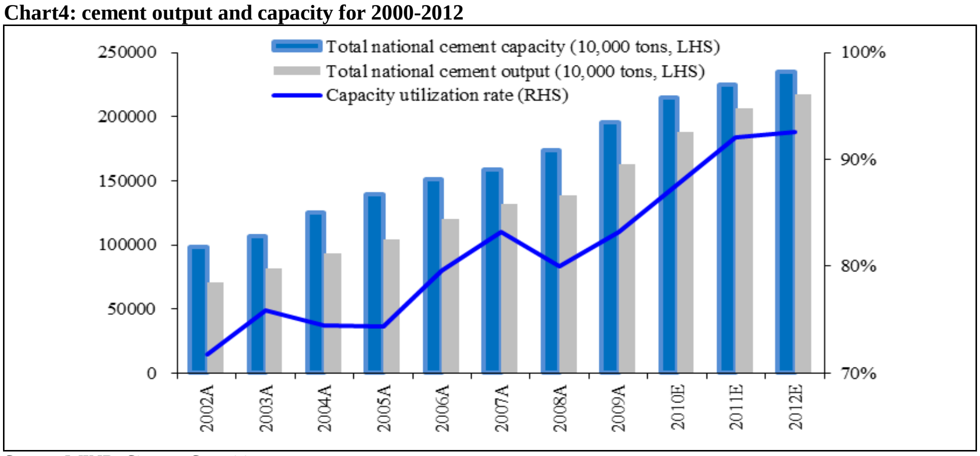
Source: WIND, Sinopac Securities

Cement -cont'd

Cement supply: new capacity growth has already peaked

Strict restrictions are placed on new cement capacity for 2011-12. According to the State Council's "Opinions on inhibiting excess capacity and redundant construction in and guiding the healthy development of the cement industry", in 2008 there were 500m tons of backward cement capacity, or 27% of national total, with 418 production lines equivalent to a total capacity of 620m tons under construction and 147 lines equivalent to a total capacity of 210m tons that had been approved but not come into construction. As the policies to inhibit new capacity and eliminate backward capacity have been fully implemented, the production lines under construction as of the end of 2009 may be put into operation much later than scheduled and it will be more difficult for new production lines to be approved. Excluding the capacity for the production lines that have been approved but not come into construction (cement projects will be suspended if their construction work does not begin as of September 30, 2009.) and assuming the 620m-ton capacity will be gradually put into operation between 2010 and 2012 (of which 320m-ton capacity was put into operation in 2010), we expect new capacity will be 220m tons in 2011 and only 80m tons in 2012, showing a stabilization in cement capacity release. For 2012, we forecast cement demand to approximate 2,170m tons and cement capacity available to be 2,350m tons, implying a capacity utilization rate of 92.3%.

Chart4: cement output and capacity for 2000-2012



Source: WIND, Sinopac Securities

Costs: Huge divergence between eastern and western areas; to watch new cement price catalysts

Coal and electricity prices represent a lion's share of 65% of total cement production costs in most regions. Therefore, central and western areas, especially North West China and North China, have significant advantages in terms of cement production costs since they are major coal sources in China, while East China and some other areas see heavier costs. We expect thermal coal demand will continue to rise during 1Q12 (the traditional peak sales season for coal), partially driven by sluggish hydropower generation, and we therefore expect cement producers will bear heavier cost burden.

Chart 5: Cement cost make-up

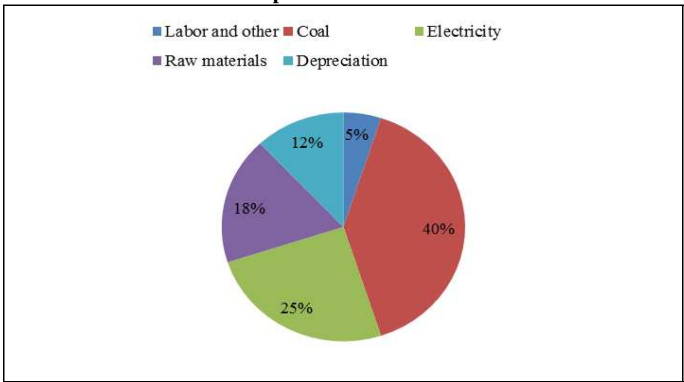
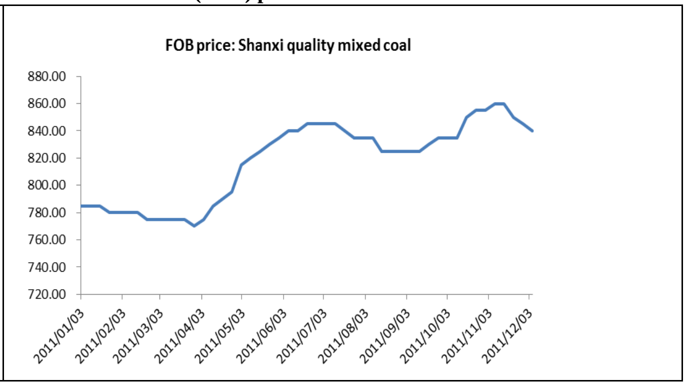


chart 6: thermal coal (FOB) price trend



Source: WIND, Sinopac Securities

Coal

OUTPERFORM

Reason for note	Sector update

Coal prices to be kept high by transport bottlenecks and higher costs

Investment themes

- **Effective coal supply continues to be constrained.** First, with the onging integration of national coal resources and the gradual migration of energy production to western China, coal transportation distance and volume will increase significantly, demanding stronger railway capacities. However, China will see very limited growth in railway capacity in the coming two years. Therefore, effective coal supply will continue to be constrained as coal miners still depend on railway capacity to plan their production. Second, as the concentration of the coal industry is rising, coal miners will have greater influence on coal prices by, for example, controlling their coal supply. Third, state-run coal miners, which have become dominant coal producers in China, have stronger awareness of operational safety, which in some sense will also constrain effective coal supply.

- **Domestic coal demand will be sustained by China's still-fast economic growth.** China will more likely see its economic growth slow in 2012 compared with previous years. However, domestic fixed asset investment (FAI) is expected to continue high growth, given the accelerating urbanization, the planned construction of 36m units of affordable housing and the investment of RMB4trn in water conservancy construction in the next 10 years. Therefore, coal demand is still expected to grow at a relatively high rate.

- **Coal prices will be pushed up by higher production costs.** Coal miners' profit margins are declining as labor costs and policy-related tax expenses are rising. With the ongoing integration of coal resources, coal miners will have increasingly strong bargaining power and, as a result, they can pass on higher costs to downstream customers through price increases, which will help support domestic coal prices. Although the National Development and Reform Commission (NDRC) has recently proposed to contain spot coal prices, we believe the proposal would be impractical if the tax burden and logistic costs for coal miners were not reduced.

- **Global coal prices are expected to fluctuate at high levels due to still-tight coal supply/demand picture.** Major coal export countries in the Asia-Pacific region will continue to see their coal export growth slow in 2012, in part due to weak transportation infrastructure and their own stronger coal demand, while the fast-growing emerging countries, such as India and China, and Japan will have steadily rising coal import demand. Therefore, global coal market will remain tight. In addition, Australia will begin to levy resource and carbon taxes on its coal miners, which will result in significantly higher coal production costs for them. Given the above-mentioned developments, we expect global coal prices to fluctuate at high levels.

- **Risks and concerns: (1) lower coal demand as a result of enhanced environmental efforts; (2) sharp decline in coal demand as a result of global economic downturn**

- **Stock pick:** Given the solid fundamentals of the coal sector as a whole, we take **China Shenhua ("Shenhua", 1088.HK)** and **China Coal (1898.HK)** as our top picks, due to the following: (1) both the companies have huge coal reserves and are accelerating their capacity release, with asset injections from their respective parents; (2) Shenhua is stepping up its acquisition of power plants to achieve stronger synergy between its power generating and coal mining business segments and thus enhance its overall profitability; and (3) China Coal has significant technological edges in coal mining machinery and a large share of the market for such machinery in China. As the national coal resource integration is drawing to a close, China's coal machinery market will enter a golden period of growth.

Robert Wei
(86) 21 6886 5358ext138
Robert.wei@sinopac.com

Peer comparison

Company	Code	Rating	Closing price (09/12/11, local currency)	Target price (HK$)	Upside (%)	PER (x) FY10	PER (x) FY11	Yield (%) FY11	ROE (%) FY11
Shougang Res	0639	BUY	2.85	4.50	57.8	8.5	5.7	5.3	14.2
YCM	1171	BUY	17.58	23.00	29.2	8.0	8.0	3.9	22.9
China Coal	1898	NEUTRAL	9.10	12.70	39.5	13.9	9.3	3	13.7
China Shenhua	1088	BUY	34.45	43.00	24.8	15.5	11.7	3.4	22.3

Source: Company data, Sinopac Securities

Coal -cont'd

- **Effective coal supply continues to be constrained in 2012.**

  First, Coal transportation will come under more acute stress as the ongoing coal resource integration accelerates the migration of energy production to western China. The coal resource integration, which began in Shanxi Province in 2005, has been gradually carried out nationwide. Up to now, several major coal-producing regions including Henan, Inner Mongolia, Shanxi, Shaanxi and Guizhou, have basically completed their coal resource integration and have passed related acceptance checks. According to the 12th Five-Year plan for the coal industry, the integration will continue and during the five-year period, greater efforts will be made to build 14 major coal-producing bases that will represent more than 90% of national total coal output, and to form 10 100m-ton-level and 10 50m-ton-level super large coal enterprises that will represent 60% of national total coal output.

  According to the plan, China's coal and other energies production will be migrated westward further, demanding stronger railway coal transport capacity. However, China will see very limited growth in the capacity in the coming two years. With the energy production centers being shifted to western areas, Shaanxi, Shanxi and western Inner Mongolia will contribute 60% of national incremental coal output, of which 50%, or about 70m tons, needs to be transported to other provinces via railways. However, the railways under construction will not contribute to the coal transport capacity until 2013. Therefore, China's coal miners will still depend on railway capacity to plan their production, and it remains hard to remove the bottlenecks that constrain the effective coal supply. **Second**, as the concentration of the coal industry is rising, coal miners will have greater influence on coal prices by, for example, controlling their coal supply. **Third**, state-run coal miners, which have become dominant coal producers in China, have stronger awareness of operational safety, which in some sense will also constrain effective coal supply.

Table 1: capacity for China's three main coal transport railway channels (10,000 tons)

Year	2009	2010	2011	2012
North channel	**53,617**	**64,004**	**71,700**	**74,000**
Datong-Qinghuangdao line	33,017	40,504	45,000	45,000
Fengtai-Shacheng line	4,000	5,000	6,000	6,000
Beijing-Yuanping line	1,400	1,500	1,700	2,000
Jining-Tongliao line	900	1,000	1,000	1,000
Shuohuang line	14,300	16,000	18,000	20,000
Central channel	**19,000**	**20,000**	**20,500**	**20,500**
Shijiazhuang-Taiyuan line	11,000	12,000	12,500	12,500
Handan-Changzhi line	8,000	8,000	8,000	8,000
South channel	**18,157**	**22,576**	**24,400**	**25,400**
Taiyuan-Jiaozuo line	7,000	9,000	10,000	10,000
Houma-Yueshan line	7,857	8,876	9,000	10,000
Longhai line	1,500	2,000	2,000	2,000
Xian-Ankang line	800	1,200	1,400	1,400
Nanjing-Xining line	1,000	1,500	2,000	2,000
Total	**90,774**	**106,580**	**116,600**	**119,900**
Annual increase	**5,140**	**15,806**	**10,020**	**3,300**

Source: Sinopac Securities

Table 2: China's coal railways under construction and planning

<table>
<tr><td rowspan="5">Railways under construction</td><td>Central-south line</td><td colspan="2">With a total length of 1,260 km, the line will run from Watang Town, Xing County, Lvliang City of Shanxi Province , through Henan Province, to Rizhaogang of Shandong Province. Its capacity is designed to be 90m tons annually when first released in 2013 and to increase to 200m tons in the long term.</td></tr>
<tr><td>Jinzhou-Chifeng line</td><td colspan="2">The 287.7km line, which will run to Jinzhou Port which has a Phase-1 throughput capacity of 50m tons, is planned to open in 2013 and will be connected to Chidabai line.</td></tr>
<tr><td>Zhungeer—Caofeidian</td><td colspan="2">The line, with a total length of more than 1,000km and a designed long-term capacity of 200m tons annually, will run from Tangshan to Zhangjiakou in Phase 1 and from Zhangjiakou to Zhungeer in Phase 2. Preliminary work for the line was carried out in 2009 and construction work will begin as soon as in 2011.</td></tr>
<tr><td>Lanzhou-Xinjiang double-track line</td><td>Construction work for the 1,776 km line began at the end of 2009 and will be completed in 2013.</td><td rowspan="3">The lines are expected to add 300m coal transport capacity.</td></tr>
<tr><td>Hami-Ceke line</td><td>With a total length of 650km, the line has its Lin Ce section opened to operation and its Ha Lin section to be constructed from year-end 2011, with the whole line projected to be completed within three years.</td></tr>
<tr><td>Railways under planning</td><td>Hami-Xining-Chengdu line</td><td>The 1,050 km line is under planning</td></tr>
</table>

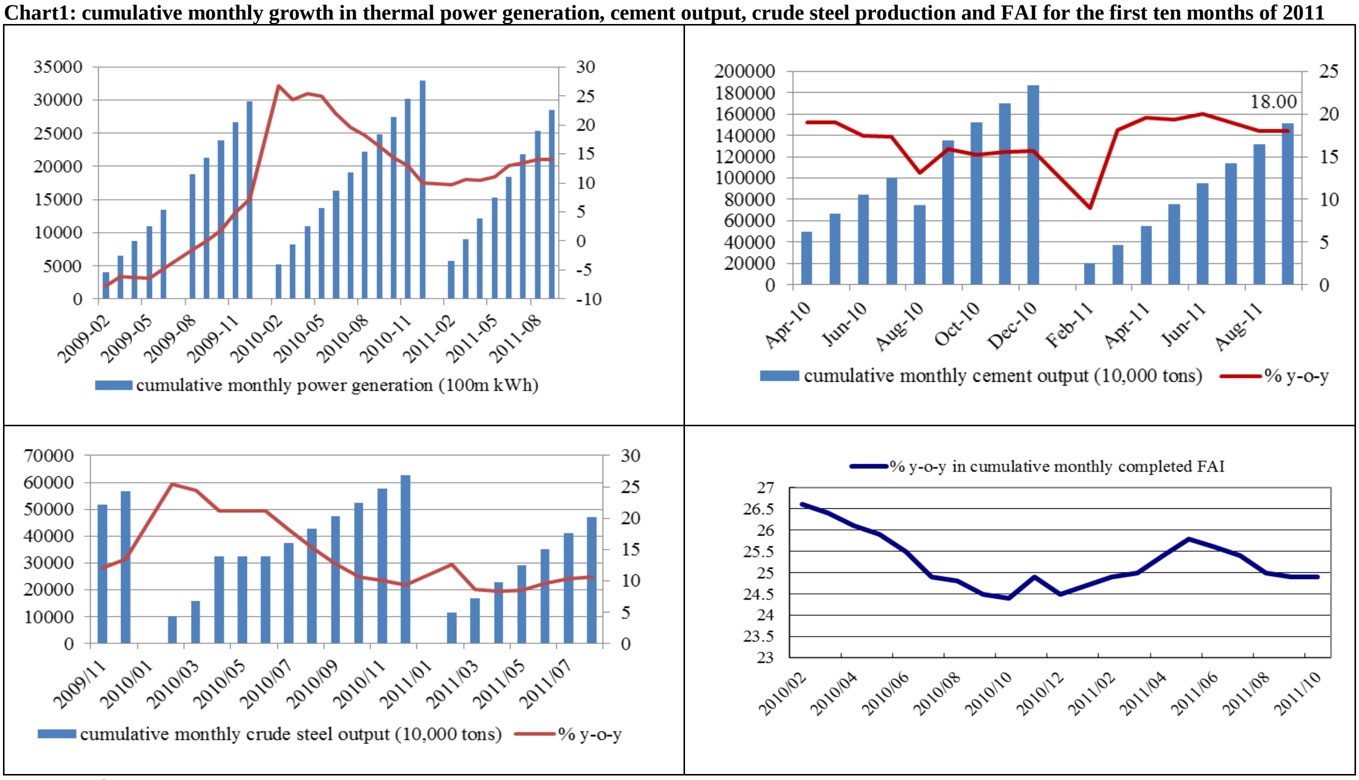
Source: Sinopac Securities

Coal -cont'd

- **Domestic coal demand will rise modestly in 2012.**

First, China will continue to face lower external demand, given the uncertainties over the global economic outlook for 2012 as a result of the still-sluggish U.S. economic recovery and the worsening European debt crisis. Second, China's overall FAI will decelerate due to the ongoing property market regulation, railway construction adjustment and decrease in other investment, in addition to the fact that local government financing vehicles are due to pay interest on their huge debts into 2012. Third, China's consumption will remain weak, in part due to the significant income divergence. Therefore, chances are high that China's economy will slow down in 2012. However, given the advancing urbanization and the planned construction of 36m units of affordable housing for the 12th Five-Year period as well as the investment of RMB4trn in water conservancy construction for the coming 10 years, we believe China's FAI will continue to grow at a relatively high rate, which will drive the growth of coal-consuming industries. For 2012, we expect the growth to be 8.6% for GDP, 22% for FAI, 10% for the power industry, 6% for the building material industry and 7% for the steel industry and 4% for the chemicals industry respectively, and we forecast a 7.5% growth in coal demand.

Chart1: cumulative monthly growth in thermal power generation, cement output, crude steel production and FAI for the first ten months of 2011



Source: Wind, Sinopac Securities

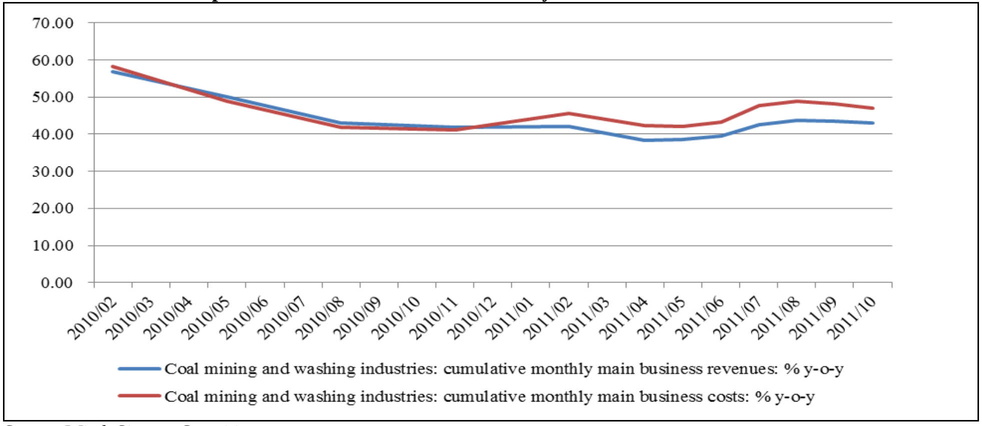
- **Coal prices will be pushed up by higher production costs.**

Coal miners' profit margins are declining as labor costs and policy-related tax expenses are rising. For the first three quarters of 2011, the HK-listed coal companies as a whole posted a 47% y-o-y growth in production costs and a lower growth of 39% in revenues. As the concentration of the coal industry is rising, coal miners will have stronger bargaining power. To address higher cost pressures, coal miners may pass on some of their production costs to downstream customers through price increases, which in turn will help support domestic coal prices.

According to recent media reports, contract coal prices for key power plants are expected to rise by 5%, while spot coal prices will be contained for example, 5,500 Kcal thermal coal spot prices will be capped at RMB800/ton). Taking into account as whole (a) slowing coal capacity growth, (b) weakening coal demand, (c) still high global coal prices and (d) higher production costs, we expect domestic coal prices to rise slightly by 5-8% in 2012, compared with 10% for 2011; in particular, we expect key contract coal prices to rise by least 8%, and non-key contract coal prices to rise by 5%.

Coal -cont'd

Chart 2: revenues and production costs for the coal industry



Source: Wind, Sinopac Securities

- **Global coal prices are expected to fluctuate at high levels due to still-tight coal supply/demand picture.**

First, Asia-Pacific coal exports will continue to decline in 2012. Major coal export countries in the Asia-Pacific region experienced a sharp decline in their exports in 1H11, with the combined exports of the six main export countries in the region falling 11.58% y-o-y. Expect for the U.S. which recorded a strong growth of 32.6% in coal exports, all the other countries saw their coal exports decline, led by Indonesia which recorded a decline of 38.3% and Australia which posted a decline of 11.38%. In 2012, Indonesia, South Africa and Vietnam will see lower coal exports, in part due to their poor coal infrastructure and their own stronger coal demand. Second, coal demand in the Asia-Pacific region will be steady. South Korea has rapidly increased its coal imports in recent years. Japan has seen its coal demand decline as a result of the March 11 earthquake and tsunami. Going forward, its coal demand is expected to rebound in 2012 due to the post-disaster reconstruction and the limits imposed on nuclear power development there. India, another major coal importer, has continued strong economic growth in recent years, with a number of coal-firing power plants under construction. And its GDP growth is forecast to stay high, at 8-10%, in 2012. In 2011-12, the country's coal demand is projected to be 696m tons, comprising 554m tons from local production and 142m tons from imports, showing a larger supply/demand gap, according to a Reuters report quoting India's coal secretary Alok Perti as saying. Third, major coal export countries in the Asia-Pacific region have increased taxation on their coal industries. Despite so, the still tight global coal supply/demand picture will allow coal miners to pass on higher costs to customers and will thus help support global coal prices. Third, although major coal exporting countries in the Asia-Pacific region have been increasing their coal-related taxation, coal companies are expected to pass on the higher costs to customers due to the still tight global coal supply, thus giving support to global coal prices. In 2010, the Australian government introduced a bill to levy a 30% resource tax on iron ore and coal firms with an annual profit above A$75m. Since Australia has a significant share of 1/3 of global coal trade volume, the rise in its coal export prices will help keep global coal prices at high levels.

Table 3: coal exports from the Asia-Pacific region (10,000 tons)

	2008A	2009A	2010A	1H2010	1H2011
Australia	25,964	27,290	30,048	14,312	12,682
Indonesia	13,511	15,651	10,901	6,652	4,104
U.S.	6,044	5,217	6,706	3,431	4,549
South Africa	5,922	5,820	6,932	3,069	3,017
Vietnam	1,970	2,699	1,976	1,062	891
China	4,544	2,238	1,903	1,014	875
Total	57,955	58,915	58,466	29,540	26,118
% y-o-y		**1.7%**	**-0.8%**		**-11.6%**

Source: Wind, Sinopac Securities

SinoPac

Gold

OUTPERFORM

Reason for note	**Sector update**

Gold price supported by central banks' purchase

- **Investment themes.** As the European crisis is spreading and the U.S. is considering QE3, global major currencies are expected to depreciate further in 2012, which will benefit gold price and the gold sector. According to World Gold Council (WGC), in the 12 months ended 3Q11, India and China combined to represent 54% of the world's gold demand (India 31% and China 23%). In our comparison between India and China's M2 and gold price, we find a high correlation between them. Assuming a growth of 13-17% in India and China's M2, we expect gold price to average US$1,560/ounce in 2011 and US$1,794/ounce in 2012, meaning gold price will rise by 15% y-o-y in 2012.

- **Investment demand from central banks.** We believe central banks will increase their respective gold reserves for risk aversion. According to WGC, Russia added its gold reserves by 19.5 tons in October, Thailand purchased more than 15 tons in September, and China's September gold import hit a record high of 56.9 tons, 6 times the import a year ago. In 3Q11, central banks' net gold purchase totaled 148.4 tons, a significant rise from 66.5 tons in 2Q11. For full-year 2011, we expect investment demand from central banks will account for 10% of overall gold demand. In addition, their purchase of gold at a price range of US$1,500-1,800/ounce from July to October will add to investors' confidence.

- **Steady supply/demand picture for gold.** On one side, we anticipate gold demand will be relatively steady, primarily due to stable gold demand from jewelry and the technology sector. However, given the fast-growing monetary supply globally, we believe gold price may rise slightly on higher gold investment demand. On the other side, global mined gold output stayed above 600 tons quarterly, and scrap gold volume is steady as some investors are still bullish on medium and long-term gold price. Since gold demand is driven much more by jewel and investment demand than the demand from the industrial sector, we believe gold price will be mainly driven by global monetary supply growth rather than the current gold supply/demand picture.

- **Stock pick.** We believe China's gold sector as a whole will post strong earnings results. The expected further rise in the gold price as a result of stronger investment demand and faster currency depreciation will push up the gold price. Therefore, gold miners, if are able to keep their mining costs steady, will have higher gross margins, with their profits likely to be further driven by their planned capacity expansion. Given the expected strong growth in the gold sector's earnings and the global economic uncertainties, we believe the sector will outperform. We recommend **China Gold Int'l (2099.HK)** as the company has significantly increased its mineral reserves and its overall output will be considerably driven up by its planned Phase 2 capacity expansion. With the potential mining asset acquisitions, the company is trading at attractive valuation multiple relative to the sector average. We also think **Zhaojin Mining (1818.HK)** with a significant portion of revenues from gold, will benefit substantially from gold price rise. Compared with the sector average, the company has higher gold ore grades and lower mining costs.

Jack Xu
(86) 21 6886 5358 ext158
jack.xu@sinopac.com

Peer comparison

Company	Code	Rating	Closing price (09/12/11, local currency)	Target price (HK$)	Upside (%)	PER (x) FY11	PER (x) FY12	Yield (%) FY11	ROE (%) FY11
China Gold Int'l	2099	BUY	20.65	28.80	39.5	13.1	9.6	N/A	6.4
Zhaojin Mining	1818	Not rated	13.92	N/A	N/A	17.4	13.1	2.4	33.0

Source: Company data, Bloomberg, Sinopac Securities

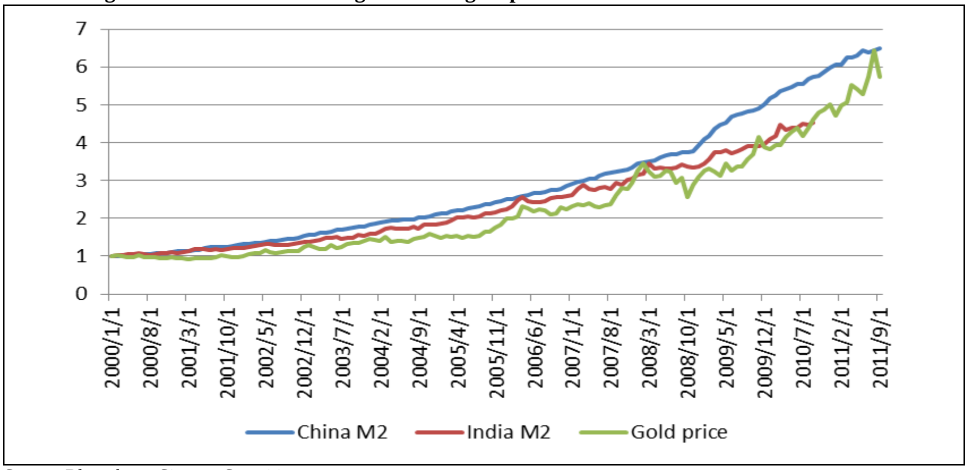
Gold -cont'd

High correlation between gold price and global monetary supply

Gold doesn't generate cash flow and has few daily-life or technological applications. However, its scarce reserves and other characteristic make it a type of inflation-proof investment, especially in a period characterized by high inflation and rapid monetary supply growth when increased investment demand and accelerated currency depreciation usually send gold prices higher.

But it is hard to make a reasonably accurate prediction of global monetary supply growth since the prediction involves a large number of countries and there may be substantial deviation between the official data and the real data regarding monetary supply. According to WGC, in the 12 months ended 3Q11, India and China combined to represent 54% of the world's gold demand (India 31% and China 23%). In our comparison between India and China's M2 and gold price, we find a high correlation between them. Assuming a growth of 13%-17% in India and China's M2, we expect gold price to average US$1,560/ounce in 2011 and US$1,794/ounce in 2012, meaning gold price will rise by 15% y-o-y in 2012.

Chart 1: high correlation between M2 growth and gold price in China and India



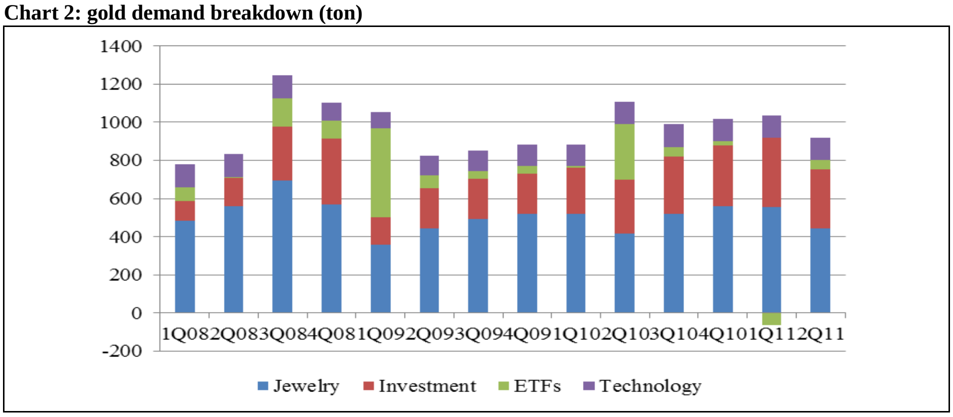
Source: Bloomberg, Sinopac Securities

Steady supply/demand picture for gold

On one side, we anticipate gold demand will be relatively steady, primarily due to stable gold demand from jewelry and the technology sector. However, given the fast-growing monetary supply globally, we believe the gold price may rise slightly on higher gold investment demand. On the other side, global gold output stayed above 600 tons quarterly, and scrap gold volume is steady as some investors are still bullish on medium and long-term gold price.

Since gold demand is driven much more by jewel and investment demand than demand from the industrial sector, we believe the gold price will be mainly driven by global monetary supply growth rather than the current gold supply/demand picture.

Chart 2: gold demand breakdown (ton)

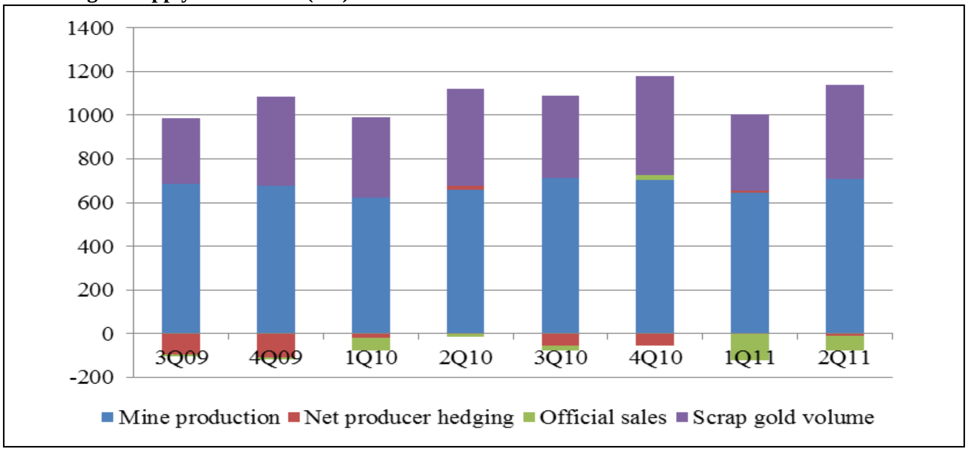


Source: WGC, Sinopac Securities

SinoPac

Gold -cont'd

Chart 3: gold supply breakdown (ton)



Source: WGC, Sinopac Securities

Investment demand from central banks for foreign reserves diversification

We believe central banks will increase their respective gold reserves for risk aversion. According to WGC, Russia added its gold reserves by 19.5 tons in October, Thailand purchased more than 15 tons in September, and China's September gold import hit a record high of 56.9 tons, 6 times the import a year ago. In addition, Bank of Korea made its first gold purchase in 10 years, of 25 tons, in June. Bank of Mexico kept abreast of its counterparts, with a total purchase of 98.5 tons for the January-July period. Bolivia has increased its gold reserves by 225,000 tons to 1.361m tons. In 3Q11, central banks' net gold purchase totaled 148.4 tons, a significant rise from 66.5 tons in 2Q11. For full-year 2011, we expect investment demand from central banks will account for 10% of overall gold demand. In addition, their purchase of gold at a price range of US$1,500-1,800/ounce from July to October will add to investors' confidence.

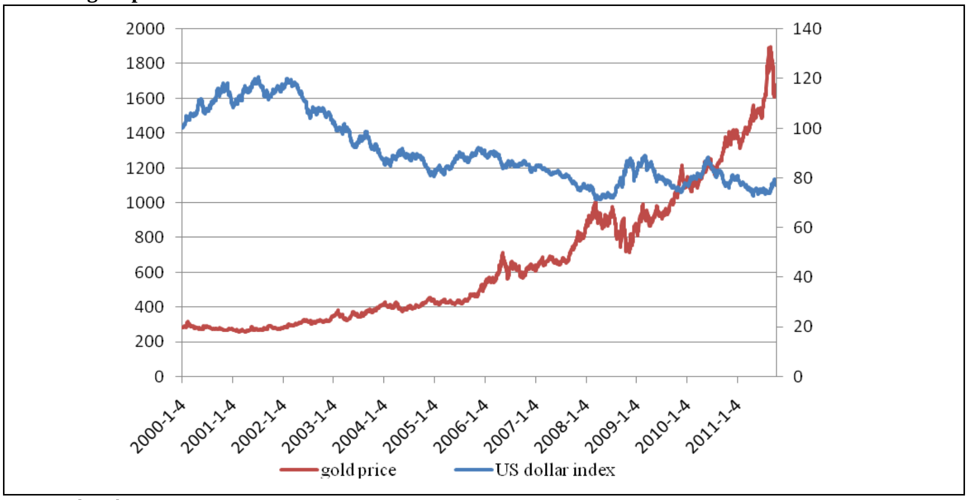
Table 1: gold reserves ranking by country

Ranking	Country /region /organization	Gold reserves (ton)	As % of forex reserves
1	US	8133.5	74.2
2	Germany	3401	71.4
3	IMF	2814	
4	Italy	2451.8	71.2
5	France	2435.4	66.2
6	China	1054.1	1.6
7	Swiss	1040.1	17.8
8	Russia	836.7	7.7
9	Japan	765.2	3.3
10	Netherlands	612.5	58.9
11	India	557.7	8.7
12	ECB	502.1	31.3

Source: WGC, Sinopac Securities

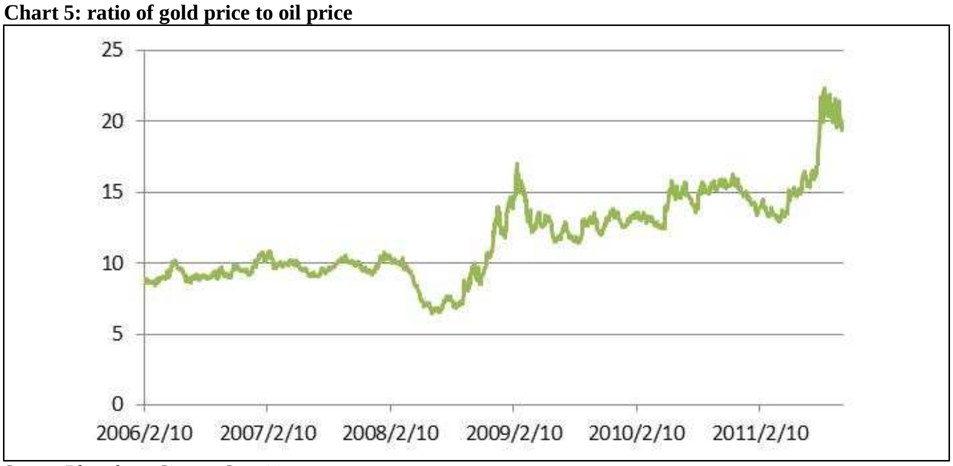
Gold -cont'd

Chart 4: gold price vs. US dollar index



Source: Bloomberg, Sinopac Securities

Chart 5: ratio of gold price to oil price

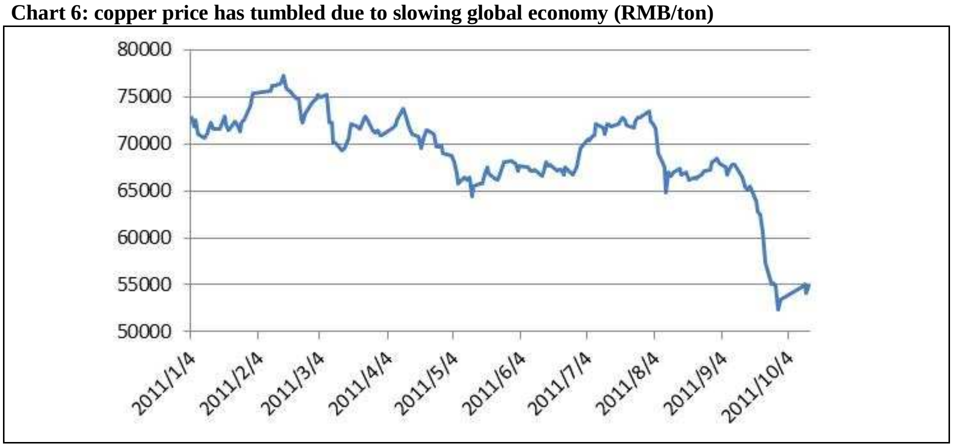


Source: Bloomberg, Sinopac Securities

Copper price weighed down by global slowdown

Copper price, which is affected by economic outlook as copper is an important industrial metal, has fallen to intra-year low. However, we expect copper price will stabilize in 4Q11 and rise slightly in 1H12, given the strong downstream inventory replenishment demand in China, partially fuelled by the low copper price. For full-year 2011, we expect China's copper consumption will account for a major share of 7-8% of global total.

Chart 6: copper price has tumbled due to slowing global economy (RMB/ton)



Source: Bloomberg, Sinopac Securities

SinoPac

Menswear

OUTPERFORM

Reason for note	Sector update

Steady growth expected to continue

- **Steadily-growing menswear industry.** In 2009, China's menswear market amounted to RMB377.6bn (or 47.6% of the overall apparel market size), implying a CAGR of 17.75% in 2004-2009. In the coming three years, the menswear industry is expected to grow at a CAGR of 16.38% to reach a size of RMB691.7bn (or 51.7% of the overall apparel market size) in 2013, thanks to policy supports and higher residents' income levels. Especially, leading menswear companies will grow at an above-industry-average rate as customers are more sensitive to quality and brand.

- **Raw material cost pressures to ease.** In 2010, the sharp decline in cotton output as a result of adverse weather conditions gave rise to a supply-demand gap and therefore sparked an uptrend in cotton prices since October 2010, placing substantial cost pressures on China's apparel manufacturers. Into 2012, however, the supply shortage is expected to ease as global cotton output is estimated to reach a record high of 27.155m tons. In 2H11, after digesting their high-priced inventory in 1H12, China's menswear companies will face lower cost pressures and therefore have a steady or even higher gross margins for full-year 2012.

- **Earnings growth ensured by abundant order book.** Branded menswear companies have each recorded an around 30% growth in order book for spring/summer 2012 collections at their recent trade fairs, higher than the corresponding growth in 2011. The continued order book growth has effectively ensured their earnings growth for 1H12. Into 2H12, these companies are expected to face lower cost pressures and therefore raise their product prices by smaller margins, although their sales volume growth driven by business expansion should ensure strong earnings growth for full-year 2012. As for gross margin, leading menswear companies have seen their gross margins remain steady or rise slightly this year despite higher costs. Therefore, we stay bullish on menswear companies with strong bargaining power and high brand recognition.

- **Stock pick:** Looking to 2012, given a number of global economic uncertainties, we believe the defensive menswear sector will be a suitable investment choice due to its steady growth and strong earnings. We recommend **China Lilang (1234.HK)** as the company has a leading market share in tier-2 and -3 cities and its newly-introduced brand "L2" will contribute to its overall customer base and become a new earnings growth driver. We also recommend **Trinity (0891.HK)** as the company, which is focused on high-end menswear market segment and is armed with high entry barriers by its six well recognized European menswear brands, will see stronger demand for high-end menswear from the rising middle class in China. Currently, Lilang and Trinity are trading at 9.3x and 14.3x 2012 EPS respectively, which are at the low end of their respective PE bands and are both well below the average of 17-23x for its A-share peers. The relatively low PE multiples, coupled with an expected growth of around 27% in their net profits, have revealed the investment value of both the companies.

Katharine Song
(86) 21 6886 5358ext118
Katharine.song@sinopac.com

Peer comparison

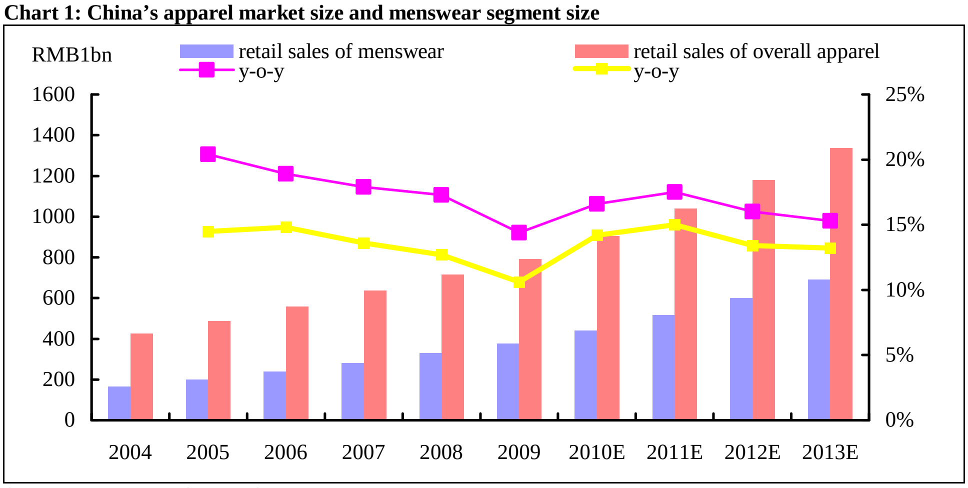
Company	Code	Rating	Closing price (09/12/11, local currency)	Target price (HK$)	Upside (%)	PER (x) FY10	PER (x) FY11	Yield (%) FY11	ROE (%) FY11
China Lilang	1234	BUY	6.95	9.07	30.5	11.3	9.3	5.8	30.6
Trinity	0891	BUY	5.24	7.35	40.3	25.0	16.8	3.3	20.4

Source: Company data, Sinopac Securities

Menswear -cont'd

- **Steadily-growing menswear industry.** According to Euromonitor, China's menswear market has been steadily growing since 2004. In 2009, retails sales for the market amounted to RMB377.6bn (or 47.6% of the overall apparel market size), implying a CAGR of 17.75% in 2004-2009. In the coming three years, the menswear market is expected to grow at a CAGR of 16.38% and reach a size of RMB691.7bn in 2013 (or 51.7% of the overall apparel market size).

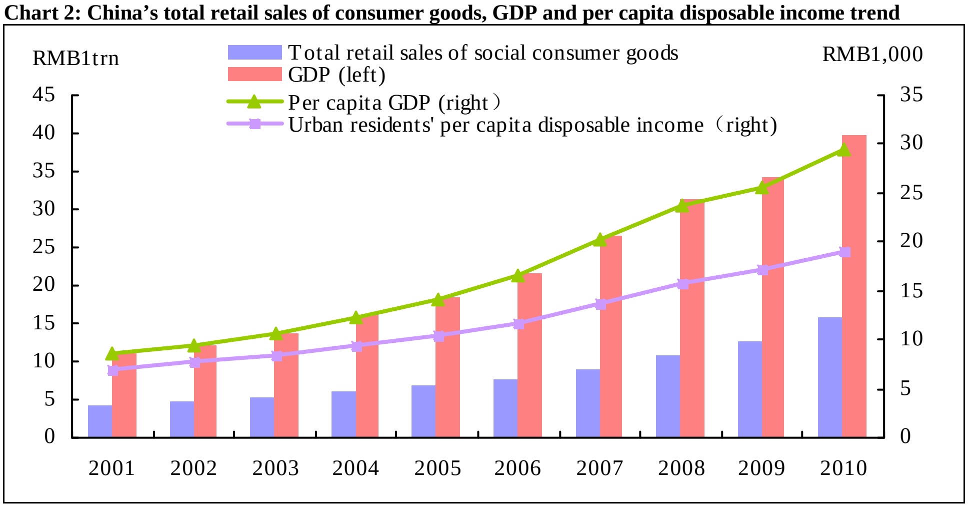
Chart 1: China's apparel market size and menswear segment size



Source: Euromonitor, Sinopac Securities

- **Consumer industries growth to be sustained by the policy of "guaranteeing economic growth".** For the recent decade, China has seen a steady economic growth, with its nominal GDP reaching RMB39.8trn in 2010, implying a 10-year CAGR of 15.4%. In the favorable economic climate, China's total retail sales of social consumer goods grew at a CAGR of 15.64% for the same period, and its urban residents' per capita disposable income rose at a CAGR of 12.1% to RMB19,109 in 2010 from RMB6,860 in 2001. According to international experience, consumers will shift their focus to quality and brand when per capital disposable income breaks above US$3,000.

Chart 2: China's total retail sales of consumer goods, GDP and per capita disposable income trend

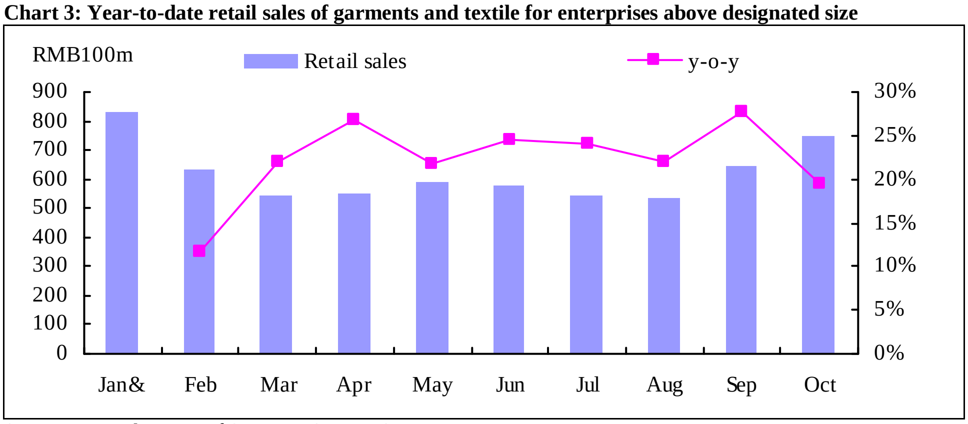


Source: WIND; Sinopac Securities

Menswear -cont'd

In 2011, the Chinese government has stressed its development policy of "guaranteeing economic growth and promoting social stability" and has vowed to double residents' income during the 12th Five-Plan period, which in our view will help sustain the strong growth of the menswear industry. Meanwhile, the rapid urbanization will lead to more consumption of branded products. In January-November of 2011, the total retail sales of garments and textiles for enterprises above designated size continued rapid growth, rising 23.9% from the year-ago period to RMB700.5bn.

Chart 3: Year-to-date retail sales of garments and textile for enterprises above designated size

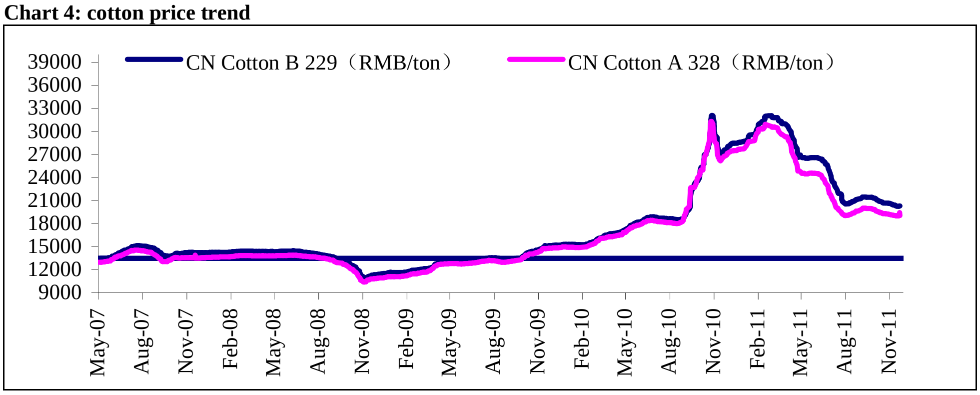


Source: National Bureau of Statistics, Sinopac Securities

- **Raw material cost pressures expected to ease in 2012.** In 2010, the sharp decline in cotton output as a result of adverse weather conditions gave rise to a wide supply-demand gap, causing cotton price to rise from RMB17,000-18,000/ton in October 2010 and touch the intra-year high of RMB33,500/ton in November. However, the price has been in downtrend since hitting a high of RMB34,870/ton in February 2011, accompanied by light trading volume.

  According to China Cotton Association, China's national cotton area is 80.18m mu (1mu = 66.67 sq.m.) in 2011, up 4.1% from 2010. And thanks to more favorable weather conditions, national cotton output is expected to total 7.48m tons this year, up 12.3% vs. 2010. Global cotton output is estimated to gain 1.7m tons compared with 2010, due to increased cotton planting area as a result of the high cotton prices seen in 2010. The expected substantial increase in cotton output for 2011/12 means a low probability of another significant rise in cotton prices. Cotton, one of the principal raw materials for apparel, represents 40% of the total raw material costs for China's menswear companies. Although the companies will still struggle with high-priced inventory when executing their 1H12 orders, the ongoing stabilization of cotton prices will help alleviate their cost pressures in 2H12 and therefore keep steady their gross margins.

Chart 4: cotton price trend



Source: WIND, Sinopac Securities

Menswear -cont'd

- **Earnings growth to be sustained by abundant order book.** For the first three quarters of 2011, most of China's branded menswear companies saw a net profit growth above 40%. To be specific, Septwolves posted a 60% growth, Baoxiniao 56%, JoeOne 42%, Sinoer 33% and Lilang 63% (1H11). The continued strong net profit growth reflected their strong bargaining power in the face of higher raw material and labor costs. At their recent trade fairs for spring/summer 2012 collections, the companies mostly recorded a growth of about 30% in order book, with order price and volume both rising. Into 2H12, after digesting the high-priced inventory, the branded menswear companies are expected to face lower cost pressures and therefore raise their product prices by smaller margins. Currently, menswear companies have much less stores than sportswear companies which on average have a store count of 7,000-8,000, meaning the menswear industry still has a substantial sales growth potential. For the branded menswear companies, their strong sales so far this year points to stellar full-year 2011 earing results, and their abundant order book for 2012 indicates a further rise in earnings.

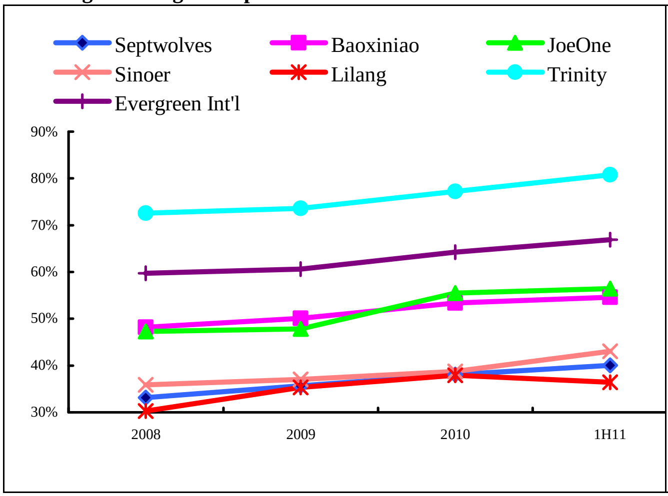
Table 1: peer comparison

	1H11revenue	y-o-y	Store count	Order book growth for 1H12	11EPS	PE	PEG
Septwolves *	11.94	22.64%	3576	Around 30%, with ASP up 15%-20%	1.394	28.8	0.876
Baoxiniao*	7.33	56.5%	931	30%+, with ASP up 15%-20%	0.577	24.0	0.784
JoeOne*	9.64	31.02%	2867	30%, with ASP up 15	0.896	28.9	1.315
Sinoer *	4.84	22.04%	609	Around 30%	1.033	22.3	0.638
Qipai	-	-	>3000	43%, with ASP up 24%	-	-	-
K-boxing	>10	-	>3000	40%+	-	-	-
Lilang	10.32	31.2%	3025	28.50%, with ASP up by double-digit	0.505	11.9	0.452
Trinity	12.06	30.4%	451	-	0.328	18.3	0.586
Evergreen Int'l *	3.32	33%	357	34%	0.22	7.12	0.439

Source: Company data, Sinopac Securities, (Trinity's revenue denominated in HK$), * Bloomberg

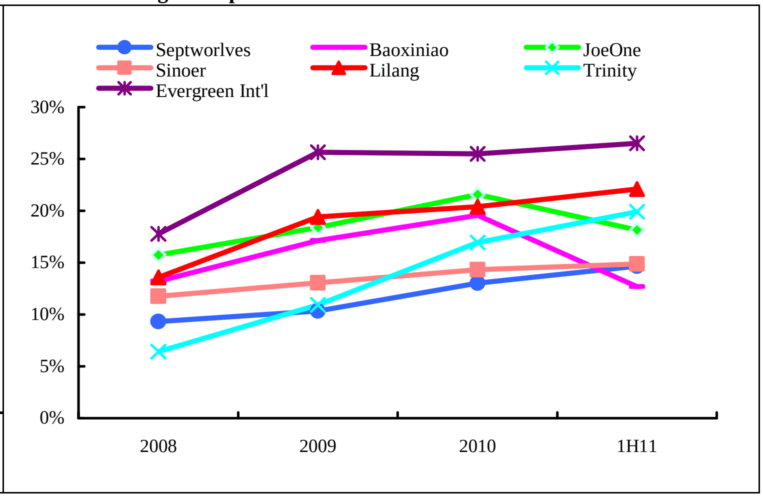
- **Stockpick.** Looking to 2012, given a number of global economic uncertainties, we believe the defensive menswear sector will be a suitable investment choice due to its steady growth and strong earnings. Currently, the HK-listed menswear companies are valued at a significant discount to their A-share peers and are trading at the low end of their respective PE bands, revealing their investment value. We recommend **China Lilang (1234.HK)** as the company, which has a solid track record of operation and is the first to enter the business casual menswear segment in China, has strong brand recognition in tier-2 and -3 cities and its newly-introduced brand "L2" will become a new earnings growth driver. We also recommend **Trinity (0891.HK)** as the company, which is focused on high-end menswear segment and is armed with high entry barriers by its six established European menswear brands, will see stronger demand for high-end menswear from the rising middle class in China.

Chart5: gross margin comparison



Source: Company, Sinopac Securities

Chart 6: net margin comparison



Source: Company, Sinopac Securities

SinoPac

Railway equipment

OUTPERFORM

Reason for note	Sector update

Railway equipment tenders expected to resume in 2012

- **Investment themes.** The still huge demand for passenger and freight transportation services in China means a long period of railway construction ahead. And the ongoing urban expansion is driving the demand for building and upgrading of urban tranportation facilities. Among the railway-related sectors, we prefer the railway equipment sector which has high entry batteries and considerable profit growth potential. After a rapid development of high-speed railways in the previous years and a string of railway accidetns in 2011, China is now adjusting its railway construction mix. The expected resumption of railway equipment tenders will be a catalyst to the sector.
- **Vehicle procurement expected to take a larger share of fixed assets investment („FAI“) for railway.** Investment related to railway equipment procurement is expect to total RMB700bn for the 12th Five-Year period, averaging RMB140bn a year. And the investment as a percentange of overall railway FAI is expected to rise to 25% in 2015 from 12.7% in 2011, mainly because railway equipment demand generally lags behide infrastructure contruction and higher vecicle density will be required when transporation demand increases as a reuslt of more railway lines being put into operation. The railway construction mix adjustment will make locomotive demand grow faster than EMU train demand.
- **Urban rail construction entering a golden period of growth.** Urban rail construction is being pushed by higer demand for fast and convenient public transport as a result of advancing urbanization, expaning urban areas and increasing residents‘ travel distance. According to the 12th Five-Year development plan for a comprehensive transport system, the number of urban rail vechiles in service will grow at a CAGR of 25% and the planned vehicle procurement will total RMB127.0bn, averaging RMB24.5bn a year.
- **Profit margin for the whole sector expected to rise.** With first-mover advantages, technological edges and policy supports, China's two railway equipment giants, CSR Corp and CNR Corp, will remain unshakably dominant in China‘s market for railway equipment. The two companies are striving to improve their profitablity through assimilation of foreign advanced technlogies and development of proprietary products and technlogies. With a more diverse group of customers as a result of the reform by the Ministry of Railways („MOR“), both the companies will have stronger bargaining power in the future.
- **Stock pick: CSR Corp (1766.HK) and CSR Times Electric („CTE“, 3898.HK)**. **CSR**, one of the two dominant raiway equipment manufacturers in China, will ride on the growth of the whole industry. It has technological advanges in railway equipment and enjoys a larger market share for locomotives, EMU trains and urban rail vehicles. Now, the company is expanding into the fast-growing emerging industries with its highly competitive core technolgoies. **CTE**, a subsidiary of CSR that has clear product positioning and strong technological capablities, provides electircal systems and power supply control systems that are critical for railway equipment. Although its 2H11 earnings results are expected to be adversly impacted by decreaed order inflow, we expect its earnings to improve in 2012 due to recovery in order inflow.

Vivian Liu
(86) 21 6886 5358 ext 186
liu.zheng@sinopac.com

Peer comparison

Company	Code	Rating	Closing price (09/12/11, local currency)	Target price (HK$)	Upside (%)	PER (x) FY10	PER (x) FY11	Yield (%) FY11	ROE (%) FY11
CSR Corp	1766	BUY	5.13	6.77	32.0	20.7	13.5	1.5	17.6%
CSR Times Electric	3898	BUY	17.18	26.38	53.6	18.8	12.8	3.0	24.4%

Source: Company data, Sinopac Securities

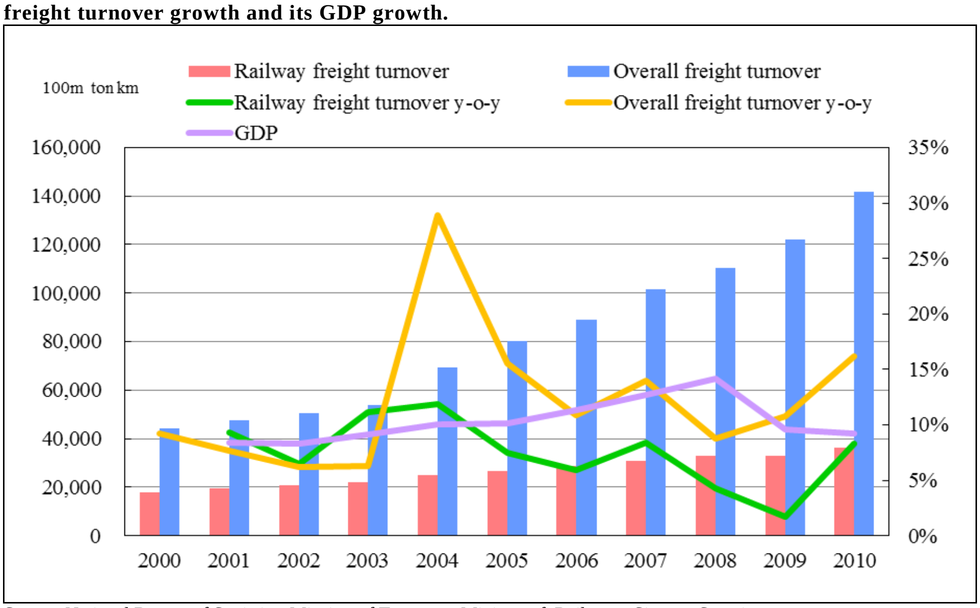
Railway equipment -cont'd

China still needs to increase its railway capacity.

Existing railways are under capacity stress: China's regionally divergent economic conditions and imbalanced resource distribution mean strong transport intensity for its economic growth. However, the country has been long short of railway capacity, in part due to backward railway infrastructure. Now, its major coal transportation railway lines have already seen their capacity overstretched, and the Spring Festival train ticket rush has evolved into a serious social issue. In fact, China's railway turnover growth, especially for freight railway lines, has been far behind its overall freight turnover growth and its GDP growth. **Railway density is lower than other countries:** China claims 25% of the global railway transportation volume with only 6% of the world's operational railway mileage. **Railway transportation is superior to other transportation means in some aspects,** such as energy efficiency and environmental protection, which necessitates the further development of railway transportation.

By 2015, the operational railway mileage is expected to reach 120,000 km, up 31.6% from the end of 2010.

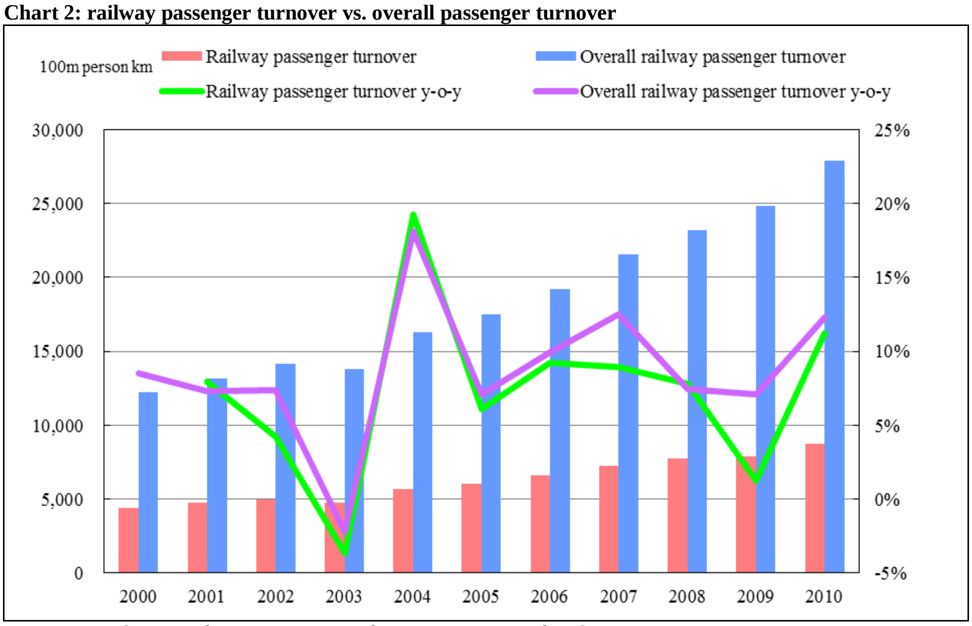
Chart 1: China's railway freight transportation turnover growth has been far behind its overall freight turnover growth and its GDP growth.



Source: National Bureau of Statistics, Minsitry of Transport, Ministry of Railways, Sinopac Securites

Railway equipment -cont'd

Chart 2: railway passenger turnover vs. overall passenger turnover

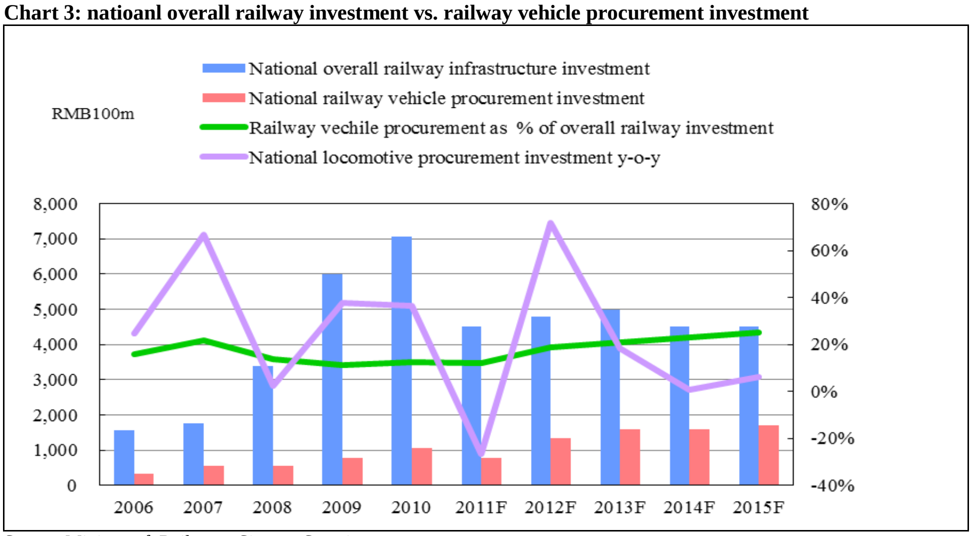


Source: National Bureau of Statistics, Minsitry of Transport, Ministry of Railways, Sinopac Securites

Vehicle procurement will taker a larger share of railway FAI.

China's medium and long-term railway development plan is being adjusted. For the 2011-2015 period, we expect railway infrastructure FAI to total RMB2.3-2.5trn, and railway equipment procurement to amount to RMB700bn, averaging RMB140bn a year. Vehicle procurement genrally lags one year behind railway infrastructure construction. As railway infrascture projects were graudually completed and put into operation in 2009, demand has been increasing for higher vechile density. As a reuslt, vechicle procurement as a percentage of overall railway FAI rose to 12.7% in 2010 and is projected to reach 25% by 2015, with an expected CAGR of about 10% in vehicle procurement-related investment in 2011-15 (2011 is „disappointing" as railway equipment tenders have been suspended by the MOR).

Chart 3: natioanl overall railway investment vs. railway vehicle procurement investment



Source: Ministry of Railways, Sinopac Securites

Railway equipment -cont'd

After a great-leap-forward construction of high-speed railways, China's four north-south and four west-east major passenger dedicated railway lines have been basically completed. While high-speed railway construction is set to slow, the freight railway transportation bottlenecks remain serious. Seeing the problem, the government has put greater investment in freight dedicated railway lines on its agenda. Therefore, we expect the EMU train demand to decline and high-power locomotive demand to surge.

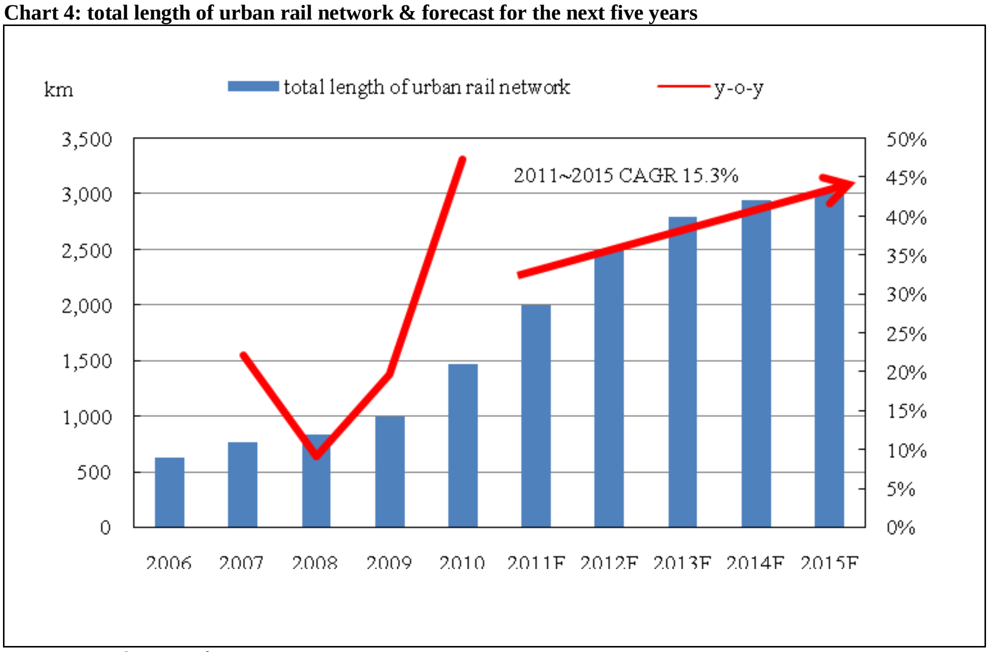
Railway equipment tenders are expected to resume in early 2012

Railway equipment demand has been suppressed by the MOR's suspension of railway equipment tenders. For the first 10 months of 2011, completed railway equipment-related investment totaled RMB61.6bn, only 42% of the full-year target set at year-beginning, due to the funding shortage facing the MOR and the high-speed railway accidents. However, actual demand for railway equipment, especially for high-power locomotives, are still strong. Given the low-base effect from 2011, we expect a significant growth of more than 70% in railway equipment procurement in 2012. And the resumption of railway equipment tenders, which is expected to take place late 2011 or early 2012, will be a catalyst to the earnings results and share prices of related companies.

Vehicle demand is expected to grow 25% annually in the golden period of growth for urban rail construction.

Urban rail construction is being pushed by higer demand for fast and convenient public transport as a result of advancing urbanization, expaning urban areas and increasing residents' travel distance. According to the 12th Five-Year development plan for a comprehensive transport system, China's urban rail network will amount to 3,000 km by 2015, an increase of 1,605 km from 2011, and the investment in urban rail construction will total RMB1.27trn, of which infrasture investment will exceed RMB500bn and vehicle procurement will amount to RMB127bn or so, averageing RMB25.4bn a year. We expect the number of urban rail vechile in service will rise at a CAGR of 25% to 25,285 by 2015 from 8,285 at the end of 2010.

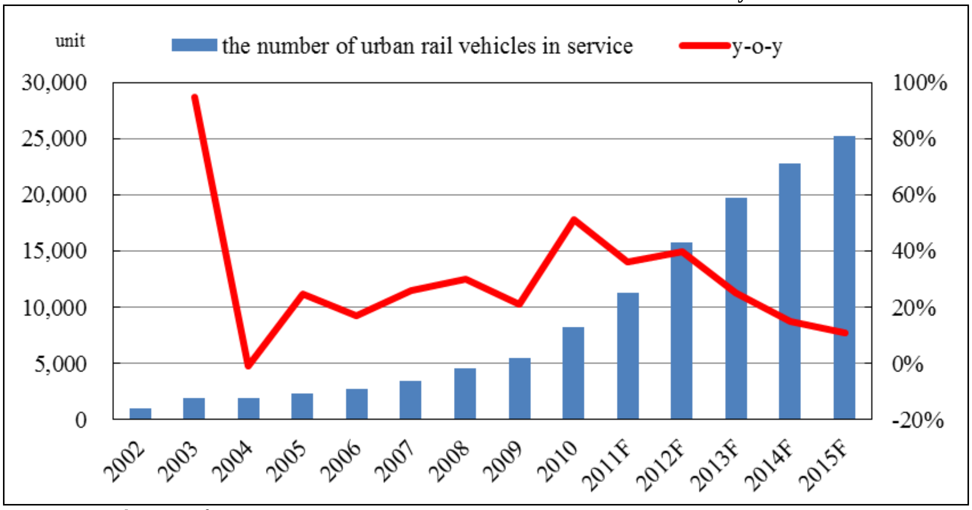
Chart 4: total length of urban rail network & forecast for the next five years



Source: National Bureau of Statistics, Sinopac Securites

Railway equipment -cont'd

Chart 5: the number of urban rail vehicles in service & forecast for the next five years



Source: National Bureau of Statistics, Sinopac Securites

No change is expected in the duopoly structure of China's railway equipment market. Currently, China's two railway equipment giants, CSR and CNR, have a combined market share of more than 90% for such equipment and rail vehicles. With policy supports, the two state-run companies, after years of rapid growth, have built high entry barriers in terms of technology and experience. And the national policy of „independent production of high-end equipment" has made it difficult for foregin competitors to step in as an independnt entity. Therefore, the duopoly structure of China's railway equipment market is unlikely to change and, as a result, the sector will see low likelihood of intensified competition or deteriorated profitability. **Self-developed technologies are incresing.** With the breakthrough achieved in the core technologies for EMU trains and high-power locomotives, the sector has seen higher localization rate of products and therefore better profitability. As part of the 12th Five-Year plan for high-end equipment, railway equipment will receive all-round policy supports, including tax exemptions for key technolgoies and equipment as well as imported components and materials, and financial support from export & import banks. **Bargining power with downstream customers is expected to strengthen**. As the MOR is decentralizing the railway equipment tenders to local railway bureaus, the sector will have a more diverse group of downstream custormers instead of the sole customer or the MOR, which will help enhance the the sector's bargaining power.

Risks and concerns: Our expectation is based on the assumption that China's monetary policies will ease to some extent in 2012. Under this assumption, railway equipment tenders are very likely to resume as the demand will rebound on improved funding condition. Further delay in tenders would adversely impact the earings results and share prices of related companeis.

SinoPac

Auto Dealer

Share price	Target price
HK$13.16	HK$15.15

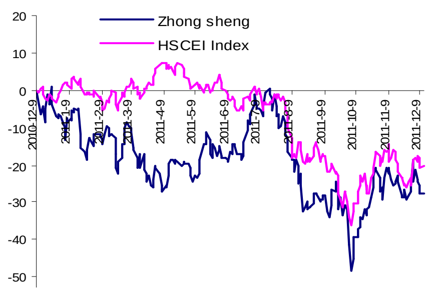
Reason for note	Company update
Recommendation	Unchanged

Trading data	
52-week range (HK$)	9.29/20.00
Market cap. (HK$ mn)	24,848
Market cap. (US$ mn)	3,194
Shares outstanding (mn)	1,908
Avg. daily volume (mn)	5.7
Avg. daily value (HK$ mn)	77.4
Major sh (%)	Blue Natural (65%)
Free float (%)	27.6

Financial data	FY10
Equity (RMB mn)	5,936
PBR (x)	3.2
ROA (%)	9.5
ROE (%)	25.6
Net gearing (%)	32.6
BVPS (RMB)	3.504

Performance	1-mth	3-mth	12-mth
Stock price	-4.9	7.2	-24.7
HSCEI	-7.8	-3.8	-20.9

Relative



Vivien Chan
(852) 2586 8278
vivien.chan@sinopac.com

Zhongsheng Holdings (0881.HK) BUY

Japanese car sales rebound in 3Q11

- **Long-term growth intact.** Zhongsheng acquired Loong Wah Motors in September. The deal involved a total of 16 4S stores, with 7 Lexus (of which 2 will open to business in 2012), 5 FAW-Toyota, 3 GAC-Honda and 1 Infiniti stores. As a result of the acquisition, Zhongsheng's sales network has expanded to 134 4S stores, of which 42 are for luxury brands such as Audi, Lexus, Porsche, Mercedes-Benz and Infiniti. We expect the number of its 4S stores will rise to 137 at year-end 2011, of which luxury brands will represent 31%, up from 29% in 2009, and the remaining 69% will be mid to high-end brands (most of which are Japanese brands). Going forward, network expansion will continue to be an important earnings driver for Zhongsheng, and we expect it to add 38 and 36 4S stores in 2012 and 2013 respectively.

- **Japanese car sales emerging from weakness.** Japanese car sales, after being hit hard in 2Q11 due to the earthquake, rebounded significantly in 3Q11. In particular, the sales of GAC-Toyota, GAC-Honda, FAW-Toyota and DF-Nissan had rose substantially by 89%, 50%, 100%, and 16%, respectively in 3Q11 compared to 2Q11.According to auto dealers surveyed, their current Toyota inventory are generally less than one month, reflecting strong demand in downstream. We are optimistic about Japanese car sales in 4Q11 and 2012. For Zhongsheng, 90% of its mid to high-end car portfolio are Japanese cars, especially Toyota and Honda models. Therefore, we believe the Japanese car sales rebound will help boost its 2H11 earnings.

- **Fast-growing after-sale service revenues.** In 1H11, Zhongsheng's after-sale service segment revenues surged 70% y-o-y to RMB1.4bn, thanks to its enlarged customer base and increased repair and maintenance demand from aging cars. In 3Q11, the segment revenues were as high as RMB900m, up 70% y-o-y. We forecast its full-year after-sale segment revenues to increase 38% to RMB2.9bn. In 2011-13, we expect a CAGR of 34.5% in the segment revenues.

- **Valuation and recommendation:** Investors have recently begun to worry about a possible slowdown in luxury car sales in China in 2012. We believe the slowdown, if coming true, will have less impact on Zhongsheng than on other auto dealers, because its profits are well supported by the rebound in mid to high-end Japanese car sales. We believe the company's more diversified car portfolio will help it avoid the risks from single-brand operating strategy. Applying 11x 2012 EPS, we set TP at HK$15.15.

Financial summary

FYE 31 Dec (RMB mn)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	13,722	24,043	39,104	55,310	70,698
% chg	*30.1*	*75.2*	*62.6*	*41.4*	*27.8*
Gross profit	1,179	2,293	3,876	5,597	7,473
Gross margin%	8.6	9.5	9.9	10.1	10.6
EBITDA	818	1,729	2,740	4,022	5,337
% chg	*74.2*	*111.3*	*58.5*	*46.8*	*32.7*
Net profit	471	1,031	1,378	2,183	2,950
% chg	*115.3*	*119.0*	*33.6*	*58.4*	*35.2*
EPS (RMB)	0.300	0.560	0.722	1.143	1.545
% chg	*114.0*	*86.7*	*28.8*	*58.4*	*35.2*
EPS consensus (RMB)			0.738	1.093	1.447
PER (x)	35.9	18.8	14.1	8.9	6.6
DPS (RMB)	0.000	0.105	0.214	0.339	0.458
Yield (%)	0.0	1.0	2.1	3.3	4.5

Source: Company data, Sinopac Securities

Zhongsheng Holdings (0881.HK) -cont'd

SWOT analysis

Strengths	**Weaknesses**
• Multi-brand car portfolio covering luxury and mid to high-end brands • Expanding dealership network from Dalian City, Liaoning Province to better-developed North East, East China, South China and some certain inland regions • Having the "one-stop service" business model to provide a broad range of services including new car sales and after-sale services at 4S stores	• The dealership's expansion of 4S stores depend on auto makers' strategy. • Potential conflict and cannibalization may occur as a result of 4S store network expansion. • Selling prices are set by auto OEMs, and new car sales generate lower profit margin.
Opportunities	**Threats**
• The market-orientated development of China's second-hand car markets will provide additional opportunities for auto dealers. Zhongsheng's second-hand car business, although currently representing a limited portion of total revenues, will become a new revenue driver as the synergy between its new car sales and after-sale services business segments gets increasingly strong. • Car rental service will become a new revenue source for auto dealers.	• Luxury and mid to high-end car sales are mostly made in coastal cities in China where customers' incomes are more subject to economic cycle. • Acquisition costs will rise as a result of more intense competition between 4S stores • Most of the cars sold by Zhongsheng are large displacement models which are subject to the government's energy-saving and emission-reducing measures.

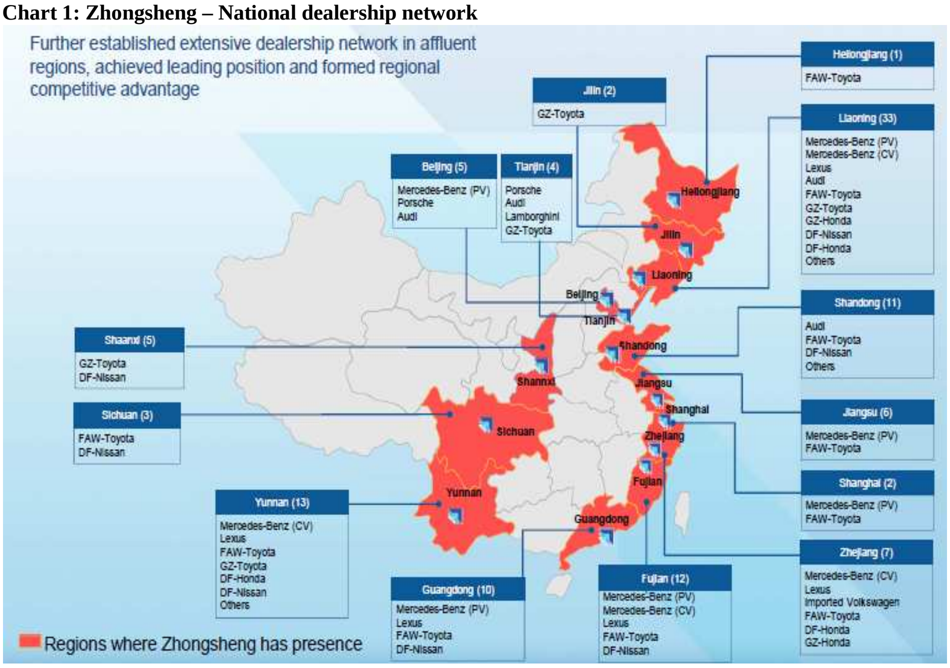
Source: Sinopac Securities

Core competence analysis

Supplier power
High: The models and prices of cars sold in 4S stores are set by auto makers
Entry barrier
High: Successful auto dealership depends on substantial capital strength, licensing by auto makers and good long-term relationship with auto makers.
Substitute product
Medium: In China, most car sales are made at 4S stores.
Rivalry
High: Intensified competition as a result of 4S store network being expanded to meet higher car demand

Source: Sinopac Securities

Chart 1: Zhongsheng – National dealership network



Source: Company data, Sinopac Securities

Zhongsheng Holdings (0881.HK) -cont'd

Key ratios

FYE Dec 31	FY10	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	75.2	62.6	41.4	27.8
EBIT	115.8	54.4	49.9	34.3
EBITDA	111.3	58.5	46.8	32.7
Net profit	119.0	33.6	58.4	35.2
EPS	86.7	28.8	58.4	35.2
Profitability (%)				
Gross margin	9.5	9.9	10.1	10.6
Operating margin	6.6	6.2	6.6	6.9
EBITDA margin	7.2	7.0	7.3	7.5
Net margin	4.3	3.5	3.9	4.2
ROAA	9.5	7.0	8.2	9.0
ROAE	25.6	21.2	27.8	30.6
Solvency				
Gross Debt/Equity (%)	83.0	113.2	117.5	114.6
Net Debt/Equity (%)	32.6	24.3	33.7	28.0
Current Ratio (x)	1.2	1.1	1.1	1.1
Quick Ratio (x)	0.8	0.8	0.7	0.8
Net Debt (RMB mn)	1,934.7	1,719.2	2,903.5	2,995.0
Per share data (RMB)				
EPS	0.560	0.722	1.143	1.545
CFPS	0.200	2.449	1.719	2.305
BVPS	3.247	3.704	4.509	5.596
EBITDA/share	0.945	1.435	2.106	2.795
DPS	0.105	0.214	0.339	0.458
Activity				
Asset Turnover (x)	2.2	2.0	2.1	2.2
Days accounts receivable	2.8	3.0	3.3	3.3
Days sales inventory	37.6	39.9	40.7	41.9
Days accounts payable	34.2	37.0	39.8	41.3

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year	1-(COGS / Revenue	+ Depreci & Amorti / Revenue	+ SG&A / Revenue	)= Operating margin
FY10	90.5%	4.2%	-1.2%	6.6%
FY11F	90.1%	4.5%	-0.8%	6.2%
FY12F	89.9%	4.4%	-0.9%	6.6%
FY13F	89.4%	4.5%	-0.9%	6.9%

Fiscal year	1/(Working Cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue	)= Capital turnover
FY10	6.4%	7.4%	31.3%	2.2
FY11F	5.0%	7.8%	25.7%	2.6
FY12F	3.7%	7.5%	22.7%	3.0
FY13F	4.0%	7.2%	21.2%	3.1

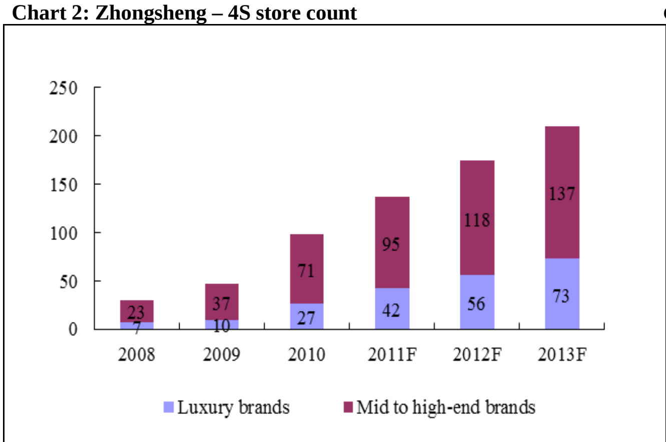
Fiscal year	Op margin	x Capital Turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10	6.6%	2.2	78.2%	11.3%
FY11F	6.2%	2.6	77.7%	12.5%
FY12F	6.6%	3.0	77.7%	15.1%
FY13F	6.9%	3.1	77.7%	16.6%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10	4.3%	148%	403%	25.6%
FY11F	3.5%	169%	355%	21.2%
FY12F	3.9%	185%	380%	27.8%
FY13F	4.2%	199%	368%	30.6%

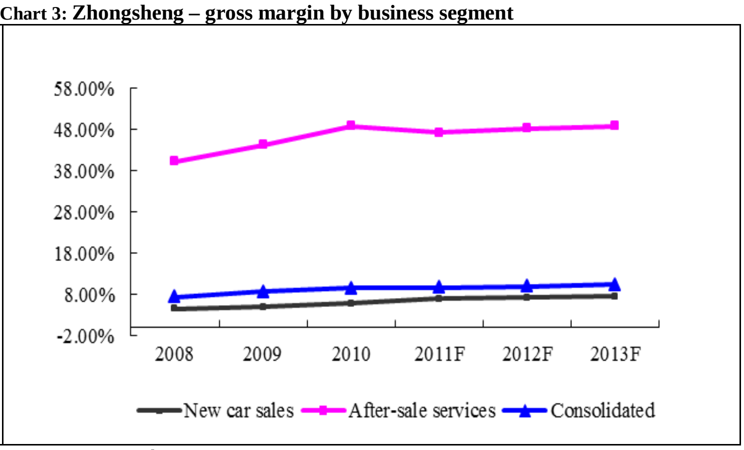
Source: Company data, Sinopac Securities

Chart 2: Zhongsheng – 4S store count



Source: Company data, Sinopac Securities

Chart 3: Zhongsheng – gross margin by business segment



Source: Company data, Sinopac Securities

Zhongsheng Holdings (0881.HK) -cont'd

P&L statement forecast

FYE 31 Dec (RMB mn)	FY10	FY11F	FY12F	FY13F
Revenue	24,043	39,104	55,310	70,698
Cost of goods sold	(21,750)	(35,227)	(49,713)	(63,225)
Gross Profit	9.5%	9.9%	10.1%	10.6%
Other income	295	316	483	604
SG&A expenses	(693)	(1,173)	(1,659)	(2,192)
Other expense	(318)	(587)	(774)	(990)
Operating profit	1,576	2,433	3,646	4,895
Interest incomes	27	75	125	173
Interest expenses	(227)	(391)	(442)	(566)
Net interest income (expense)	1,603	2,508	3,771	5,069
Results from associates	8	20	55	71
Other	-	-	-	-
Profit before taxations	1,384	2,136	3,384	4,574
Income tax	(302)	(476)	(755)	(1,020)
Net profit after tax	1,082	1,660	2,630	3,554
Minority interest	51	282	447	604
Net profit attri to share holders	1,031	1,378	2,183	2,950
Dividends	193	408	646	874
Retained earnings	838	970	1,536	2,076
EBITDA	1,729	2,740	4,022	5,337
Depreciation & Amortisation	153	307	376	442
EBIT	1,576	2,433	3,646	4,895

Source: Company data; Sinopac Securities

P&L statement forecast

FYE 31 Dec (RMB mn)	FY10	FY11F	FY12F	FY13F
Total Assets	**16,200**	**23,088**	**29,826**	**35,499**
Non-current Assets	5,600	7,403	8,937	10,305
Property, plant & equipment	1,789	3,061	4,167	5,108
Long-term investment	2,083	2,613	3,041	3,469
Other	1,729	1,729	1,729	1,729
Current assets	10,599	15,684	20,889	25,194
Cash & cash equivalents	2,990	6,287	7,209	9,249
Inventories	3,453	4,258	6,820	7,679
Account receivables	285	364	626	646
Other	3,872	4,776	6,234	7,619
Total Liabilities	**9,485**	**15,235**	**20,437**	**24,034**
Current liabilities	9,062	13,710	18,862	22,384
Short-term borrowings	4,924	7,981	10,038	12,094
Account payables	2,985	4,161	6,690	7,617
Other	1,154	1,568	2,135	2,674
Non-current Liabilities	423	1,525	1,575	1,650
Long-term borrowings	-	-	-	-
Other	423	1,500	1,500	1,500
Net assets	**6,715**	**7,852**	**9,389**	**11,465**
Shareholder's equity	5,936	7,073	8,609	10,686
Share capital	0	168	168	168
Capital surplus	5,935	6,905	8,441	10,518
Minority interest	779	779	779	779
Total equity	**6,715**	**7,852**	**9,388**	**11,465**

Source: Company data; Sinopac Securities

Cash flow forecast

FYE 31 Dec (RMB mn)	FY10	FY11F	FY12F	FY13F
Profit before tax	1,031	1,378	2,183	2,950
Adjustments:				
Depreciation & amortisation	153	307	376	442
Change in working capital	(3,380)	880	(1,186)	(800)
Other	(925)	-	-	-
Net cash flow from operation	**(856)**	**2,565**	**1,372**	**2,592**
Net Capex	(1,221)	(2,110)	(1,910)	(1,810)
Interest incomes	-	-	-	-
Other	(1,079)	-	-	-
Net cash flow from investment	**(2,301)**	**(2,110)**	**(1,910)**	**(1,810)**
Dividend paid	(193)	(408)	(646)	(874)
Interest expenses	-	-	-	-
Proceeds from shares issued	2,910	168	-	-
Net borrowings	2,480	3,082	2,107	2,132
Other	(47)	-	-	-
Net cash flow from financing	**5,151**	**2,842**	**1,460**	**1,258**
Net effects of FX change on cash	(36)	-	-	-
Net change in cash & cash equivalents	1,994	3,297	922	2,040
Beginning cash & cash equivalents	1,031	2,990	6,287	7,209
Ending cash & cash equivalents	2,990	6,287	7,209	9,249

Source: Company data; Sinopac Securities

Key assumptions

FYE 31 Dec	FY10	FY11F	FY12F	FY13F
Revenue breakdown				
Mid to high-end brands	13,727	21,748	29,845	36,639
Luxury brands	8,210	14,439	21,387	28,333
After-sale services	2,106	2,916	4,078	5,727
Total revenue	**24,043**	**39,104**	**55,310**	**70,698**
Revenue growth				
Mid to high-end brands	58.4%	58.4%	37.2%	22.8%
Luxury brands	115.9%	75.9%	48.1%	32.5%
After-sale services	67.7%	38.5%	39.8%	40.4%
Total revenue growth	**75.2%**	**62.6%**	**41.4%**	**27.8%**
Gross margin				
New car sales	5.8%	6.9%	7.1%	7.2%
After-sale services	48.9%	47.3%	48.3%	48.8%
Consolidated	**9.5%**	**9.9%**	**10.1%**	**10.6%**

Source: Company data; Sinopac Securities

Trinity (0891.HK) BUY

Long-term growth not dented by short-term impact

Apparel

Share price	Target price
HK$5.24	HK$7.35

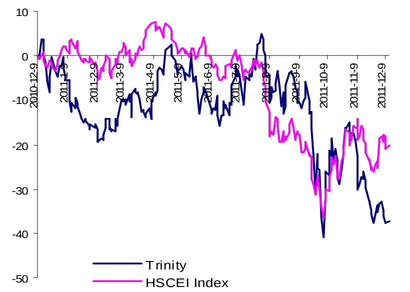
Reason for note	Company update
Recommendation	Unchanged

Trading data	
52-week range (HK$)	8.87/4.83
Market cap. (HK$ mn)	8,976
Market cap. (US$ mn)	1,151
Shares outstanding (mn)	1,589
Avg. daily volume (mn)	4.2
Avg. daily value (HK$ mn)	20.6
Major sh (%)	Mr. Fung Kwok-Lun -41.2
Free float (%)	51.6

Financial data	FY10
Equity (HK$ mn)	2,251
PBR (x)	5.4
ROA (%)	10.3
ROE (%)	16
Net gearing (%)	2.9
BVPS (HK$)	1.398

Performance	1-mth	3-mth	12-mth
Stock price	-11.6	-28.0	-35.8
HSCEI	-7.8	-3.8	-20.9

Relative



Katharine Song
(86) 21 6886 5358 ext 118
Katharine.song@sinopac.com

- **Steady progress in store network expansion.** As of June 30, **Trinity (0891.HK)** had 451 stores. Historically, the company has opened its outlets mostly in the second-half year, together with the opening of new department stores where the outlets were located. For full-year 2011, its management stood by the target of a net increase of 50 stores in mainland China. The company is bullish on the economic growth in tier-2 and -3 cities and, therefore, it will open more stores in these cities. For 2012, the management expects a net increase of 40-50 stores in mainland China.

- **Strong SSS growth.** In 1H11, Trinity recorded a strong growth of 19.7% in same store sales ("SSS"). By geographic segment, the SSS growth was 14.4% for the HK & Macao segment, 22.4% for the mainland China segment and 24.7% for the Taiwan segment, all showing a continued robust trend in SSS from 2010. In 2H11, the management predicted a lower SSS growth of 15% (in particular, ASP increases resulted in a 10% SSS growth) due to the high-base effect from 2H10. For 2012, the management expects the slowing China's economy will adversely impact the high-end menswear market segment, but they have confidence in the long-term economic growth in China. In the fallout of the 2008 global financial crisis, the company's SSS suffered negative growth in 1H09 as a result of weaker sales in HK and Macau, but swung to positive growth in 2H09. We expect its SSS growth will decline in 1H12 due to the high-base effect from 1H11 and the macroeconomic regulation in China, but will recover in 2H12.

- **Gross margin expected to stay high.** In 1H11, Trinity's gross margin was as high as 80.8%, up 5ppt from 1H10. In 2H11, the company launched its autumn/winter collections two months earlier than usual, which will help keep its full-year gross margin around 80%. As Trinity normally purchases raw materials nine months before production, the raw material costs for the products sold in 2011 were low, pointing to a high full-year gross margin as well. Although the mounting raw material costs during this year will be reflected in 2012, we believe the company can pass on the higher costs to customers, given its position in high-end market segment where customers are less price sensitive as well as its well-recognized brand names.

Valuation and recommendation:

- **Maintain BUY; TP at HK$7.35.** Trinity is set to see a high growth in earnings this year. In 2012, the government's policy of "maintaining economic growth" will help cushion the high-end menswear market segment against the adverse effects of slowing economy. Going forward, the rising middle class in China will represent substantial growth potential for the market segment. However, given the economic uncertainties at home and abroad in 2012, we set TP at HK$7.35, implying a conservative PE multiple of 20x 2012 EPS, which is at the lower end of its historical PE band. Maintain **BUY**.

Financial summary

FYE 31 Dec (HK$ mn)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	1,645	2,011	2,607	3,031	3,677
% chg	*7.6*	*22.3*	*29.6*	*16.2*	*21.3*
Gross profit	1,211	1,552	2,086	2,424	2,941
Gross margin%	*73.6*	*77.2*	*80.0*	*80.0*	*80.0*
EBITDA	307	526	811	947	1,094
% chg	*37.5*	*71.2*	*54.0*	*16.9*	*15.5*
Net profit	180	341	532	634	764
% chg	*83.3*	*89.7*	*55.9*	*19.3*	*20.4*
EPS (HK$)	0.142	0.210	0.312	0.368	0.439
% chg	*73.9*	*47.8*	*48.8*	*17.8*	*19.5*
EPS consensus (HK$)	-	-	0.309	0.394	0.490
PER (x)	36.9	25.0	16.8	14.3	11.9
PBR (x)	4.1	3.7	3.1	2.8	2.5
DPS (HK$)	0.070	0.150	0.172	0.202	0.242
Yield (%)	1.3	2.9	3.3	3.9	4.6

Source: Company data, Sinopac Securities

Trinity (0891.HK) -cont'd

SWOT analysis

Strengths	Weaknesses
• Holding multiple international brands • High entry barriers to high-end menswear market segment • Owning property rights of Kent & Curwen and Cerruti 1881 • Having a fast-growing sales network in mainland China	• Inadequate distribution network coverage in tier-2 and -3 cities • Small customer base for high-end and luxury menswear market segments • Production depending heavily on OEMs
Opportunities	**Threats**
• Still considerable growth potential for China's menswear market • Earnings to be driven by the acquisition of the global ownership right of Cerruti 1881 • Further expansion of distribution network in mainland China • Potential acquisition of suitable established brands	• Intense competition in high-end and luxury menswear market segments • Higher raw material, renting and labor costs • Forex-related losses • High-end menswear demand likely to be dented by economic slowdown

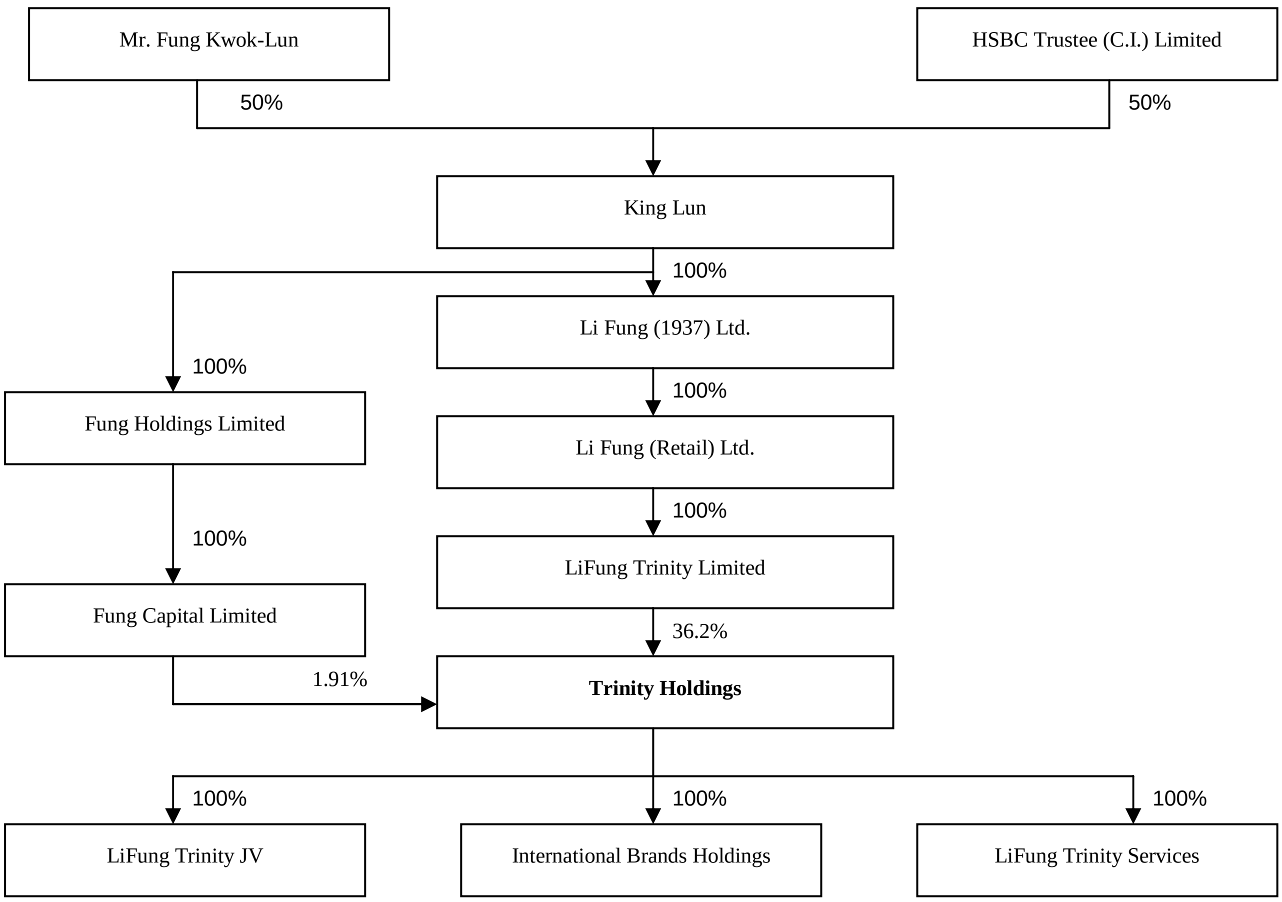
Source: Sinopac Securities

Core competence analysis

Supplier power
High: Bargaining power enhanced by growing order book and brand recognition
Entry barrier
High: Entry barrier to high-end menswear market segment higher than mass market segment due to the difficulty fostering well-known brands
Substitute product
Medium: Possibly lose market share to other high-end menswear brands if failing to maintain brand loyalty by, e.g. improving product design
Rivalry
Medium: Less competitors in high-end menswear market segment than low and medium-end, with competition centering on brand recognition and product design

Source: Sinopac Securities

Chart 1: Shareholding structure



Source: Company data

Trinity (0891.HK) -cont'd

Key ratios

FYE Dec 31	FY10A	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	22.3	29.6	16.2	21.3
EBIT	80.5	63.1	19.1	20.8
EBITDA	71.2	54.0	16.9	15.5
Net profit	89.7	55.9	19.3	20.4
EPS	47.8	48.8	17.8	19.5
Profitability (%)				
Gross margin	77.2	80.0	80.0	80.0
Operating margin	21.4	26.7	27.3	27.1
EBITDA margin	26.2	31.1	31.3	29.7
Net margin	16.9	20.4	20.9	20.8
ROAA	10.3	12.8	12.1	12.8
ROAE	16.0	20.4	20.4	22.1
Solvency				
Gross Debt/Equity (%)	25.8	45.4	43.1	47.1
Net Debt/Equity (%)	2.9	8.4	N.C.	N.C.
Current ratio (x)	1.6	2.3	1.9	1.9
Quick ratio (x)	1.1	1.7	1.5	1.5
Net debt (mn)	65.2	249.0	N.C.	N.C.
Per share data				
EPS	0.210	0.312	0.368	0.439
CFPS	0.316	0.312	0.679	0.421
BVPS	1.417	1.712	1.885	2.081
EBITDA/share	0.324	0.476	0.549	0.629
DPS	0.150	0.172	0.202	0.242
Activity				
Asset Turnover (x)	0.6	0.6	0.6	0.6
Days accounts receivable	35.2	36.8	36.0	36.4
Days sales inventory	320.1	320.1	320.1	320.1
Days accounts payable	60.2	52.5	56.4	54.4

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year	1-(COGS / Revenue	+ SG&A / Revenue	+ Other expenses / Revenue)=	Operating margin
FY10A	22.8%	59.7%	-4.0%	21.4%
FY11F	20.0%	59.5%	-6.3%	26.7%
FY12F	20.0%	59.0%	-6.3%	27.3%
FY13F	20.0%	59.0%	-6.2%	27.1%

Fiscal year	1/(Working cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue)=	Capital turnover
FY10A	17.3%	9.0%	30.4%	1.8
FY11F	23.7%	9.0%	53.4%	1.2
FY12F	12.4%	6.3%	66.9%	1.2
FY13F	20.1%	4.6%	67.2%	1.1

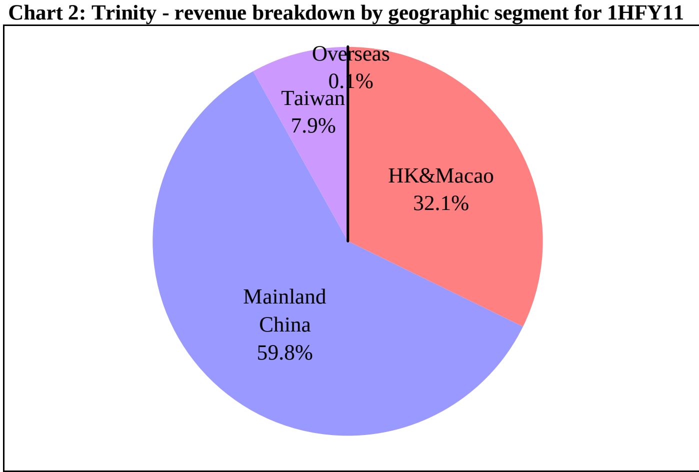
Fiscal year	Op margin	x Capital turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10A	21.4%	1.8	74.0%	27.9%
FY11F	26.7%	1.2	73.0%	22.7%
FY12F	27.3%	1.2	74.0%	23.6%
FY13F	27.1%	1.1	74.0%	21.8%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10A	16.9%	0.6	1.5	16.0%
FY11F	20.4%	0.6	1.6	20.4%
FY12F	20.9%	0.6	1.7	20.4%
FY13F	20.8%	0.6	1.7	22.1%

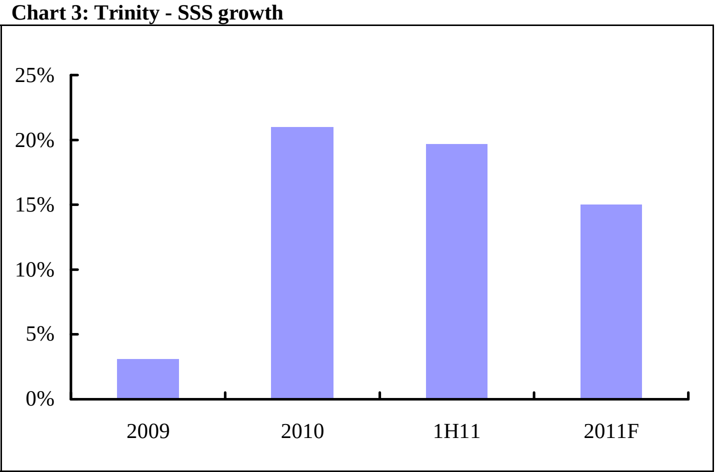
Source: Company data, Sinopac Securities

Chart 2: Trinity - revenue breakdown by geographic segment for 1HFY11



Source: Company data, Sinopac Securities

Chart 3: Trinity - SSS growth



Source: Company data, Sinopac Securities

Trinity (0891.HK) -cont'd

P&L statement forecast

FYE 31 Dec (HK$ mn)	FY10A	FY11F	FY12F	FY13F
Revenues	**2,011**	**2,607**	**3,031**	**3,677**
Cost of goods sold	(460)	(521)	(606)	(735)
Gross Profit	**1,552**	**2,086**	**2,424**	**2,941**
Other operating income	58	150	175	212
SG&A expenses	(1,202)	(1,552)	(1,789)	(2,170)
Other operating costs	22	13	17	15
Operating profit	**430**	**696**	**827**	**998**
Interest incomes	1	0	0	0
Interest expenses	(6)	(4)	(2)	(1)
Net interest incomes (expenses)	(5)	(4)	(2)	(1)
Results from associates	0	0	0	0
Other	0	0	0	0
Profit before taxations	425	693	825	997
Income tax	(120)	(197)	(223)	(268)
Net profit after tax	305	496	602	728
Minority interest	0	0	0	0
Net profit attri to share holders	**305**	**496**	**602**	**728**
Dividends	238	292	349	420
Retained earnings	67	204	253	308
EBITDA	526	811	947	1094
Depreciation & amortisation	101	118	122	97
EBIT	425	693	825	997

Source: Company data; Sinopac Securities

Balance sheet forecast

FYE 31 Dec (HK$ mn)	FY10A	FY11F	FY12F	FY13F
Total assets	**3,469**	**4,858**	**5,596**	**6,313**
Non-current Assets	2,119	2,782	2,864	2,849
Property, plant & equipment	182	234	190	171
Long-term investment	1,840	2,248	2,361	2,361
Other	97	301	314	318
Current assets	1,351	2,075	2,732	3,464
Cash & cash equivalents	515	1,091	1,715	2,151
Inventories	421	494	569	721
Account receivables	215	312	287	447
Other	200	179	161	145
Total liabilities	**1,218**	**1,906**	**2,322**	**2,672**
Current liabilities	848	906	1,450	1,788
Short-term borrowings	360	540	810	1,215
Account payables	96	54	133	86
Other	392	312	507	487
Non-current liabilities	370	1,000	872	884
Long-term borrowings	220	800	600	500
Other	150	200	272	384
Net assets	**2,251**	**2,952**	**3,274**	**3,642**
Shareholder's equity	2,251	2,952	3,274	3,642
Share capital	159	170	173	174
Capital surplus	2,092	2,782	3,101	3,468
Minority interest	0	0	0	0
Total equity	**2,251**	**2,952**	**3,274**	**3,642**

Source: Company data; Sinopac Securities

Cash flow forecast

FYE 31 Dec (HK$ mn)	FY10A	FY11F	FY12F	FY13F
Profit before tax	461	728	857	1,032
Adjustments:				
Depreciation & amortisation	101	118	122	97
Change in working capital	(36)	(271)	241	(363)
Other	(13)	(44)	(49)	(35)
Net cash flow from operation	**513**	**531**	**1172**	**731**
Net Capex	(225)	(90)	(70)	(70)
Interest income	1	0	0	0
Other	24	12	16	17
Net cash flow from investment	**(199)**	**(78)**	**(54)**	**(53)**
Dividends paid	(189)	(238)	(292)	(349)
Interest expenses	(4)	(4)	(2)	(1)
Proceeds from shares issued	11	69	31	31
Net borrowings	(135)	760	70	305
Other	0	(455)	(285)	(209)
Net cash flow from financing	**(317)**	**133**	**(478)**	**(223)**
Net effects of FX change on cash	0	(10)	(15)	(19)
Net change in cash & cash equivalents	(3)	576	624	437
Beginning cash & cash equivalents	518	515	1091	1715
Ending cash & cash equivalents	515	1091	1715	2151

Source: Company data; Sinopac Securities

Key assumptions

FYE 31 Dec	FY10A	FY11F	FY12F	FY13F
Revenue breakdown (HK$ mn)				
HK & Macau	690	806	870	992
mainland China	1,144	1,528	1,915	2,398
Taiwan	176	212	243	285
Store count				
HK & Macau	41	42	42	42
Mainland China	329	379	424	474
Taiwan	39	39	39	39
Gross margin (%)				
Consolidated gross margin	77.2%	80.0%	80.0%	80.0%
Key ratios				
Selling expense ratio	41.0%	41.5%	41.0%	41.0%
Administrative expense ratio	18.8%	18.0%	18.0%	18.0%
Effective tax rate	26.0%	27.0%	26.0%	26.0%
Pay-out ratio	72%	55%	55%	55%
SG&A expenses	(1,202)	(1,552)	(1,789)	(2,170)

Source: Company data; Sinopac Securities

SinoPac

Coal

Share price	Target price
HK$34.45	HK$43.00

Reason for note	Company update
Recommendation	Unchanged

Trading data

52-week range (HK$)	27.10/40.20
Market cap. (HK$ mn)	617,233
Market cap. (US$ mn)	79,132
Shares outstanding (mn)	19,890
Avg. daily volume (mn)	12.4
Avg. daily value (HK$ mn)	425.1
Major sh (%)	Shenhua Group -73%
Free float (%)	99
Free float (%)	

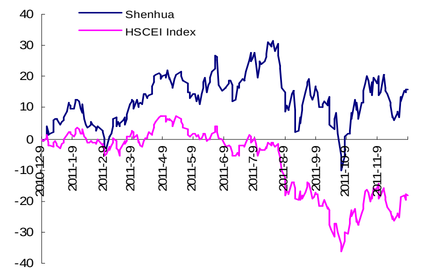
Financial data

	FY10
Equity (RMB mn)	198,325
PBR (x)	2.8
ROA (%)	20.7
ROE (%)	11.7
Net gearing (%)	NC
BVPS (RMB)	9.971

Performance

	1-mth	3-mth	12-mth
Stock price	-6.3	-1.9	12.8
HSCEI	-7.8	-3.8	-20.9

Relative



Robert Wei
(86) 21 6886 5358-138
Robert.wei@sinopac.com

China Shenhua (1088.HK) BUY

Building synergy between coal mining and power generation

- **Steadily-growing coal mining segment.** In 2011, **China Shenhua (1088.HK)** recorded high growth in coal production and sales. For the first ten months, the company posted commercial coal sales and output of 228.6m tons and 313.1m tons respectively, up 23% and 30.2% y-o-y. In 2012, the company will complete technological innovation or capacity expansion for its Jin Jie, Ha'erwusu, Sheng Li, Bu'ertai, Huang Yu Chuan and Li Jia Hao coal mines, and thus increase its coal capacity by 27m tons. In addition, the company is stepping up the construction of Xin Jie, Watermark, Shengli and Shenbao mines to drive its revenue growth in the long run.
- **Strong synergy between coal mining and power generation segments.** Shenhua's self-produced coal accounts for 96% of the total coal needs for its power generation segment. The synergy between the two segments, while supporting the growth of its coal-mining segment, will guarantee steady coal supply for its power-generation segment and thus achieve higher power output dispatch. The company sells most of its scheduled contract coal to its owner power plants to avoid possible losses from outward sales. While other power companies have suffered increasingly great losses, Shenhua's power generation segment remains quite profitable. In 1H11, the segment's operating margin was as high as 18.2%, according to its 1H11 financial statements. During the same period, 53.63% of the power companies nationwide posted huge losses, with the five major power groups, including Huaneng Power, incurring a combined loss of more than RMB10bn.
- **Non-organic growth driven by asset injection.** In its announcement in August, Shenhua said the company would begin acquiring assets involving coal mining and power generation and sales from its parent. The assets expected to be injected in the future include four companies of (a) China Shenhua Coal-to-Liquid Chemical Co., (b) Shenhua Ningxia Coal Industry Group Corp, (c) Shenhua Xinjiang Energy Co. and (d) China Shenhua Wuhai Energy Co., which combine to represent coal capacity of 88m tons/year.
- **Faster expansion of power generation business.** For the first ten months of 2011, Shenhua posted power generation and power output dispatch of 148.18bn kWh and 139bn kWh respectively, up 28.2% and 28.4% y-o-y, showing a continued high growth trend. Capitalizing on the weakness of the power industry in China, Shenhua has stepped up its acquisition of power plants. In the course of this year, it bought Hulunbeier Power Co. and Luyang Power Co, and set up Shenwan Energy Co. While planning to acquire some of the power generation assets of its parent, Shenhua is vigorously advancing its power generation projects in multiple regions including Jiangxi, Fujian and Sichuan provinces. The company has a total controlled installed capacity of 30,000 MW in high-efficient operation.
- **Valuation and recommendation: maintain TP of HK$43.00 and BUY rating.** With an increasing proportion of spot coal sales in total sales, Shenhua grows its coal mining and power generation segments steadily and enjoys stronger synergy between the two segments. Therefore, we keep unchanged our forecast of FY11 and FY12 EPS of RMB2.378 (or HK$2.936) and RMB2.931 (or HK$3.664) respectively, and maintain TP of HK$43, implying 14.6x 2011 EPS, at the lower end of its historical PE band. Maintain **BUY**.

Financial Summary

FYE 31st Dec(RMB mn)	FY09	FY10F	FY11F	FY12F	FY13F
Turnover	121,312	152,063	201,746	244,406	295,029
% chg	*13.2*	*25.3*	*32.7*	*21.1*	*20.7*
Gross profit	55,819	65,225	78,723	93,632	110,052
Gross margin%	*46.0*	*42.9*	*39.0*	*38.3*	*37.3*
EBITDA	58,529	69,929	85,655	101,836	119,675
% chg	*18.1*	*19.5*	*22.5*	*18.9*	*17.5*
Net profit	31,705	38,132	47,295	58,296	70,580
% chg	*19.0*	*20.3*	*24.0*	*23.3*	*21.1*
EPS (RMB)	1.594	1.917	2.378	2.931	3.549
% chg	*19.0*	*20.3*	*24.0*	*23.3*	*21.1*
EPS consensus (RMB)	-		2.295	2.595	2.902
PER (x)	19.0	15.5	11.7	9.4	7.8
DPS (RMB)	0.530	0.767	0.951	1.172	1.419
Yield (%)	1.7	2.6	3.4	4.3	5.2

Source: Company data, Sinopac Securities

China Shenhua (1088.HK) -cont'd

SWOT analysis

Strengths	Weaknesses
• Having huge coal reserves and fast-growing capacity • Owning convenient coal transport network • Strong synergy between coal mining and power generation segments	• Current throughput bottleneck at Huanghua Port expected to ease beyond 2013
Opportunities	**Threats**
• Non-organic growth driven by asset injection • Stepping up acquisition of power plants during the weakness of the power industry in China • Stronger power generation profitability on higher electricity prices	• Coal price capped by government • Lower coal demand due to slowdown in macro-economy • Higher coal production costs

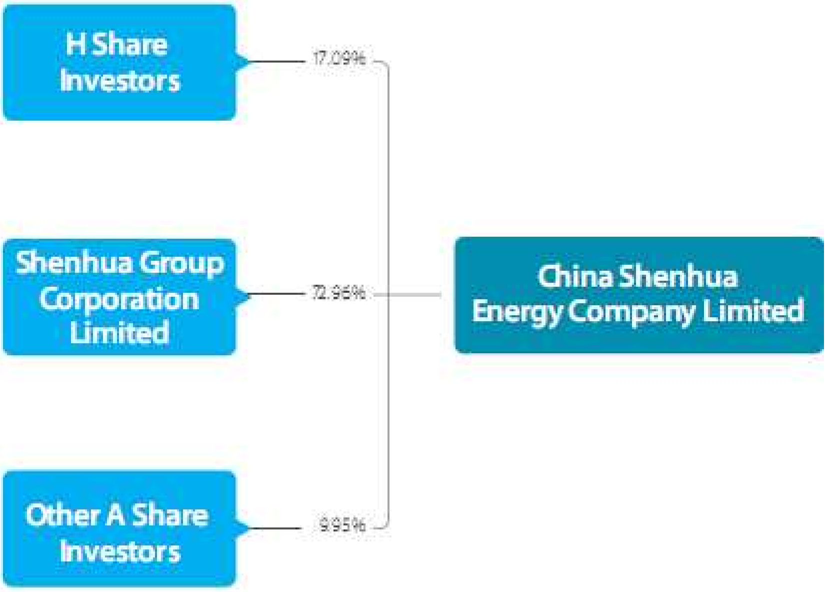
Source: Sinopac Securities

Core competence analysis

Supplier power
Low: having the largest coal reserves in China, with self-produced coal accounting for 97% of its total coal needs for its power generation segment.
Entry barrier
High: high capex and technology requirements; number of coal companies contained by the government's integration of national coal resources
Substitute product
Low: coal remains as the dominant energy in China
Rivalry
Low: significant comprehensive advantages with the sole integration of coal mining, power generation, coal transport, port operation and coal shipping in China

Source: Sinopac Securities

Chart 1: Shareholding structure



Source: Company data, Sinopac Securities

China Shenhua (1088.HK) -cont'd

Key ratios

FYE Dec 31	FY10	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	25.3	32.7	21.1	20.7
EBIT	19.8	23.2	21.0	19.1
EBITDA	19.5	22.5	18.9	17.5
Net profit	20.3	24.0	23.3	21.1
EPS	20.3	24.0	23.3	21.1
Profitability (%)				
Gross margin	42.9	39.0	38.3	37.3
Operating margin	37.1	34.5	34.4	33.9
EBITDA margin	46.0	42.5	41.7	40.6
Net margin	25.1	23.4	23.9	23.9
ROAA	11.7	12.9	13.9	14.7
ROAE	20.7	22.3	23.9	25.0
Solvency				
Gross Debt/Equity (%)	32.6	27.2	23.6	20.3
Net Debt/Equity (%)	NC	NC	NC	NC
Current ratio (x)	1.8	1.8	1.8	1.9
Quick ratio (x)	1.3	1.4	1.4	1.5
Net debt (mn)	NC	NC	NC	NC
Per share data				
EPS	1.917	2.378	2.931	3.549
CFPS	2.595	3.189	3.823	4.530
BVPS	9.971	11.398	13.157	15.286
EBITDA/share	3.516	4.307	5.120	6.017
DPS	0.767	0.951	1.172	1.419
Activity				
Asset Turnover (x)	0.5	0.6	0.6	0.6
Days accounts receivable	23.3	22.4	23.3	23.4
Days sales inventory	22.7	15.5	9.0	7.4
Days accounts payable	38.6	39.9	43.0	43.7

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year 1-(	COGS / Revenue	+ SG&A / Revenue	+ Other expenses / Revenue	)= Operating margin
FY10	57.1%	5.4%	0.4%	37.1%
FY11F	61.0%	4.2%	0.3%	34.5%
FY12F	61.7%	3.6%	0.3%	34.4%
FY13F	62.7%	3.1%	0.2%	33.9%

Fiscal year 1/(	Working cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue	)= Capital turnover
FY10	40.1%	138.5%	17.3%	0.5
FY11F	35.8%	119.2%	8.6%	0.6
FY12F	35.0%	110.0%	7.5%	0.7
FY13F	36.7%	100.1%	6.6%	0.7

Fiscal year	Op margin	x Capital turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10	37.1%	0.5	79.6%	15.1%
FY11F	34.5%	0.6	79.6%	16.8%
FY12F	34.4%	0.7	79.6%	18.0%
FY13F	33.9%	0.7	79.6%	18.8%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10	25.1%	0.5	1.8	20.7%
FY11F	23.4%	0.6	1.7	22.3%
FY12F	23.9%	0.6	1.7	23.9%
FY13F	23.9%	0.6	1.7	25.0%

Source: Company data, Sinopac Securities

Chart 2: Shenhua – revenue breakdown for 1H11

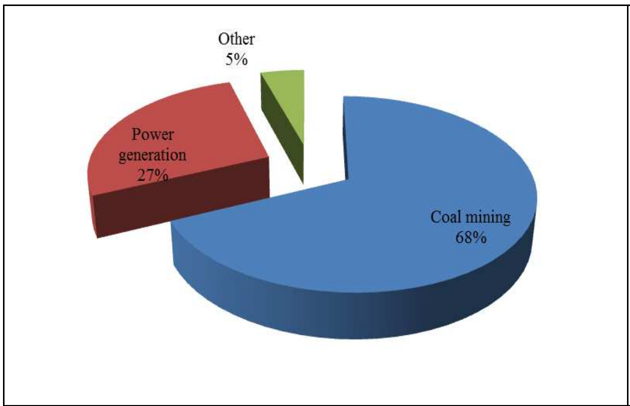
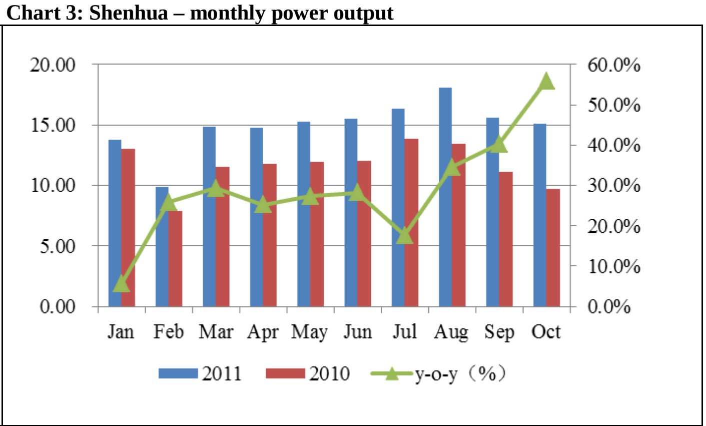


Chart 3: Shenhua – monthly power output



Source: Company data, Sinopac Securities

China Shenhua (1088.HK) -cont'd

P&L statement forecast

FYE 31 Dec (HK$ mn)	FY10	FY11F	FY12F	FY13F
Coal revenue	102,791	145,128	179,772	221,200
Power revenue	44,733	51,852	59,630	68,575
Other revenue	4,539	4,766	5,004	5,254
Revenues	**152,063**	**201,746**	**244,406**	**295,029**
Cost of goods sold	86815	123023	150774	184977
SG&A expenses	(8,143)	(10,852)	(13,503)	(16,797)
Other expenses	(631)	(650)	(669)	(690)
Total operating expense	**(95,612)**	**(132,223)**	**(160,316)**	**(194,875)**
Operating profit	**56,451**	**69,523**	**84,090**	**100,155**
Op margin (%)	37.1	34.5	34.4	33.9
Interest incomes	0	2,342	3,013	0
Interest expenses	0	(3357)	(3280)	0
Other incomes	0	0	0	0
Results from associates	615	816	988	1,193
Profit before taxations	**54,753**	**67,910**	**82,529**	**98,671**
Income tax	(11,184)	(13,871)	(16,857)	(20,155)
Effective tax rate (%)	20.4	20.4	20.4	20.4
Profit after taxations	**54,774**	**67,931**	**82,549**	**98,691**
Minority interest	(5,437)	(6,743)	(7,376)	(7,936)
Total equity	**38,132**	**47,295**	**58,296**	**70,580**
Net margin (%)	25.1	23.4	23.9	23.9

Source: Company data, Sinopac Securities

Balance sheet forecast

FYE 31 Dec (HK$ mn)	FY10	FY11F	FY12F	FY13F
Fixed assets	**236,865**	**257,864**	**287,107**	**314,780**
PPE	179,434	186,437	214,691	241,171
Projects under construction	31,189	54,054	54,054	54,054
Interest in associates	3,285	4,101	5,089	6,283
Other non-current assets	22,957	13,273	13,273	13,273
Current assets	**103,995**	**133,956**	**161,017**	**200,615**
Inventory	11,167	6,000	6,000	6,000
Notes receivable	10,645	14,123	17,109	20,653
Other	8,838	9,044	10,957	13,226
Cash and cash equivalents	73,345	104,789	126,951	160,736
Current liabilities	**58,900**	**74,632**	**88,463**	**105,318**
Accounts payable	18,264	25,875	31,711	38,905
Other current liabilities	24,738	35,757	43,751	53,413
	15,898	13,000	13,000	13,000
Non-current liabilities	**53,172**	**53,281**	**53,400**	**53,532**
Long-term borrowings	48,730	48,730	48,730	48,730
Deferred tax liabilities	2,665	2,774	2,893	3,025
Net assets	**228,788**	**263,908**	**306,261**	**356,545**
Share capital	19,890	19,890	19,890	19,890
Capital surplus	178,435	206,812	241,789	284,137
Shareholder's equity	198,325	226,702	261,679	304,027
Minority interest	30,463	37,206	44,582	52,518
Total equity	**228,788**	**263,908**	**306,261**	**356,545**

Source: Company data, Sinopac Securities

Cash flow forecast

FYE 31 Dec (HK$ mn)	FY10	FY11F	FY12F	FY13F
Profit before tax	**56,451**	**69,523**	**84,090**	**100,155**
Adjustments:				
Depreciation & amortisation	13,478	16,132	17,746	19,520
Change in working capital	864	18,091	8,932	11,042
Other	676	676	676	676
Net cash flow from	**71,469**	**104,422**	**111,444**	**131,393**
Net interest expense	(2,313)	(2,429)	(2,550)	(2,678)
Tax paid	(11,184)	(13,871)	(16,857)	(20,155)
Dividends received	398	438	482	530
Free cash flow	**58,371**	**88,560**	**92,518**	**109,091**
Dividends paid	(15,253)	(18,918)	(23,318)	(28,232)
Net Capex	(271)	(46,000)	(46,000)	(46,000)
Other	(50,699)	(11,116)	(24,356)	(29,306)
Net cash flow	**7,401**	**31,444**	**22,162**	**33,785**
Share issuance	0	0	0	0
Increase in cash and cash equivalents	**7,401**	**31,444**	**22,162**	**33,785**
Beginning cash & cash equivalents	65,944	73,345	104,789	126,951
Ending cash & cash equivalents	73,345	104,789	126,951	160,736

Source: Company data, Sinopac Securities

Key assumptions

FYE 31 Dec	FY10	FY11F	FY12F	FY13F
Coal mining segment				
Raw coal output (mn tons)	225	282	330	390
% y-o-y	6.9	25.4	17.0	18.2
Coal sales (mn tons)	293	373	442	523
% y-o-y (%)	15.1	27.5	18.6	18.2
ASP (RMB/ton)	427	453	481	504
% y-o-y (%)	10.0	6.2	6.1	4.8
Power generation segment				
Total power generation (bn kWh)	141.15	175.03	153.57	158.99
% y-o-y	29.6	24.0	15.0	15.0

Source: Company data, Sinopac Securities

China Lilang (1234.HK) — BUY

Abundant order book to ensure sustainable growth

Apparel

Share price	Target price
HK$6.95	HK$9.07

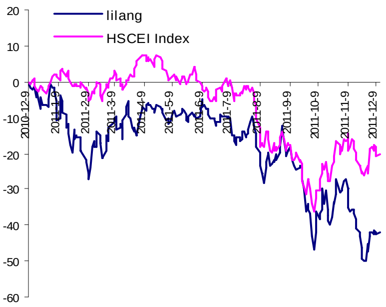
Reason for note	Company update
Recommendation	Unchanged

Trading data	
52-week range (HK$)	5.94/12.14
Market cap. (HK$ mn)	8,417
Market cap. (US$ mn)	1,079
Shares outstanding (mn)	1,200
Avg. daily volume (mn)	1.8
Avg. daily value (HK$ mn)	14.2
Major sh (%)	Xiao Sheng Int'l– 55.1
Free float (%)	32.0

Financial data	FY10
Equity (RMB mn)	1,860
PBR (x)	6.1
ROA (%)	18.9
ROE (%)	23.9
Net gearing (%)	NC
BVPS (RMB)	1.542

Performance	1-mth	3-mth	12-mth
Stock price	-8.8	-25.7	-39.4
HSCEI	-7.8	-3.8	-20.9

Relative



Katharine Song
(86) 21 6886 5358 ext 118
Katharine.song@sinopac.com

- **Earnings set to continue rapid growth in 2011.** In 1H11, **China Lilang ("Lilang", 1234.HK)** posted net profit of RMB228m (+63.1% y-o-y), or diluted EPS of RMB0.189, on revenue of RMB1.032bn (+31.2%). The board of directors proposed an interim dividend of HK$0.11 a share and a special dividend of HK$0.05 a share, implying a pay-out ratio of 70%. Its master brand "LILANZ" saw a y-o-y growth of 28% and 34% in order value for autumn and winter 2011 collections respectively, while its sub-brand "L2" witnessed a growth of 135% in order value for 2H11 collections. The abundant orders in hand will ensure a strong growth in its full-year earnings. For 2012, the company has recorded a growth of 28.5% in order value for spring and summer collections, higher than 26.5% for the comparable period in 2011.

- **Continued rise in gross margin.** In 1H11, Lilang's gross margin was 36.4%, up 1.7ppt from 34.7% in 1H10, thanks to its ASP rising by 13.2% to RMB163 that helped the company pass on higher raw material costs to customers. At each of its autumn and winter trade fairs, the company saw a double-digit growth in product ASP, reflecting its strong brand recognition and bargaining power. Therefore, its full-year gross margin is set to be steady or even rise this year. For 2012, the company will face less raw material cost pressures as cotton prices are contained by abundant supply. To promote retail-end sales, the company expects to cut its product price increases to less than 10% from 15% in previous years, but the management remain confident in a gross margin of more than 40% for 2012.

- **Robust retail-end sales.** For the first three quarters of 2011, Lilang posted a growth of 17-18% in same store sales ("SSS"). And the management expects the full-year SSS growth will exceed the level of 17.8% in 2010. The strong SSS growth shows robust retail-end sales. As of September 30, the company had more than 3,000 "LILANZ" stores and 200 "L2" stores, with a full-year net increase of 250 and 150 stores expected for the two brands respectively. In 2012, the company expects faster store opening as the sportswear industry consolidation has produced more suitable store areas, with a net increase of 250-300 "LILANZ" stores and 150 "L2" stores expected for full-year 2012. While the company plans to cut price increases in 2H12, its nonorganic expansion can ensure the growth in sales volume.

Valuation and recommendation:

- **Maintain BUY and TP of HK$9.07.** Lilang's solid business model and abundant order book will ensure the rapid growth in its earnings for 2011. In 2012, the faster store-opening will lead to more order inflow and the reduced cost pressures will help it maintain high gross margin, giving a high visibility to its earnings. The company is currently trading at 9.3x 2012 EPS, which is at the lower end of its historical PE band and is also significantly lower than its A-share peers. The low PE multiple, coupled with an expected CAGR of 26% in its net profit for the coming three years, has revealed its investment value. Given its defensiveness amid the economic uncertainties for 2012, we apply a 12x 2012 EPS and thus set TP at HK$9.07, implying 34% upside potential. Maintain **BUY**.

Financial summary

FYE 31 Dec (RMB mn)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	1,560	2,053	2,696	3,420	4,094
% chg	*37.4*	*31.6*	*31.3*	*26.9*	*19.7*
Gross profit	551	778	1,057	1,385	1,679
Gross margin%	*35.3*	*37.9*	*39.2*	*40.5*	*41.0*
EBITDA	352	515	732	983	1,20
% chg	*110.8*	*46.5*	*42.2*	*34.3*	*22.6*
Net profit	303	419	601	723	838
% chg	*96.6*	*38.2*	*43.5*	*20.3*	*15.9*
EPS (RMB)	0.309	0.347	0.498	0.599	0.694
EPS consensus (RMB)	-	-	0.494	0.589	0.678
EPS (HK$)	0.351	0.404	0.615	0.749	0.868
PER (x)	19.8	17.2	11.3	9.3	8.0
PBR	4.5	3.9	3.3	2.9	2.6
BVPS (RMB)	1.368	1.542	1.711	1.926	2.170
DPS (RMB)	0.110	0.170	0.324	0.360	0.417
Yield (%)	1.8	2.8	5.8	6.5	7.5

Source: Company data, Sinopac Securities

China Lilang (1234.HK) -cont'd

SWOT analysis

Strengths	Weaknesses
• Early entry into the business casual menswear market segment • Outstanding product design and brand marketing capabilities • Well recognized in tier-2 and -3cities • Nationwide distribution network	• Sales subject to seasonal factors • Single-brand marketing strategy • Low transparency of inventory for its distribution network • Weak retail-end control
Opportunities	**Threats**
• Still considerable growth potential for China's menswear market • "L2" expected to be new earnings driver • Net sales expected to create new revenue stream • Highly-fragmented market conducive to grabbing market share	• Intense competition • Higher raw material, renting and labor costs • Competitiveness of "L2" as a new brand

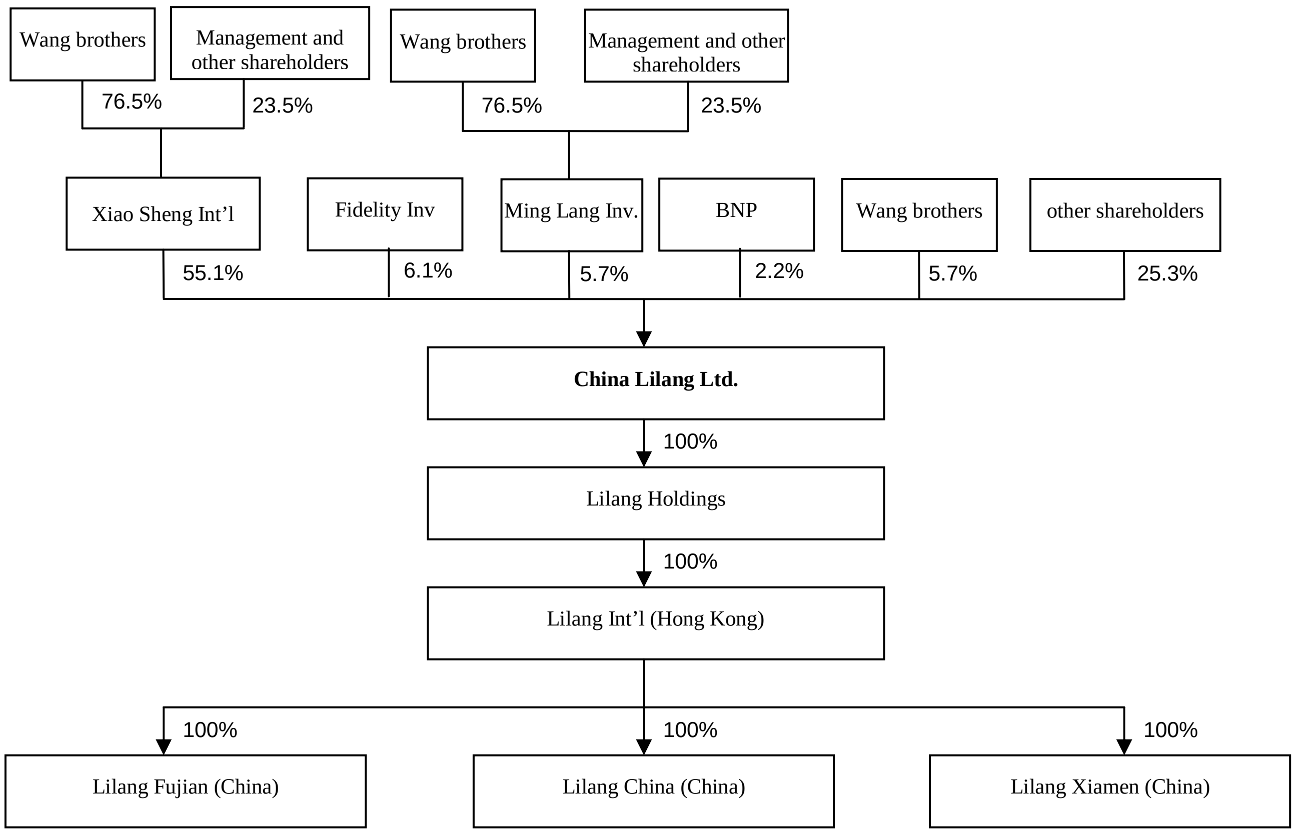
Source: Sinopac Securities

Core competence analysis

Supplier power
Medium: stronger bargaining power on growing order book and brand recognition
Entry barrier
Medium: while small-scale operation demands only modest capital investment, it's not easy difficult to create a well-known brand
Substitute product
Medium: possibly lose market share to other varied brands in this market segment if failing to keep up with fashion and create distinctive brand image.
Rivalry
High: severe competition between varied brands in a highly segmented market segment

Source: Sinopac Securities

Chart 1: Shareholding structure



Source: Company data

China Lilang (1234.HK) -cont'd

Key ratios

FYE Dec 31	FY10A	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	31.6	31.3	28.7	21.5
EBIT	46.9	43.4	35.7	24.2
EBITDA	46.5	42.2	36.1	24.3
Net profit	38.2	43.5	22.0	17.6
EPS	12.5	43.5	21.9	17.6
Profitability (%)				
Gross margin	37.9	39.2	40.5	41.0
Operating margin	23.8	25.7	27.2	27.9
EBITDA margin	25.1	27.2	28.7	29.4
Net margin	20.4	22.3	21.1	20.5
ROAA	18.9	24.2	25.6	26.0
ROAE	23.9	30.6	33.0	33.9
Solvency				
Gross Debt/Equity (%)	0.0	0.0	0.0	0.0
Net Debt/Equity (%)	N.C	N.C	N.C	N.C
Current ratio (x)	4.0	4.7	3.6	4.2
Quick ratio (x)	3.7	4.2	3.2	3.7
Net debt (mn)	N.C	N.C	N.C	N.C
Per share data				
EPS	0.35	0.498	0.599	0.694
CFPS	0.43	0.813	1.035	0.998
BVPS	1.54	1.711	1.926	2.17
EBITDA/share	0.43	0.607	0.815	0.998
DPS	0.17	0.324	0.36	0.417
Activity				
Asset Turnover (x)	0.9	1.1	1.2	1.3
Days accounts receivable	76.3	62.0	60.0	60.0
Days sales inventory	46.9	46.9	46.9	46.9
Days accounts payable	89.3	72.0	70.0	70.0

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year	1-(COGS / Revenue	+ SG&A / Revenue	+ Other expenses / Revenue)=	Operating margin
FY10A	62.1%	14.8%	-0.2%	23.3%
FY11F	60.8%	13.8%	-0.3%	25.7%
FY12F	59.5%	13.6%	-0.3%	27.2%
FY13F	59.0%	13.4%	-0.3%	27.9%

Fiscal year	1/(Working cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue)=	Capital turnover
FY10A	37.1%	7.6%	45.1%	1.1
FY11F	25.3%	7.8%	42.8%	1.3
FY12F	18.7%	7.5%	41.3%	1.5
FY13F	20.4%	7.2%	36.0%	1.6

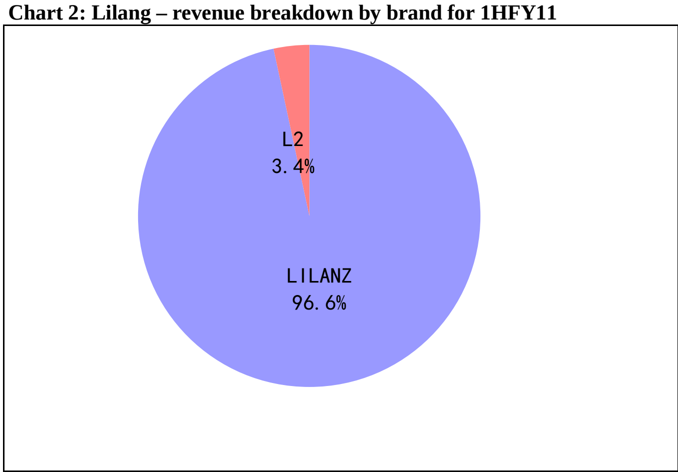
Fiscal year	Op margin	x Capital turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10A	23.3%	1.1	85.8%	22.2%
FY11F	25.7%	1.3	84.0%	28.5%
FY12F	27.2%	1.5	75.5%	30.5%
FY13F	27.9%	1.6	71.5%	31.4%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10A	20.4%	0.9	1.3	23.9%
FY11F	22.3%	1.1	1.3	30.6%
FY12F	21.1%	1.2	1.3	33.0%
FY13F	20.5%	1.3	1.3	33.9%

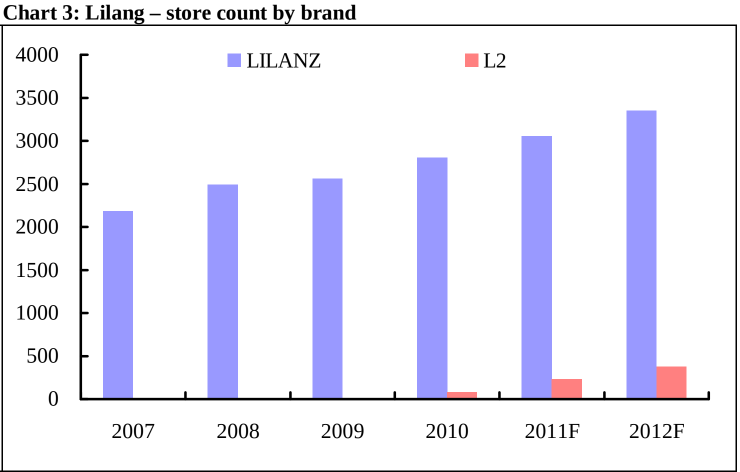
Source: Company data, Sinopac Securities

Chart 2: Lilang – revenue breakdown by brand for 1HFY11



Source: Company data, Sinopac Securities

Chart 3: Lilang – store count by brand



Source: Company data, Sinopac Securities

China Lilang (1234.HK) -cont'd

P&L statement forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Revenues	**2,053**	**2,696**	**3,420**	**4,094**
Cost of goods sold	(1,275)	(1,639)	(2,035)	(2,416)
Gross Profit	**778**	**1,057**	**1,385**	**1,679**
Other operating income	9	11	14	17
SG&A expenses	(305)	(371)	(465)	(549)
Other operating costs	(4)	(3)	(4)	(3)
Operating profit	**478**	**694**	**931**	**1,143**
Interest incomes	11	22	27	29
Interest expenses	0	0	0	0
Net interest incomes (expenses)	11	22	27	29
Results from associates	0	0	0	0
Other	0	0	0	0
Profit before taxations	488	715	958	1,172
Income tax	(69)	(114)	(235)	(334)
Net profit after tax	419	601	723	838
Minority interest	0	0	0	0
Net profit attri to share holders	**419**	**601**	**723**	**838**
Dividends	204	391	434	503
Retained earnings	215	210	289	335
EBITDA	515	732	983	1,205
Depreciation & amortisation	16	16	25	32
EBIT	499	716	958	1,173

Source: Company data; Sinopac Securities

Balance sheet forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Total assets	**2,408**	**2,553**	**3,096**	**3,340**
Non-current Assets	264	322	371	412
Property, plant & equipment	156	211	257	295
Long-term investment	30	30	30	30
Other	78	81	84	87
Current assets	2,144	2,231	2,725	2,928
Cash & cash equivalents	847	1,073	1,328	1,386
Inventories	182	240	283	338
Account receivables	451	465	660	686
Other	663	453	454	518
Total liabilities	**548**	**488**	**772**	**720**
Current liabilities	536	474	757	705
Short-term borrowings	0	0	0	0
Account payables	376	270	510	416
Other	159	204	247	288
Non-current liabilities	12	13	14	16
Long-term borrowings	0	0	0	0
Other	12	13	14	16
Net assets	**1,860**	**2,065**	**2,324**	**2,620**
Shareholder's equity	1,860	2,065	2,324	2,620
Share capital	106	106	106	106
Capital surplus	1,754	1,960	2,218	2,514
Minority interest	0	0	0	0
Total equity	**1,860**	**2,065**	**2,324**	**2,620**

Source: Company data; Sinopac Securities

Cash flow forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Profit before tax	488	715	958	1,172
Adjustments:				
Depreciation & amortisation	16	16	25	32
Change in working capital	(183)	77	44	(197)
Other	197	171	223	197
Net cash flow from operation	**518**	**981**	**1,250**	**1,205**
Net Capex	(45)	(70)	(70)	(70)
Interest income	11	22	27	29
Other	(277)	(206)	(264)	(249)
Net cash flow from investment	**(311)**	**(255)**	**(307)**	**(290)**
Dividends paid	(192)	(204)	(391)	(434)
Interest expenses	0	0	0	0
Proceeds from shares issued	0	0	0	0
Net borrowings	(1)	0	0	0
Other	1	(286)	(285)	(411)
Net cash flow from financing	**(192)**	**(491)**	**(675)**	**(845)**
Net effects of FX change on cash	(11)	(10)	(12)	(12)
Net change in cash & cash equivalents	3	226	255	58
Beginning cash & cash equivalents	844	847	1,073	1,328
Ending cash & cash equivalents	847	1,073	1,328	1,386

Source: Company data; Sinopac Securities

Key assumptions

FYE 31 Dec	FY10A	FY11F	FY12F	FY13F
Revenue (RMB mn)	2,053	2,696	3,420	4,094
LILANZ	2,012	2,563	3,181	3,726
L2	41	133	239	368
Store count				
LILANZ	2,805	3,055	3,355	3,605
L2	80	230	380	530
Gross margin (%)				
Consolidated gross margin	37.9%	39.2%	40.5%	41.0%
Key ratios				
Selling expense ratio	-10.9%	-9.9%	-9.8%	-9.7%
Administrative expense ratio	-3.9%	-3.8%	-3.8%	-3.7%
Effective tax rate	14.2%	16.0%	24.5%	28.5%

Source: Company data; Sinopac Securities

SinoPac

Building Material

Share price	Target price
HK$5.71	HK$7.20

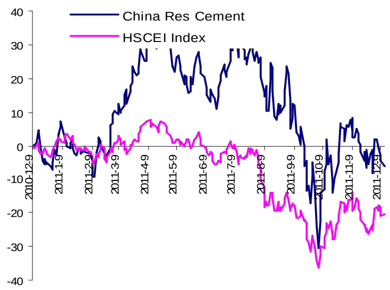
Reason for note	Company update
Recommendation	Unchanged

Trading data	
52-week range (HK$)	8.18/4.11
Market cap. (HK$ mn)	36,703
Market cap. (US$ mn)	4,722
Shares outstanding (mn)	6,519
Avg. daily volume (mn)	11.4
Avg. daily value (HK$ mn)	58.5
Major sh (%)	Smooth Concept Inv -73.34
Free float (%)	100

Financial data	FY10
Equity (HK$ mn)	15,245
PBR (x)	2.6
ROA (%)	15
ROE (%)	7
Net gearing (%)	62
BVPS (RMB)	2.27

Performance	1-mth	3-mth	12-mth
Stock price	-8.2	-9.6	-5.2
HSCEI	-7.8	-3.8	-20.9

Relative



Zhou Yu
(86) 21 6886 5358 ext163
Yu.zhou@sinopac.com

China Res Cement (1313.HK) BUY

Having best sales outlook for 2012

- **Sales least impacted by economic downturn in 2012. China Res Cement ("CRC", 1313.HK)** operates mainly in South China (Guangdong, Guangxi & Hainan) as the company has more than 85% of cement capacity in this region. With exception of the highly-urbanized Pearl River Delta ("PRD"), South China has a number of infrastructure projects and large constructions under way or to be carried out, such as Hong Kong-Zhuhai-Macau Bridge, the inter-city highway in PRD, the Beibu Gulf Economic Zone and the Hainan International Tourism Island, and is therefore expected to be best cement market in China in 2012. With its cement demand mainly from infrastructure projects and rural constructions, CRC is well positioned to avert the risk of a sharp decline in cement demand from real estate development. As it has historically seen peak sales in the second-half year, especially in the fourth quarter, the company should continue to see strong sales in 2H12, based on the assumption that China's economy will follow a V-shaped pattern in the year.
- **Steady progress in acquisition.** With a "3+2" strategic system ("3": 1. resource control, 2.resource conversion and 3.resource distribution; "2": 1.cost advantage and 2.regional leadership) and a steady growth orientation, CRC has been vigorously expanding in Guangdong and Guangxi as well as the neighbouring regions of the two provinces. Aiming at the No.3 spot in China's cement industry, the company plans to expand its cement and clinker capacity to 59.40m tons and 78.70m tons respectively in 2012. Having become the largest cement producer in South China, CRC is now penetrating inland markets such as Shanxi and Inner Mongolia where the company has gained some advantages in cement supply through the combination of organic and non-organic growth, as well as rapid capacity release. While expanding vigorously, CRC pays considerable attention to risk prevention; its expected net gearing ratio of 100% at year-end 2011 will remain much lower than the upper limit of 180% agreed upon with banks. With a strong operating cash flow and a remaining credit line of RMB5bn as well as the support from its parent China Resources Corp, CRC actually has low financial risks.
- **Risks and concerns:** (a) significantly higher coal and electricity prices; (b) sharp decline in cement demand as a result of property market regulation and monetary tightening.

Valuation and recommendation:

- **Valuation and recommendation:** Based on the assumption that CRC will maintain strong cement sales in 2012, we expect its earnings to be driven by capacity release and firm cement price trend. For the coming two years, we believe CRC will have steady sales in South China and better sales in Shanxi and Inner Mongolia as a result of capacity release and supply/demand relationship improvement, but its gross margin will decline as coal and electricity prices, which represent a significant portion of cement costs, will gradually rise. We expect its total revenue to grow at a CAGR of 38% in 2011-13 and its EPS to be HK$0.724/0.905/0.937 in the three years respectively. Based on our earnings model, we set our TP at HK$7.20 to reasonably reflect its intrinsic value. The company is currently trading at 8.2x 2011 EPS, 6.5x 2012 EPS and 6.3x 2013 EPS, still at a relatively low valuation level. Maintain **BUY**.

Financial Summary

FYE 31 Dec (HK$ mn)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	6,907	14,142	25,388	33,684	37,082
% chg	19.5	104.7	79.5	32.7	10.1
Gross profit	2,042	4,463	8,511	11,083	11,993
Gross margin	29.6	31.6	33.5	32.9	32.3
EBITDA	1,493	3,079	6,520	8,316	8,957
% chg	29.4	106.2	111.8	27.5	7.7
Net profit	1,010	2,041	4,719	5,895	6,106
% chg	32.8	102.0	131.2	24.9	3.6
EPS (HK$)	0.400	0.313	0.724	0.905	0.937
PER (x)	14.8	18.2	7.9	6.3	6.1
PBR (x)	2.9	2.6	2.0	1.6	1.4
BVPS (HK$)	2.011	2.267	2.918	3.622	4.150
DPS (HK$)	0	0.050	0.120	0.140	0.150
Yield (%)	0.0	0.9	2.1	2.5	2.6

Source: Company data, Sinopac Securities

China Res Cement (1313.HK) -cont'd

SWOT analysis

Strengths	Weaknesses
• Making cement sales in regions with the most favorable supply/demand relationship • Having strong pricing power in its main markets such as Guangdong, Guangxi and Hainan	• Cement demand subject to real estate development and infrastructure construction
Opportunities	**Threats**
• Cement demand continually driven by heavy investment in affordable housing, water conservancy, high-speed railway and other infrastructure projects • Earnings to be further driven by acquisitions in Shanxi and Inner Mongolia	• Cement demand adversely affected by FAI decrease • Slower-than-expected cement industry consolidation in Shanxi and Inner Mongolia

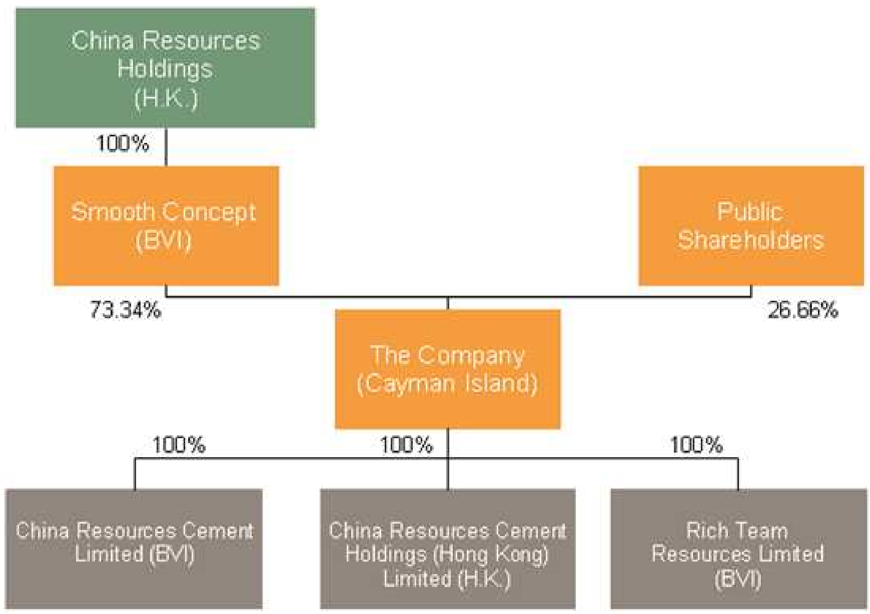
Source: Sinopac Securities

Core competence analysis

Supplier power
High: coal and electricity prices combine to represent more than 63% of CRC's total costs, and coal and electricity companies have full pricing power.
Entry barrier
High: new entrants nearly barred from the industry by the government's curbing of coal capacity
Substitute product
Low: currently no economically-feasible alternatives to cement as a type of building material
Rivalry
Medium: low market concentration due to the strong regional features of cement production

Source: Sinopac Securities

Chart 1: Shareholding structure



Source: Company data, Sinopac Securities

China Res Cement (1313.HK) -cont'd

Key ratios

FYE Dec 31	FY10A	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	105	79.5	32.7	10.1
EBIT	113	142.8	28.9	7.1
EBITDA	106	111.8	27.5	7.7
Net profit	102	131.2	24.9	3.6
EPS	249	131.2	24.9	3.6
Profitability (%)				
Gross margin	31.6	33.5	32.9	32.3
Operating margin	17.7	22.6	21.9	21.4
EBITDA margin	21.8	25.7	24.7	24.2
Net margin	14.4	18.6	17.5	16.5
ROAA	6.9	11.2	11.6	10.7
ROAE	15.1	27.9	27.7	24.1
Solvency				
Gross Debt/Equity (%)	89.5	109.0	79.3	81.5
Net Debt/Equity (%)	61.6	80.8	65.8	64.7
Current ratio (x)	0.7	0.7	0.7	0.8
Quick ratio (x)	0.6	0.6	0.5	0.6
Net debt (bn)	9.1	15.4	15.5	17.5
Per share data				
EPS	0.31	0.72	0.90	0.94
CFPS	0.48	0.59	1.50	1.24
BVPS	2.27	2.92	3.62	4.15
EBITDA/share	0.47	1.00	1.28	1.37
DPS	0.00	0.00	0.00	0.00
Activity				
Asset Turnover (x)	0.5	0.6	0.7	0.7
Days accounts receivable	33.9	29.0	29.0	29.0
Days sales inventory	33.6	40.0	40.0	40.0
Days accounts payable	52.6	52.6	52.6	52.6

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year	1-(COGS / Revenue	+ SG&A / Revenue	+ Other expenses / Revenue)=	Operating margin
FY10A	68.4%	15.6%	1.7%	14.3%
FY11F	66.5%	12.0%	1.1%	20.4%
FY12F	67.1%	12.0%	1.0%	19.9%
FY13F	67.7%	12.0%	1.1%	19.3%

Fiscal year	1/(Working cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue)=	Capital turnover
FY10A	-17.7%	154.6%	13.3%	0.7
FY11F	0.9%	111.9%	18.7%	0.8
FY12F	-2.9%	102.1%	14.6%	0.9
FY13F	0.1%	102.9%	15.3%	0.8

Fiscal year	Op margin	x Capital turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10A	14.3%	0.7	95.6%	9.1%
FY11F	20.4%	0.8	91.7%	14.2%
FY12F	19.9%	0.9	88.0%	15.4%
FY13F	19.3%	0.8	85.0%	13.8%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10A	14.4%	0.5	2.2	15.1%
FY11F	18.6%	0.6	2.5	27.9%
FY12F	17.5%	0.7	2.4	27.7%
FY13F	16.5%	0.7	2.3	24.1%

Source: Company data, Sinopac Securities

Chart 2: CRC - revenue break down for FY10

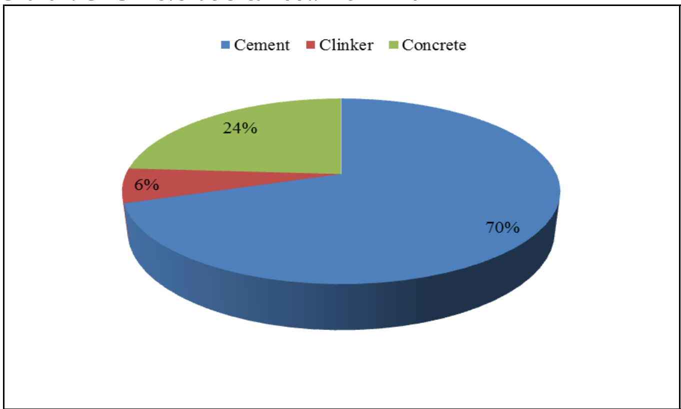
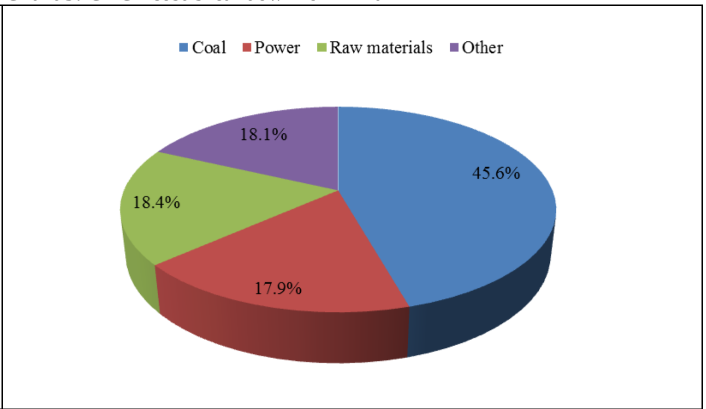


Chart 3: CRC - cost breakdown for FY10



Source: Company data, Sinopac Securities

China Res Cement (1313.HK) -cont'd

P&L statement forecast

FYE 31 Dec (HK$ mn)	FY10A	FY11F	FY12F	FY13F
Revenues	14,142	25,388	33,684	37,082
Cost of goods sold	(9,678)	(16,878)	(22,602)	(25,089)
Gross Profit	4,463	8,511	11,083	11,993
Other operating income	252	302	363	435
SG&A expenses	(2,201)	(3,047)	(4,042)	(4,450)
Other operating expenses	(14)	(26)	(34)	(37)
Operating profit	2,500	5,741	7,369	7,941
Interest income	54	64	77	93
Interest expenses	(322)	(386)	(463)	(556)
Net interest income (expenses)	(268)	(322)	(386)	(463)
Results from associates	(0)	0	0	0
Other	0	0	0	0
Profit before taxations	2,231	5,419	6,983	7,478
Income tax	(98)	(450)	(838)	(1,122)
Profit after taxations	2,134	4,969	6,145	6,356
Minority interest	93	250	250	250
Net profit attri to share holders	2,041	4,719	5,895	6,106
	0	0	0	0
Dividends	0	0	0	0
Retained earnings	2,041	4,719	5,895	6,106
	0	0	0	0
EBITDA	3,079	6,436	8,224	8,941
Depreciation & amortisation	847	1,017	1,240	1,464
EBIT	2,232	5,419	6,983	7,478

Source: Company data; Sinopac Securities

Balance sheet forecast

FYE 31 Dec (HK$ mn)	FY10A	FY11F	FY12F	FY13F
Total assets	35,328	48,745	51,816	59,340
Non-current Assets	26,971	31,254	37,913	44,218
Property, plant & equipment	21,863	26,235	32,007	37,768
Long-term investment	3,231	1,728	1,867	2,019
Other	1,878	3,291	4,038	4,431
Current assets	8,357	17,491	13,903	15,122
Cash & cash equivalents	4,125	8,843	5,416	4,700
Inventories	1,182	2,517	2,437	3,062
Account receivables	1,828	2,206	3,146	2,746
Other	1,222	3,925	2,904	4,614
Total liabilities	20,083	28,962	29,897	34,092
Current liabilities	11,887	19,909	19,280	20,942
Short-term borrowings	5,156	10,312	8,249	9,074
Account payables	1,836	3,024	3,484	3,740
Other	4,895	6,573	7,546	8,127
Non-current liabilities	8,196	9,053	10,617	13,150
Long-term borrowings	8,064	8,909	10,458	12,975
Other	131	145	159	175
Net assets	15,245	19,783	21,919	25,248
Shareholder's equity	14,776	19,014	20,850	23,879
Share capital	652	652	652	652
Capital surplus	14,124	18,362	20,198	23,227
Minority interest	469	769	1,069	1,369
Total equity	15,245	19,783	21,919	25,248

Source: Company data; Sinopac Securities

Cash flow forecast

FYE 31 Dec (HK$ mn)	FY10A	FY11F	FY12F	FY13F
Profit before tax	2,231	5,419	6,983	7,478
Adjustments:				
Depreciation & amortisation	847	1,017	1,240	1,464
Change in working capital	2,448	(1,550)	1,595	(1,099)
Other	401	57	229	143
Net cash flow from operation	5,927	4,942	10,047	7,985
Net Capex	(8,073)	(8,154)	(6,523)	(6,850)
Interest income	57	63	69	76
Other	361	(156)	103	(27)
Net cash flow from investment	(7,655)	(8,247)	(6,352)	(6,800)
Dividends paid	0	0	0	0
Interest expenses	(137)	(150)	(165)	(182)
Proceeds from shares issued	0	0	0	0
Net borrowings	2,765	8,253	(6,908)	(1,678)
Other	126	0	0	0
Net cash flow from financing	2,754	8,103	(7,073)	(1,860)
Net effects of FX change on cash	157	(80)	(49)	(42)
Net change in cash & cash equivalents	(1,764)	4,718	(3,426)	(717)
Beginning cash & cash equivalents	6,152	4,125	8,843	5,416
Ending cash & cash equivalents	4,125	8,843	5,416	4,700

Source: Company data; Sinopac Securities

Key assumptions

FYE 31 Dec	FY10A	FY11F	FY12F	FY13F
FYE 31 Dec (HK$ mn)				
Clinker	853	1,488	2,080	2,190
Cement	9,946	18,825	24,759	26,532
Concrete	3,348	5,075	6,845	8,360
Cost (HK$)				
Cement & clinker	7,194	13,035	17,514	18,819
Concrete	2,592	3,843	5,088	6,270
Gross margin (%)				
Consolidated gross margin	36.9	33.5	32.9	32.3
Key ratios				
Selling expense ratio	5.9%	5.9%	5.9%	5.9%
Administrative expense ratio	4.6%	4.6%	4.6%	4.6%
Effective tax rate	4.4%	8.3%	12%	15%

Source: Company data; Sinopac Securities

SinoPac

Auto Dealer

Share price	Target price
HK$6.72	HK$8.87

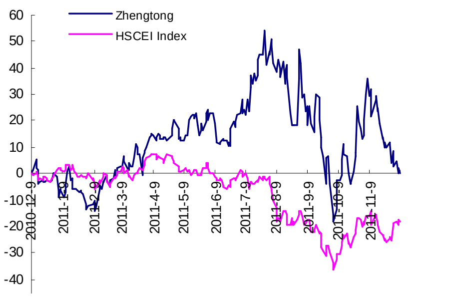
Reason for note	Company update
Recommendation	Unchanged

Trading data	
52-week range (HK$)	11.48 / 5.46
Market cap. (HK$ mn)	15,070
Market cap. (US$ mn)	1,937
Shares outstanding (mn)	2,200
Avg. daily volume (mn)	14.9
Avg. daily value (HK$ mn)	119.4
Major sh (%)	Joy Capital (62%)
Free float (%)	38%

Financial data	FY10
Equity (RMB mn)	4,015
PBR (x)	2.2
ROA (%)	6.0%
ROE (%)	12.4%
Net gearing (%)	NC
BVPS (RMB)	2.624

Performance	1-mth	3-mth	12-mth
Stock price	-23.2	-20.5	-6.4
HSCEI	-7.8	-3.8	-20.9

Relative



Vivien Chan
(852) 2586 8278
vivien.chan@sinopac.com

Zhengtong Auto (1728.HK) BUY

Focused on luxury cars

- **Company profile. Zhengtong Auto (1728.HK)** is the second largest BMW dealer in China and also focuses on other luxury brands including Audi, Land Rover, Porsche and Volvo. Its mid to high-end brand portfolio include DFM Honda, DFM Nissan, Beijing Hyundai, Toyota, Honda, Chevrolet and Buick. As of the end of 1H11, the company owns 28 4S stores, with 18 stores for high-end brands and the remaining 10 for mid to high-end brands. We believe the portfolio concentrated on luxury brands should help the company to ride on the significantly increase in luxury car sales.

- **Earnings drivers:** Zhengtong's earnings will be driven by: (1) Potential earnings growth of the company's diversified auto services-related business, which comprises after-sales service, automobile logistics and automotive lubricants trading as well as car loans and second-hand car trading; (2) Strong sales growth of luxury vehicles, as a result of wealth effect increase and consumption upgrade that have been driven by the rapid economic growth in the past and will be further driven by steadily-rising per capita income in the future; (3) Zhengtong is focused on expanding the network of 4S stores for luxury and ultra-luxury brands. It is expected the company will own 55 luxury 4S shop in 2012, account for 74% of its total 4S shop; and (4) its sales outlets are primarily located in well-developed western and central regions.

- **Earnings forecast:** In 2011-13, we expect Zhengtong's earnings to grow at a CAGR of 64%, and its revenues at a CAGR of 62%, due to: (a) sales growth of its existing 4S dealers; (b) revenue growth in its non-auto business segments; and (c) extra profits from potential acquisitions.

- **Risks and concerns:** (1) Auto dealers have weaker bargaining power than auto makers; (2) Acquisition costs will increase as a result of intense competition between auto dealers; (3) luxury car sales may slow down in 2012; and (4) execution risks for merger and acquisition.

- **Valuation and recommendation:** The dealership business in China is still in rapid growth. We expect Zhengtong's earnings to rise by 96% in 2012. The company is attractively trading at 15.6x 2011 EPS or 8.3x 2012 EPS. We maintain **BUY** and set TP at HK$8.87, implying 11x 2012 EPS and 32% upside potential.

Financial summary

FYE 31 Dec (RMB mn)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	4,981	8,034	18,650	39,701	48,767
% chg	*63.6*	*61.3*	*132.1*	*112.9*	*22.8*
Gross profit	415	726	1,892	3,890	5,125
Gross margin%	8.3	9.0	10.1	9.8	10.5
EBITDA	262	454	1,267	2,455	3,337
% chg	*120.1*	*73.2*	*179.4*	*93.7*	*35.9*
Net profit	146	276	751	1,472	2,021
% chg	*331.5*	*89.2*	*172.2*	*96.0*	*37.3*
EPS (RMB)	0.097	0.180	0.358	0.669	0.919
% chg	*321.7*	*85.6*	*98.7*	*87.1*	*37.3*
EPS consensus (RMB)			0.336	0.639	0.863
PER (x)	61.0	32.1	15.6	8.3	6.1
DPS (RMB)	0.000	0.000	0.107	0.201	0.276
Yield (%)	0.0	0.0	1.9	3.6	4.9

Source: Company data, Sinopac Securities

SinoPac

Zhengtong Auto (1728.HK) -cont'd

SWOT analysis

Strengths	Weaknesses
• Multi-brand car portfolio concentrated on luxury and mid to high-end brands • Including new car sales and after-sale service as well as car logistics and automobile lubricants sale. • Having the "one-stop service" business model to provide a broad range of services including new car sales and after-sale services at 4S stores	• The dealership's growth of 4S stores depend on auto makers' strategy. • Potential conflict and cannibalization may occur as a result of 4S store network expansion. • Selling prices are set by auto OEMs, and new car sales generate lower profit margin.
Opportunities	**Threats**
• The market-orientated development of China's second-hand car markets will provide additional opportunities for auto dealers. Zhengtong's second-hand car business, although currently representing a limited portion of total revenues, will become a new revenue driver as the synergy between its new car sales and after-sale services business segments gets increasingly strong. • Fast-growing auto-related business helps it increase profits for non-auto business segments. • Car rental service will become a new revenue source for auto dealers.	• Luxury and mid to high-end car sales are mostly made in coastal cities in China where customers' incomes are more subject to economic cycle. • Acquisition costs will rise as a result of more intense competition between 4S stores • Most of the cars sold by Zhengtong are large displacement models which are subject to the government's energy-saving and emission-reducing measures.

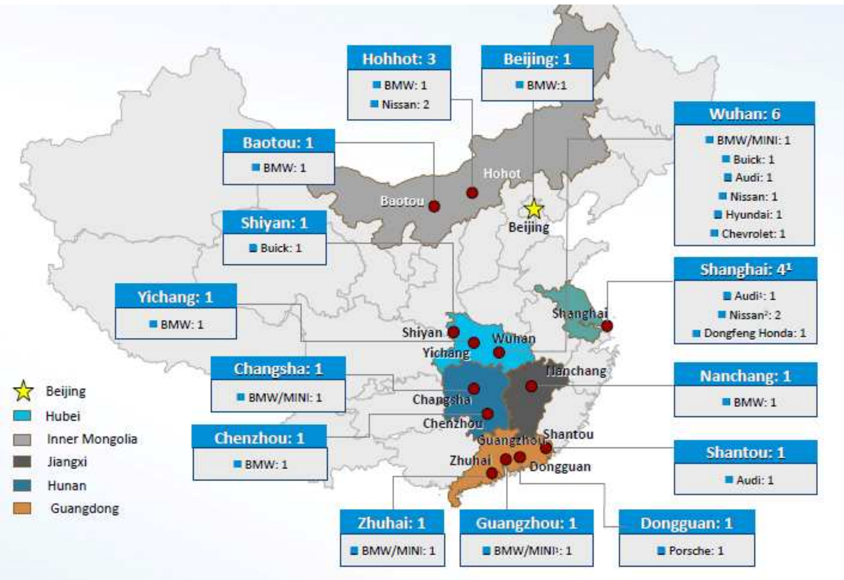
Source: Sinopac Securities

Core competence analysis

Supplier power
High: The models and prices of cars sold in 4S stores are set by auto makers
Entry barrier
High: Successful auto dealership depends on substantial capital strength, licensing by auto makers and good long-term relationship with auto makers.
Substitute product
Medium: In China, most car sales are made at 4S stores.
Rivalry
High: Intensified competition as a result of 4S store network being expanded to meet higher car demand

Source: Sinopac Securities

Chart 1: Zhengtong – 4S store regional distribution



Source: Company data, Sinopac Securities

Zhengtong Auto (1728.HK) -cont'd

Key ratios

FYE Dec 31	FY10	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	61.3	132.1	112.9	22.8
EBIT	80.2	182.7	97.4	36.0
EBITDA	73.2	179.4	93.7	35.9
Net profit	89.2	172.2	96.0	37.3
EPS	85.6	98.7	87.1	37.3
Profitability (%)				
Gross margin	9.0	10.1	9.8	10.5
Operating margin	5.0	6.1	5.7	6.3
EBITDA margin	5.6	6.8	6.2	6.8
Net margin	3.4	4.0	3.7	4.1
ROAA	6.0	8.7	11.0	12.3
ROAE	12.4	17.5	29.0	32.1
Solvency				
Gross Debt/Equity (%)	18.0	26.8	30.8	31.7
Net Debt/Equity (%)	-67.5	-78.8	-75.2	-49.6
Current Ratio (x)	2.3	1.5	1.3	1.4
Quick Ratio (x)	2.0	1.2	1.0	1.1
Net Debt (RMB mn)	(2,710.8)	(3,594.7)	(4,203.9)	(3,473.5)
Per share data (RMB)				
EPS	0.180	0.358	0.669	0.919
CFPS	0.061	1.500	1.323	0.698
BVPS	2.624	2.172	2.541	3.185
EBITDA/share	0.296	0.604	1.116	1.517
DPS	0.000	0.107	0.201	0.276
Activity				
Asset Turnover (x)	1.7	2.1	3.0	3.0
Days accounts receivable	4.6	4.1	3.8	4.0
Days sales inventory	26.1	25.8	27.0	28.8
Days accounts payable	68.9	68.0	68.6	67.6

Source: Company data, Sinopac Securities estimates

Rates of return on investment

Fiscal year	1-(COGS / Revenue	+ Depreci & Amorti / Revenue	+ SG&A / Revenue	)= Operating margin
FY10	91.0%	4.6%	-0.6%	5.0%
FY11F	89.9%	4.4%	-0.4%	6.1%
FY12F	90.2%	4.5%	-0.4%	5.7%
FY13F	89.5%	4.6%	-0.4%	6.3%

Fiscal year	1/(Working Cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue	)= Capital turnover
FY10	8.2%	5.0%	12.0%	4.0
FY11F	-3.2%	6.9%	8.0%	8.5
FY12F	-2.3%	5.0%	5.1%	12.8
FY13F	1.4%	5.2%	5.2%	8.5

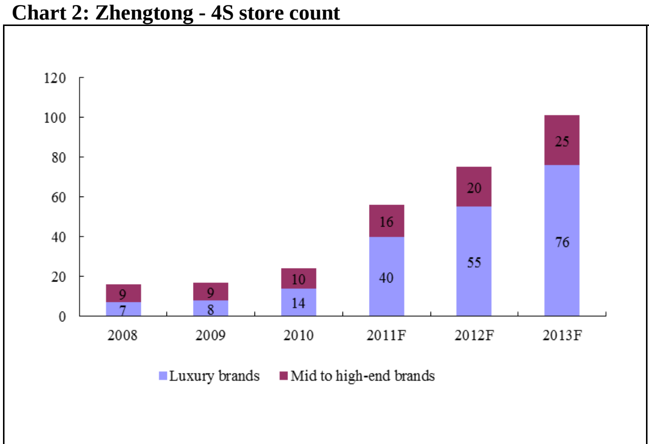
Fiscal year	Op margin	x Capital Turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10	5.0%	4.0	76.8%	15.4%
FY11F	6.1%	8.5	75.5%	39.6%
FY12F	5.7%	12.8	75.5%	54.9%
FY13F	6.3%	8.5	75.5%	40.4%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10	3.4%	119%	302%	12.4%
FY11F	4.0%	176%	248%	17.5%
FY12F	3.7%	244%	320%	29.0%
FY13F	4.1%	291%	266%	32.1%

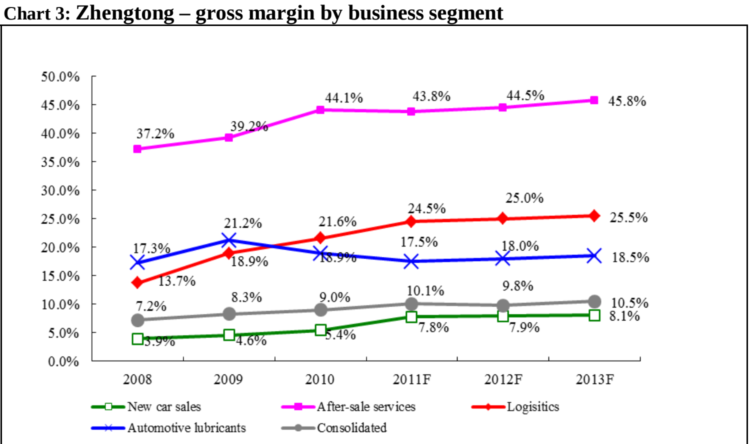
Source: Company data, Sinopac Securities estimates

Chart 2: Zhengtong - 4S store count



Source: Company data, Sinopac Securities

Chart 3: Zhengtong – gross margin by business segment



Source: Company data, Sinopac Securities

Zhengtong Auto (1728.HK) -cont'd

P&L statement forecast

FYE 31 Dec (RMB mn)	FY10	FY11F	FY12F	FY13F
Revenue	8,034	18,650	39,701	48,767
Cost of goods sold	(7,308)	(16,758)	(35,812)	(43,642)
Gross Profit	726	1,892	3,890	5,125
Other income	47	75	159	195
SG&A expenses	(368)	(821)	(1,787)	(2,243)
Other expense	-	-	-	-
Operating profit	**405**	**1,146**	**2,262**	**3,077**
Interest incomes	9	24	45	57
Interest expenses	(56)	(112)	(238)	(293)
Net interest income (expense)	(47)	(87)	(193)	(235)
Results from associates	10	19	40	49
Other	30	-	-	-
Profit before taxations	390	1,053	2,064	2,833
Income tax	(91)	(258)	(506)	(694)
Net profit after tax	299	795	1,558	2,139
Minority interest	23	44	86	118
Net profit attri to share holders	**276**	**751**	**1,472**	**2,021**
Dividends	-	225	442	606
Retained earnings	276	526	1,031	1,415
EBITDA	454	1,267	2,455	3,337
Depreciation & Amortisation	48	121	193	259
EBIT	405	1,146	2,262	3,077

Source: Company data, Sinopac Securities

P&L statement forecast

FYE 31 Dec (RMB mn)	FY10	FY11F	FY12F	FY13F
Total Assets	**6,732**	**10,619**	**16,240**	**16,757**
Non-current Assets	722	1,631	2,368	2,938
Property, plant & equipment	404	1,288	2,002	2,549
Long-term investment	176	201	225	248
Other	141	141	141	141
Current assets	6,010	8,988	13,872	13,819
Cash & cash equivalents	3,432	4,816	5,925	5,695
Inventories	749	1,616	3,676	3,207
Account receivables	868	1,595	3,310	3,956
Other	961	961	961	961
Total Liabilities	**2,659**	**6,000**	**10,591**	**9,693**
Current liabilities	2,641	5,982	10,573	9,675
Short-term borrowings	721	1,221	1,721	2,221
Account payables	1,847	4,688	8,778	7,380
Other	73	73	73	73
Non-current Liabilities	18	18	18	18
Long-term borrowings	-	-	-	-
Other	18	18	18	18
Net assets	**4,073**	**4,619**	**5,649**	**7,064**
Shareholder's equity	4,015	4,561	5,591	7,006
Share capital	171	191	191	191
Capital surplus	3,843	4,369	5,400	6,815
Minority interest	58	58	58	58
Total equity	**4,073**	**4,619**	**5,649**	**7,064**

Source: Company data, Sinopac Securities

Cash flow forecast

FYE 31 Dec (RMB mn)	FY10	FY11F	FY12F	FY13F
Profit before tax	276	751	1,472	2,021
Adjustments:				
Depreciation & amortisation	48	121	193	259
Change in working capital	(568)	1,247	316	(1,575)
Other	120	-	-	-
Net cash flow from operation	**(124)**	**2,119**	**1,981**	**706**
Net Capex	(216)	(1,030)	(930)	(830)
Interest incomes	-	-	-	-
Other	43	-	-	-
Net cash flow from investment	**(173)**	**(1,030)**	**(930)**	**(830)**
Dividend paid	-	(225)	(442)	(606)
Interest expenses	-	-	-	-
Proceeds from shares issued	3,016	20	-	-
Net borrowings	456	500	500	500
Other	79	-	-	-
Net cash flow from financing	**3,551**	**295**	**58**	**(106)**
Net effects of FX change on cash	1	0	-	-
Net change in cash & cash equivalents	3,254	1,384	1,109	(230)
Beginning cash & cash equivalents	177	3,432	4,816	5,925
Ending cash & cash equivalents	3,432	4,816	5,925	5,695

Source: Company data, Sinopac Securities

Key assumptions

FYE 31 Dec	FY10	FY11F	FY12F	FY13F
Revenue breakdown				
Luxury brands	4,802	15,124	33,134	40,434
Mid to high-end brands	2,208	2,015	4,169	4,938
After-sale services	602	1,083	1,949	2,923
Logistics	167	159	167	175
Automotive lubricants	256	269	282	296
Total revenue	**8,034**	**18,650**	**39,701**	**48,767**
Revenue growth				
Luxury brands	114.3%	215.0%	119.1%	22.0%
Mid to high-end brands	8.8%	-8.7%	106.9%	18.5%
After-sale services	58.1%	80.0%	80.0%	50.0%
Logistics	30.3%	-5.0%	5.0%	5.0%
Automotive lubricants	26.8%	5.0%	5.0%	5.0%
Total revenue growth	**61.3%**	**132.1%**	**112.9%**	**22.8%**
Gross margin				
New car sales	5.4%	7.8%	7.9%	8.1%
After-sale services	44.1%	43.8%	44.5%	45.8%
Logistics	21.6%	24.5%	25.0%	25.5%
Automotive lubricants	18.9%	17.5%	18.0%	18.5%
Consolidated	**9.0%**	**10.1%**	**9.8%**	**10.5%**

Source: Company data, Sinopac Securities

SinoPac

Railway equipment

Share price	Target price
HK$5.13	HK$6.77

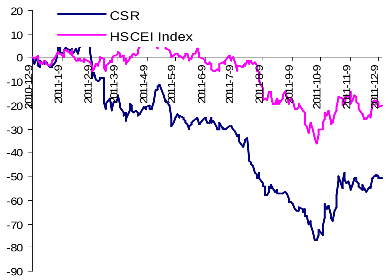
Reason for note	Company update
Recommendation	unchanged

Trading data	
52-week range (HK$)	2.38/11.42
Market cap. (HK$ mn)	71,969
Market cap. (US$ mn)	9,227
Shares outstanding (mn)	11,840
Avg. daily volume (mn)	26.1
Avg. daily value (HK$ mn)	84.0
Major sh (%)	CSG – 67.2
Free float (%)	17.1

Financial data	FY10
Equity (RMB mn)	19,244
PBR (x)	2.0
ROA (%)	3.9
ROE (%)	13.8
Net gearing (%)	NC
BVPS (RMB)	1.625

Performance	1-mth	3-mth	12-mth
Stock price	6.0	35.0	-49.4
HSCEI	-7.8	-3.8	-20.9

Relative



Vivian Liu
(86) 21 6886 5358 ext 186
liu.zheng@sinopac.com

CSR Corp (1766.HK) BUY

One of the railway equipment duopoly in China

- **Competitive advantages from technological capabilities.** One of the railway equipment duopoly in China, **CSR Corp (1766.HK)** derives a significant proportion, or 72% of total revenue from railway vehicles procured by the Ministry of Railways (MOR), 7% from urban rail vehicles procured by major cities and 20% from the new industries. Compared with CNR, the other one of the duopoly, CSR has a better assimilation and command of technologies and has pricing advantages. As the procurement of railway equipment may be decentralized to local railway bureaus, we believe CSR can grab more market share in a more market-oriented competitive environment.
- **Revenue growth to be mainly driven by locomotives and urban rail vehicles.** Given the railway construction restructuring in China, we expect CSR will have more demand for high-power locomotives and heavy-load freight trains while seeing its EMU train revenues slow down. Its locomotive revenues are expected to decline 8% in 2011 as demand from the MOR procurement has been suppressed, but the revenues are expected to rebound sharply in 2012 after the consumption of railway tenders. As of October 31, the company had orders in hand of RMB24bn for urban rail vehicles, and the revenues for such vehicles are projected to approach RMB14bn in 2012, up 80% y-o-y.
- **Developing the new industries business segment with leading technologies.** CSR is expanding into new industries with its cutting-edge technologies. In 2011, the company is expected to record revenues of more than RMB12bn in the business segment. And the revenues are expected to grow at a CAGR of 30% to represent 20% of its total revenue by 2015. In particular, the company has achieved independent production of wind turbines, with its domestic ranking climbing to No.8 in 2011 from No.12 in 2010 in terms of installed wind power capacity; especially, it holds the largest share of the market for high-altitude wind power in China. Also, CSR is developing auxiliary drive system for electricity vehicles and it has established co-operative relationship with auto makers such as FAW, ChangAn, Dong Feng Motor and Geely. And its IGBT industrial base, which is the largest in China and is scheduled for operation in 2014, will fill the technological gap in this area and win the government's financial support.
- **Gross margin expected to rise.** (1) Locomotive and urban rail vehicle gross margins will rise. CSR will have higher gross margin for 7,200kw and 9,600kw high-power locomotives as it has achieved 100% localization rate for the technologies used in the locomotives. With new order inflow expected to recover, the gross margin will reach a desirable level in 2012. And its urban rail vehicle gross margin will go up to the company-wide average due to the significant rise in capacity utilization rate. (2) Consolidated gross margin will rise as the company will see more revenue contribution from high-margin locomotives and new industries business segments as well as the urban rail vehicles business segment which will see a sharp rise in gross margin.
- **Maintain BUY.** Given the long-term railway transport demand in China and CSR's technological advantages and industry-leading position, we apply a 15x 2012 (diluted) EPS and set TP at HK$6.77.

Financial summary

FYE 31 Dec (RMB mn)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	*45,621*	*63,912*	*77,875*	*100,982*	*120,490*
% chg	*30.0*	*40.1*	*21.8*	*29.7*	*19.3*
Gross profit	7,167	10,966	13,893	18,658	22,420
Gross margin%	*15.7*	*17.2*	*17.8*	*18.5*	*18.6*
EBITDA	3,233	4,558	6,393	8,699	10,509
% chg	*12.3*	*41.0*	*40.2*	*36.1*	*20.8*
Net profit	1,678	2,529	3,655	4,984	5,973
% chg	*21.2*	*50.7*	*44.5*	*36.4*	*19.8*
EPS (RMB)	0.142	0.214	0.309	0.361	0.433
% chg	*-9.9*	*50.7*	*44.5*	*17.0*	*19.8*
EPS consensus (RMB)	-	-	0.308	0.367	0.446
PER (x)	31.9	20.7	13.5	11.4	9.5
DPS (RMB)	0.040	0.040	0.062	0.072	0.087
Yield (%)	0.9	0.9	1.5	1.8	2.1

Source: Company data, Sinopac Securities

CSR Corporation (1766.HK) -cont'd

SWOT analysis

Strengths	Weaknesses
• One of the railway equipment duopoly in China • Technological advantages • Diversifying product portfolio with core technologies	• Concentrated customer base • Weak bargaining power with the MOR • Still need to import some of electrical system components
Opportunities	**Threats**
• Strong long-term demand for railway equipment • Bright outlook for its new industries business segment • To benefit from the 12th Five-Year plan for high-end equipment manufacturing and to win government support with higher technology localization rate	• Uncertainties over industrial policies • Higher raw material prices

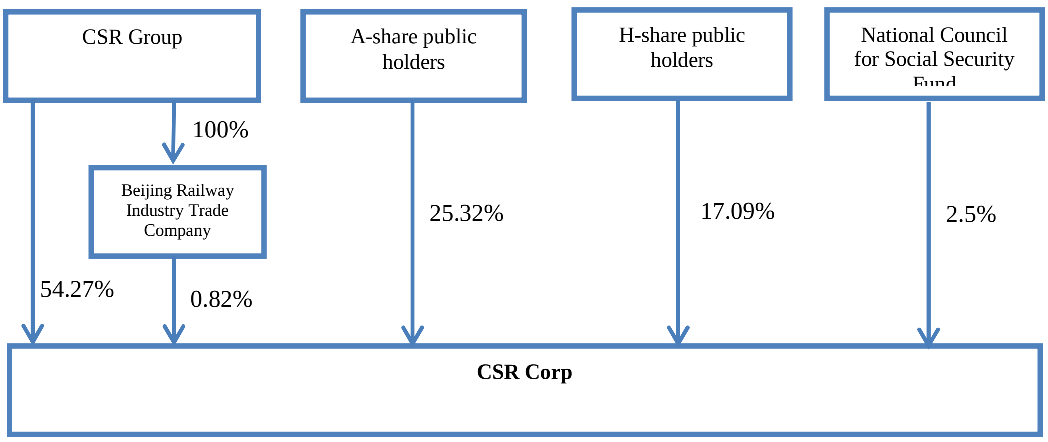
Source: Sinopac Securities

Core competence analysis

Supplier power
Low: strong bargaining power with suppliers due to its leadership position
Entry barrier
High: high technology contents; strict requirements regarding certification, production scale and capital
Substitute product
Low: few alternatives to its products due to its cutting-edge technologies
Rivalry
Low: having technological advantages over its strongest rival CNR

Source: Sinopac Securities

Chart 1: Shareholding structure



Source: Company data, Sinopac Securities

CSR Corporation (1766.HK) -cont'd

Key ratios

FYE Dec 31	FY10A	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	40.1	21.8	29.7	19.3
EBIT	47.6	43.0	40.0	20.2
EBITDA	41.0	40.2	36.1	20.8
Net profit	50.7	44.5	36.4	19.8
EPS	50.7	44.5	17.0	19.8
Profitability (%)				
Gross margin	17.2	17.8	18.5	18.6
Operating margin	5.1	6.0	6.5	6.5
EBITDA margin	7.1	8.2	8.6	8.7
Net margin	4.0	4.7	4.9	5.0
ROAA	3.9	4.8	5.8	6.1
ROAE	13.8	17.6	20.5	20.7
Solvency				
Gross Debt/Equity (%)	68	65	64	62
Net Debt/Equity (%)	NC	NC	NC	NC
Current ratio (x)	1.2	1.1	1.1	1.1
Quick ratio (x)	0.6	0.5	0.5	0.6
Net debt (mn)	(4,562)	(3,917)	(206)	(1,008)
Per share data				
EPS	0.214	0.309	0.361	0.433
CFPS	0.384	0.331	0.015	0.073
BVPS	1.625	1.881	1.909	2.263
EBITDA/share	0.385	0.540	0.630	0.761
DPS	0.040	0.062	0.072	0.087
Activity				
Asset Turnover (x)	1.0	1.0	1.2	1.2
Days accounts receivable	58	62	65	58
Days sales inventory	99	100	100	100
Days accounts payable	148	150	150	150

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year	1- COGS / Revenue	+ Depri&Amorti / Revenue	+ Op expenses / Revenue	= Operating margin
FY10A	80.0%	2.0%	12.9%	5.1%
FY11F	79.3%	2.2%	12.5%	6.0%
FY12F	78.9%	2.1%	12.5%	6.5%
FY13F	78.8%	2.2%	12.5%	6.5%

Fiscal year	1/ Working cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue	= Capital turnover
FY10A	11.7%	26.7%	10.0%	2.1
FY11F	8.2%	27.4%	9.2%	2.2
FY12F	6.0%	26.0%	8.1%	2.5
FY13F	6.0%	25.4%	7.6%	2.6

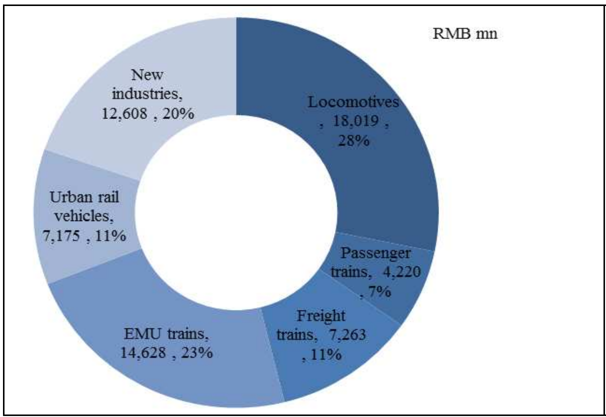
Fiscal year	Op margin	x Capital turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10A	5.1%	2.1	88.7%	9.4%
FY11F	6.0%	2.2	88.7%	11.9%
FY12F	6.5%	2.5	88.7%	14.4%
FY13F	6.5%	2.6	88.7%	14.9%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10A	4.0%	1.0	3.5	13.8%
FY11F	4.7%	1.0	3.7	17.6%
FY12F	4.9%	1.2	3.5	20.5%
FY13F	5.0%	1.2	3.4	20.7%

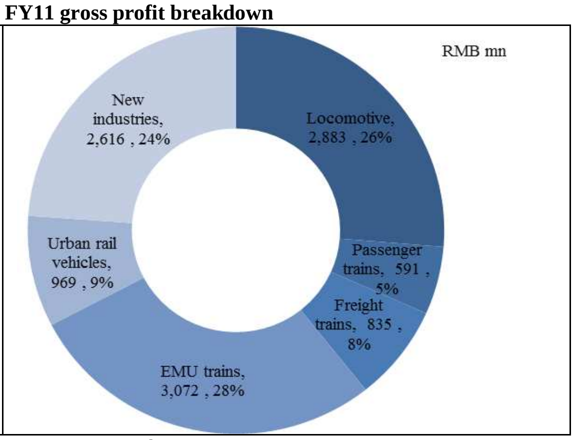
Source: Company data, Sinopac Securities

FY10 revenue breakdown



Source: Company data, Sinopac Securities

FY11 gross profit breakdown



Source: Company data, Sinopac Securities

CSR Corporation (1766.HK) -cont'd

P&L statement forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Revenues	**63,912**	**77,875**	**100,982**	**120,490**
Cost of goods sold	52,947	63,981	82,324	98,070
Gross Profit	**10,966**	**13,893**	**18,658**	**22,420**
Total operating expenses	8,215	9,733	12,621	15,059
Promotion expenses	-	-	-	-
R&D expenses	-	-	-	-
EBIT	**3,277**	**4,686**	**6,563**	**7,887**
Depreciation	1,282	1,707	2,136	2,622
Amortisation	-	-	-	-
EBITDA	**4,558**	**6,393**	**8,699**	**10,509**
Interest incomes	92	482	299	306
Net investment incomes	-	-	-	-
Other net operating incomes	1,138	1,246	1,376	1,476
Total non-operating incomes	**1,230**	**1,728**	**1,675**	**1,782**
Interest expenses	317	599	499	499
Total non-operating expenses	**317**	**599**	**499**	**499**
Profit before taxations	**3,663**	**5,289**	**7,213**	**8,644**
Income tax	415	598	815	977
Net profit before non-recurring items	**3,248**	**4,691**	**6,398**	**7,667**
Non-recurring items	(719)	(1,037)	(1,414)	(1,694)
Net income after preferred dividends	**2,529**	**3,655**	**4,984**	**5,973**
Common stock dividends	474	731	997	1,195
Retained earnings	**2,056**	**2,924**	**3,987**	**4,778**

Source: Company data, Sinopac Securities

Balance sheet forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Total assets	**73,566**	**79,036**	**92,075**	**105,118**
Current assets	**50,124**	**50,481**	**57,706**	**65,321**
Cash & cash equivalents	14,526	13,899	10,188	10,990
Inventories	17,733	17,529	22,555	26,868
Accounts receivable	12,834	13,228	17,983	19,146
Other	5,031	5,824	6,980	8,316
Non-current assets	23,441	28,555	34,369	39,797
Long-term investment	-	-	-	-
Net PPE	17,066	21,359	26,223	30,601
Other	6,376	7,196	8,146	9,196
Total liabilities	**49,725**	**51,134**	**58,673**	**65,143**
Current liabilities	42,662	44,072	51,610	58,081
Accounts payable	24,884	26,294	33,832	40,303
Short-term borrowings	5,778	5,778	5,778	5,778
Other current liabilities	12,000	12,000	12,000	12,000
Long-term liabilities	7,063	7,063	7,063	7,063
Long-term borrowings	4,204	4,204	4,204	4,204
Other	2,859	2,859	2,859	2,859
Total equity	**19,244**	**22,268**	**26,355**	**31,233**
Retained earnings	4,453	7,376	11,363	16,141
Share capital & Capital surplus	14,791	14,891	14,991	15,091
Minority interest	4,597	5,633	7,047	8,742

Source: Company data, Sinopac Securities

Cash flow forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Net cash flow from operation	**3,353**	**5,622**	**3,986**	**8,691**
Net profit	3,663	5,289	7,213	8,644
Depreciation & amortisation	1,282	1,707	2,136	2,622
Change in working capital	4,354	5,196	7,385	9,033
Other	(5,945)	(6,569)	(12,747)	(11,608)
Net cash flow from investment	**(5,537)**	**(5,618)**	**(6,801)**	**(6,794)**
Net Capex	(5,072)	(6,000)	(7,000)	(7,000)
Change in long-term investment	(22)	382	199	206
Change in other assets	(442)	0	0	0
Free cash flow	**(1,719)**	**(378)**	**(3,014)**	**1,691**
Net cash flow from financing	**4,930**	**(631)**	**(897)**	**(1,095)**
Change in share capital	1,047	100	100	100
Change in borrowings	4,620	-	-	-
Change in other long-term liabilities	**(737)**	**(731)**	**(997)**	**(1,195)**
Net cash flow	2,747	(627)	(3,712)	802
Beginning cash & cash equivalents	11,779	14,526	13,899	10,188
Ending cash & cash equivalents	14,526	13,899	10,188	10,990

Source: Company data, Sinopac Securities

Key assumptions

FYE 31 Dec	FY10A	FY11F	FY12F	FY13F
Growth rate	40.1%	21.8%	29.7%	19.3%
Locomotives	27.8%	(8.0%)	45.0%	25.0%
Passenger trains	(6.7%)	25.0%	(10.0%)	8.0%
Freight trains	25.3%	39.0%	23.5%	14.0%
EMU trains	84.4%	37.5%	10.0%	5.0%
Urban rail vehicles	63.7%	5.0%	83.8%	25.0%
New industries	41.9%	45.0%	30.0%	25.0%
Gross margin	**17.2%**	**17.8%**	**18.5%**	**18.6%**
Locomotives	16.0%	18.0%	20.0%	20.5%
Passenger trains	14.0%	14.0%	14.0%	14.0%
Freight trains	11.5%	11.5%	11.5%	11.5%
EMU trains	21.0%	21.0%	21.0%	21.0%
Urban rail vehicles	13.5%	15.0%	17.0%	17.0%
New industries	20.8%	20.0%	20.0%	20.0%

Source: Company data, Sinopac Securities

SinoPac

Coal

Share price	Target price
HK$10.06	HK$12.70

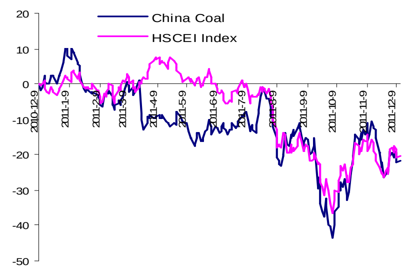
Reason for note	Company update
Recommendation	Unchanged

Trading data	
52-week range (HK$)	6.59/13.08
Market cap. (HK$ mn)	137,277
Market cap. (US$ mn)	17,600
Shares outstanding (mn)	13,259
Avg. daily volume (mn)	22.3
Avg. daily value (HK$ mn)	197.7
Major sh (%)	CNCG -56
Free float (%)	99

Financial data	FY10
Equity (RMB mn)	74,047
PBR (x)	1.8
ROA (%)	6.4
ROE (%)	10.5
Net gearing (%)	NC
BVPS (RMB)	5.6

Performance	1-mth	3-mth	12-mth
Stock price	-8.5	-2.4	-18.8
HSCEI	-7.8	-3.8	-20.9

Relative



Robert Wei
(86) 21 6886 5358-138
Robert.wei@sinopac.com

China Coal (1898.HK) BUY

Substantial growth potential for coal mining and coal machinery segments

- **Faster release of coal capacity.** In 2011, **China Coal (1898.HK)** saw strong growth in its coal segment, with coal production and sales on steady climb. On November 15, its remaining two underground mines in Shanxi Province subject to safety examination, namely An Tai Bao Mine and Jing Dong Mine, resumed production, allowing the company to accelerate overall coal production and sales. Currently, the company has 8 mines under construction, which combine to represent verified capacity of 50.80m tons and equity capacity of 36.83m tons. It plans to construct 9 mines equivalent to total capacity of 111.40m tons and equity capacity of 82.30m tons. With the capacity to be gradually released, we expect its overall coal capacity to grow at a CAGR of 14% in the coming three years.
- **Non-organic growth driven by asset injection.** China Coal's parent, China National Coal Group ("CNCG"), has pledged to solve the horizontal competition issue by injecting its coal mining business to China Coal within the next five years. In particular, CNCG plans to inject some business and assets of China Coal Import & Export Corp to China Coal within one or two years, and within three to five years, China Coal will receive 60% stake in Shanxi Golden Ocean Energy Co. and 76.56%% stake in China Coal Long Hua Co. These asset injections will increase China Coal's coal capacity by nearly 50m tons.
- **Higher proportion of spot coal sales in total sales and significantly better coal quality.** For the first three quarters of 2011, China Coal's commercial coal ASP rose by 8.8% from the year-ago period, with the y-o-y ASP growth for each of the three quarters on steady climb. In 2012, we expect the ASP to continue to rise, due to the following: (a) steady rise in the proportion of spot coal sales in total sales. For the first three quarters, the company made 44.3% of its total coal sales in spot markets; (b) significantly better coal quality for its Ping Shuo Mine; (c) its overall coal prices will rise due to higher proportion of coke coal output in total output as a result of its Wang Jia Ling Mine and Xiao Hui Gou Mine coming into operation; and (d) contract coal prices are expected to rise by 5% and spot coal prices are projected to stay high in 2012.
- **High growth in coal machinery segment.** For October alone and the first ten months of 2011, China Coal's coal machinery segment, its second largest business segment, recorded 33% and 15.1% growth in coal machinery output value respectively. In the next five years, China's coal machinery industry will stay in boom. According to the forecast by China National Coal Machinery Industry Association ("CMIA"), coal machinery demand will grow at CAGR of 22% in the 12th Five Year period and the output value of the coal machinery industry will reach about RMB150bn by 2015. With a comprehensive product line covering supports, scraper conveyors, coal mining machinery, roadheaders and electric machine for mining, China Coal has significant competitive advantages in the market.
- **Valuation and recommendation: maintain TP of HK$12.7 and BUY rating.** We expect China Coal to post strong earnings growth in 2012, given its faster release of coal capacity, the expected continuous high coal prices and the robust growth in its coal machinery segment. We keep unchanged our forecast of FY11 and FY12 EPS of RMB0.792 (or HK$0.978) and RMB1.032 (or HK$1.29) and maintain TP of HK$12.7, implying 13x FY11 EPS, at the lower end of its historical PE band. Maintain **BUY**.

Financial Summary

FYE 31st Dec(RMB mn)	FY09	FY10F	FY11F	FY12F	FY13F
Turnover	53,187	70,303	86,408	103,746	126,838
% chg	*2.*	*32.2*	*22.9*	*20.1*	*22.3*
Gross profit	12,031	14,479	19,856	25,562	32,464
Gross margin%	*22.6*	*20.6*	*23.0*	*24.6*	*25.6*
EBITDA	14,370	18,807	26,771	33,864	42,614
% chg	*(3.9)*	*30.9*	*42.3*	*26.5*	*25.8*
Net profit	7,409	7,466	10,501	13,688	17,549
% chg	*3.9*	*0.8*	*40.6*	*30.3*	*28.2*
EPS (RMB)	0.559	0.563	0.792	1.032	1.324
% chg	*9.3*	*0.8*	*40.6*	*30.3*	*28.2*
EPS consensus (RMB)		0.779	0.800	1.084	1.196
PER (x)	14.3	13.9	9.3	7.1	5.5
DPS (RMB)	0.154	0.156	0.218	0.285	0.365
Yield (%)	1.9	1.9	3.0	3.9	5.0

Source: Company data, Sinopac Securities

China Coal (1898.HK) -cont'd

SWOT analysis

Strengths	Weaknesses
• Having abundant coal reserves and fast-growing capacity • Owning convenient coal transport network • Having strong coal machinery R&D capabilities	• Negatively high proportion of contract coal sale in total coal sales • Capacity release constrained by coal rail transport bottlenecks
Opportunities	**Threats**
• Non-organic growth driven by asset injections • Coal machinery segment will enter a period of rapid growth as the nationwide coal resource integration advances. • Coking coal revenues to be further driven by the coking coal industry consolidation in Shanxi Province	• Coal prices capped by the government • Lower coal demand due to macroeconomic slowdown • Production susceptible to coal mine accidents

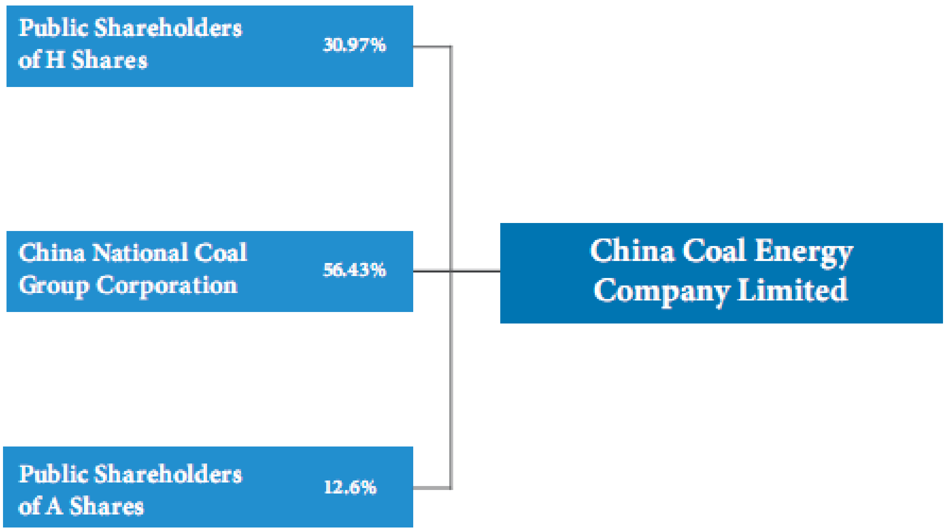
Source: Sinopac Securities

Core competence analysis

Supplier power
Low: China Coal is the second largest coal miner and one of the leading coal machinery manufacturers in China
Entry barrier
High: number of coal companies contained by the government's integration of national coal resources; high capex requirements and stringent licensing procedures;
Substitute product
Low: coal remains as the dominant energy in China
Rivalry
Low: China Coal has significant comprehensive competitive advantages with huge coal reserves of high quality, convenient transport network and strong coal machinery R&D capabilities.

Source: Sinopac Securities

Chart 1: Shareholding structure



Source: Company data, Sinopac Securities

China Coal (1898.HK) -cont'd

Key ratios

FYE Dec 31	FY10	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	32.2	22.9	20.1	22.3
EBIT	13.2	40.3	30.2	28.1
EBITDA	30.9	42.3	26.5	25.8
Net profit	0.8	40.6	30.3	28.2
EPS	0.8	40.6	30.3	28.2
Profitability (%)				
Gross margin	20.6	23.0	24.6	25.6
Operating margin	15.7	18.0	19.5	20.4
EBITDA margin	26.8	31.0	32.6	33.6
Net margin	10.6	12.2	13.2	13.8
ROAA	6.4	8.2	9.7	11.2
ROAE	10.5	13.7	16.4	19.1
Solvency				
Gross Debt/Equity (%)	16.4	15.3	13.9	12.5
Net Debt/Equity (%)	NC	NC	NC	NC
Current ratio (x)	2.5	2.0	1.8	1.9
Quick ratio (x)	1.4	1.0	0.9	0.9
Net debt (mn)	NC	NC	NC	NC
Per share data				
EPS	0.563	0.792	1.032	1.324
CFPS	0.890	1.314	1.659	2.089
BVPS	5.585	5.998	6.572	7.319
EBITDA/share	1.418	2.019	2.554	3.214
DPS	0.150	0.218	0.285	0.365
Activity				
Asset Turnover (x)	0.6	0.7	0.7	0.8
Days accounts receivable	23.6	25.6	25.9	25.7
Days sales inventory	29.1	28.8	28.3	27.6
Days accounts payable	2.0	1.7	1.4	1.1

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year	1-(COGS / Revenue	+ SG&A / Revenue	+ Other expenses / Revenue	)= Operating margin
FY10	79.4%	5.3%	(0.5%)	15.7%
FY11F	77.0%	5.3%	(0.3%)	18.0%
FY12F	75.4%	5.3%	(0.2%)	19.5%
FY13F	74.4%	5.3%	(0.1%)	20.4%

Fiscal year	1/(Working cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue	)= Capital turnover
FY10	63.6%	69.7%	35.9%	0.6
FY11F	52.0%	71.2%	29.3%	0.7
FY12F	47.6%	68.0%	24.5%	0.7
FY13F	48.1%	60.1%	20.1%	0.8

Fiscal year	Op margin	x Capital turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10	15.7%	0.6	74.1%	6.9%
FY11F	18.0%	0.7	74.1%	8.7%
FY12F	19.5%	0.7	74.1%	10.3%
FY13F	20.4%	0.8	74.1%	11.8%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10	10.6%	0.6	1.6	10.5%
FY11F	12.2%	0.7	1.7	13.7%
FY12F	13.2%	0.7	1.7	16.4%
FY13F	14%	0.8	1.7	19%

Source: Company data, Sinopac Securities

Chart 2: China Coal - revenue breakdown

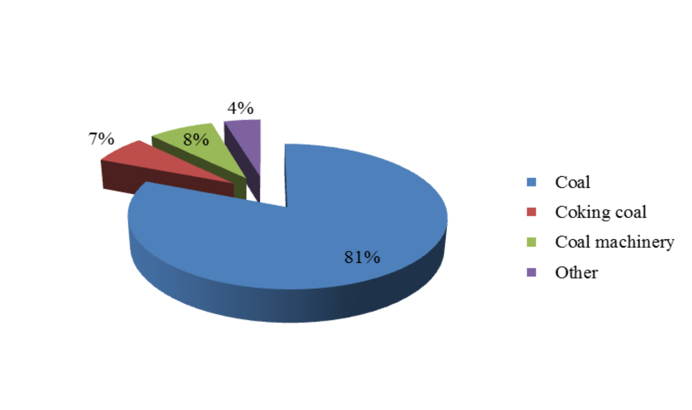
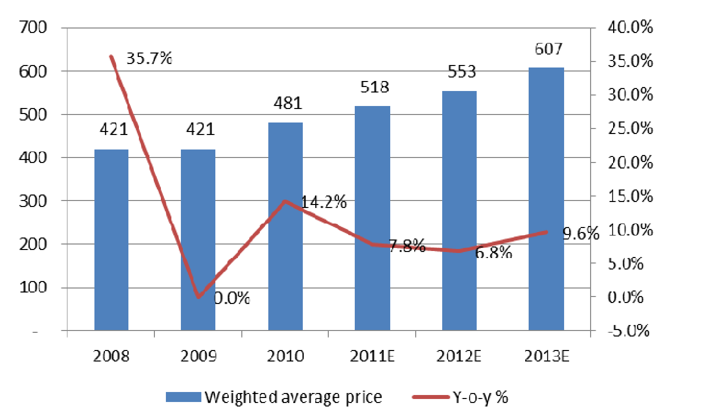


Chart 3: China Coal – coal ASP trend



Source: Company data, Sinopac Securities

China Coal (1898.HK) -cont'd

P&L statement forecast

FYE 31 Dec (HK$ mn)	FY10	FY11F	FY12F	FY13F
Coal revenue	55,839	70,176	85,314	105,854
Coking coal revenue	4,888	5,328	5,807	6,330
Coal machinery revenue	6,095	7,075	8,489	10,187
Other	3,481	3,829	4,135	4,466
Revenues	**70,303**	**86,408**	**103,746**	**126,838**
Coal cost	(40,449)	(51,425)	(61,032)	(74,868)
Coking coal cost	(4,958)	(5,088)	(5,546)	(6,045)
Coal machinery cost	(5,695)	(6,530)	(7,816)	(9,368)
Other	(3,190)	(3,509)	(3,790)	(4,093)
Cost of goods sold	**(55,824)**	**(66,552)**	**(78,184)**	**(94,374)**
Gross profit	**14,479**	**19,856**	**25,562**	**32,464**
SG&A expenses	(3,749)	(4,608)	(5,533)	(6,764)
Other (losses) / Income	(54)	(30)	(30)	(30)
Other income (net)	387	300	200	200
Total operating cost	(3,416)	(4,338)	(5,363)	(6,594)
Operating profit	**11,063**	**15,518**	**20,199**	**25,870**
Net financial expense	(109)	(109)	(114)	(120)
Results from associates	46	60	78	102
Profit before taxations	11,000	15,469	20,163	25,851
Income tax	(2,848)	(4,005)	(5,220)	(6,693)
Profit after taxations	8,152	11,464	14,943	19,158
Minority interest	(685)	(963)	(1,255)	(1,609)
Net profit	**7,466**	**10,501**	**13,688**	**17,549**

Balance sheet forecast

FYE 31 Dec (HK$ mn)	FY10	FY11F	FY12F	FY13F
Non-current assets	**74,236**	**86,870**	**95,898**	**101,681**
PPE	46,418	58,992	67,941	73,622
Land use rights	2,564	2,564	2,564	2,564
Interest in associates	3,995	4,055	4,133	4,235
Other non-current assets	21,260	21,260	21,260	21,260
Current assets	**48,696**	**46,967**	**51,416**	**63,033**
Inventory	6,215	7,409	8,705	10,507
Accounts & notes receivable	5,439	6,684	8,026	9,812
Other	14,120	13,734	15,462	17,763
Cash and cash equivalents	22,922	19,139	19,224	24,951
Current liabilities	**19,391**	**23,504**	**27,933**	**33,833**
Accounts and notes payable	396	396	396	396
Other current liabilities	17,343	21,079	25,100	30,457
Short-term borrowings	1,651	2,030	2,437	2,979
Non-current liabilities	**17,206**	**17,288**	**17,379**	**17,478**
Long-term borrowings	10,715	10,715	10,715	10,715
Other	6,491	6,573	6,664	6,763
Net assets	**86,336**	**93,045**	**102,002**	**113,403**
Share capital	13,259	13,259	13,259	13,259
Capital surplus	60,788	66,268	73,874	83,788
Shareholder's equity	74,047	79,527	87,133	97,046
Minority interest	12,289	13,518	14,870	16,357
Total equity	**86,336**	**93,045**	**102,002**	**113,403**

Cash flow forecast

FYE 31 Dec (HK$ mn)	FY10	FY11F	FY12F	FY13F
Profit before tax	**11,063**	**15,518**	**20,199**	**25,870**
Adjustments:				
Depreciation & amortisation	4,328	6,915	8,302	10,150
Change in working capital	(4,606)	(4,032)	(4,350)	(5,871)
Other	(2,818)	(2,818)	(2,818)	(2,818)
Net cash flow from operation	**7,966**	**15,582**	**21,333**	**27,331**
Net interest expense	(109)	(109)	(114)	(120)
Tax paid	(2,848)	(4,005)	(5,220)	(6,693)
Dividends received	46	60	78	102
Free cash flow	**5,056**	**11,529**	**16,077**	**20,620**
Dividends paid	(2,043)	(1,986)	(2,896)	(3,774)
Net Capex	(19,808)	(34,237)	(34,237)	(34,237)
Other	6,856	18,925	18,245	19,344
Net cash flow	**(7,896)**	**(3,783)**	**85**	**5,727**
Share issuance	0	0	0	0
Increase in cash and cash equivalents	**(7,896)**	**(3,783)**	**85**	**5,727**
Beginning cash & cash equivalents	35,442	27,546	23,763	23,848
Ending cash & cash equivalents	27,546	23,763	23,848	29,575

Source: Company data, Sinopac Securities

Key assumptions

FYE 31 Dec	FY10	FY11F	FY12F	FY13F
Coal segment				
Raw coal output (mn tons)	150	166	193	228
% y-o-y	26	11	16	18
Self-produced coal (mn tons)	90	101	112	125
% y-o-y	14	13	11	11
ASP (RMB/ton)	459	511	544	574
% y-o-y	9	11	6	5
Coking coal segment				
Self-produced coking coal (mn tons)	5	6	7	7
% y-o-y	14	20	17	-
Total sales volume(mn tons)	2.59	2.72	3.50	4.50
% y-o-y	7	5	29	29
ASP (RMB/ton)	1,477	1,551	1,628	1,710
% y-o-y	5	5	-	-
Coal machinery segment				
output (mn tons)	286	337	388	446
% y-o-y	20	18	15	15
ASP (RMB/ton)	28	26	27	29

Source: Company data, Sinopac Securities

SinoPac

Non-ferrous Metal

Share price	Target price
HK$20.65	HK$28.80

Reason for note	**Company update**
Recommendation	**Unchanged**

Trading data

52-week range (HK$)	19.60/46.80
Market cap. (HK$ mn)	8,260
Market cap. (US$ mn)	1,059
Shares outstanding (mn)	397
Avg. daily volume (mn)	0.1
Avg. daily value (HK$ mn)	1.3
Major sh (%)	China National Gold /39%
Free float (%)	60.8

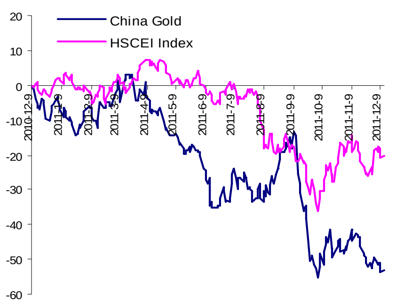
Financial data

	2010A
Equity (US$ mn)	1,200
PBR (x)	0.5
ROA (%)	2.9
ROE (%)	4.2
Net gearing (%)	NC
BVPS (US$)	6.295

Performance

	1-mth	3-mth	12-mth
Stock price	-17.1	-45.3	-52.6
HSCEI	-7.8	-3.8	-20.9

Relative



Jack Xu
(86) 21 6886 5358 Ext 158
Jack.xu@sinopac.com

China Gold Int'l (2099.HK) BUY

Mining costs remain high in the short term

- **Costs to stay high in 4Q11.** We expect **China Gold Int'l ("CGI", 2099.HK)** costs to stay high in 4Q11, mainly due to: (1) temporarily lower ore grades. Currently, the ore grade for its Chang Shan Hao ("CSH") Mine is 0.55kg/ton, lower than the average proven grade of 0.64kg/ton, and the copper grade for its Jia Ma Mine is 0.6-0.7%, lower than the proven grade of 0.8%; and (2) higher unit cost caused by seasonally lower output in 4Q11.
- **Unit cost expected to decline in 2012 from 2H11.** For 2012, we expect the unit cost for its CSH Mine and Jia Ma Mine will decline from the high levels in 2H11 to near the average for full-year 2011. The ore grades, although currently lower than the average proven ones, will likely rise in 2012 as the company begins mining at different rock layers. Also, its provision for construction costs will decrease.
- **Gold price to be driven up by demand from central banks.** According to World Gold Council ("WGC"), Russia increased its gold reserves by 19.5 tons in October; Thailand purchased more than 15 tons in September; and China's September gold imports hit a record high of 56.9 tons, 6 times the imports a year earlier. We expect gold demand from central banks to represent 10% of total demand this year. In addition, their purchase of gold at a high price of US$1,700/ounce in September and October will give support to gold price.
- **Overseas acquisition in preparation.** As the overseas flagship unit of China National Gold Group ("CNGG"), CGI will benefit from mineral asset acquisition. Although CGI has recently said it has not signed any agreement regarding acquisition of copper and gold mines in central Asia, we believe the company is in active preparation for future mineral asset acquisitions as its management has mentioned the ideas of surveying gold and copper mines in central Asia and acquiring mineral assets in the neighbouring or farther regions of China.
- **Maintain BUY:** CGI is currently trading at 10.4x 2012 EPS. As its Phase 2 capacity expansion plan is in active preparation, we expect its mining cost to decline slightly in 2012. And we believe it will meet the output target for this year. Given its capacity expansion potential and the rising gold price as well as the support from its parent (including share purchase in secondary market or asset injection), we maintain **BUY** and TP of HK$28.80.

Financial Summary

FYE 31 Dec (US$ mn)	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Turnover	81	133	308	365	428
% chg		64.3	131.2	18.4	17.5
Gross profit	25	65	128	170	218
Gross margin (%)	30.7	48.5	41.6	46.6	50.9
EBITDA	25	68	141	194	254
% chg		172.4	106.7	37.6	31.3
Net profit	(9)	26	80	109	135
% chg			204.6	36.5	23.9
EPS (US$)	(0.056)	0.138	0.202	0.275	0.341
EPS consensus (US$)			0.258	0.318	0.378
EPS (HK$)	(0.435)	1.073	1.576	2.145	2.660
PER (x)	N/A	19.2	13.1	9.6	7.8
PBR (x)	12.0	0.4	0.8	0.8	0.7
BVPS (US$)	0.220	6.295	3.230	3.505	3.846
DPS (US$)	N/A	N/A	N/A	N/A	N/A
Yield (%)	N/A	N/A	N/A	N/A	N/A

Source: Company data, Sinopac Securities

China Gold Int'l (2099.HK) -cont'd

SWOT analysis

Strengths	Weaknesses
• Owning the CSH Mine, which is a large open-pit gold mine, and the Jia Ma Mine, which contains high grade of copper • Abundant reserves; resource volume expected to increase further • Support from its parent CNGG	• High mining costs at CSH Mine due to its low ore grade • Short track record of mineral assets operation
Opportunities	**Threats**
• Considerable potential for reserve volume increase • Capacity expected to surge if capacity expansion is executed as planned • Potential project acquisitions	• Volatility in gold and copper prices • Higher equipment and labor costs • Possible decline in ore grade

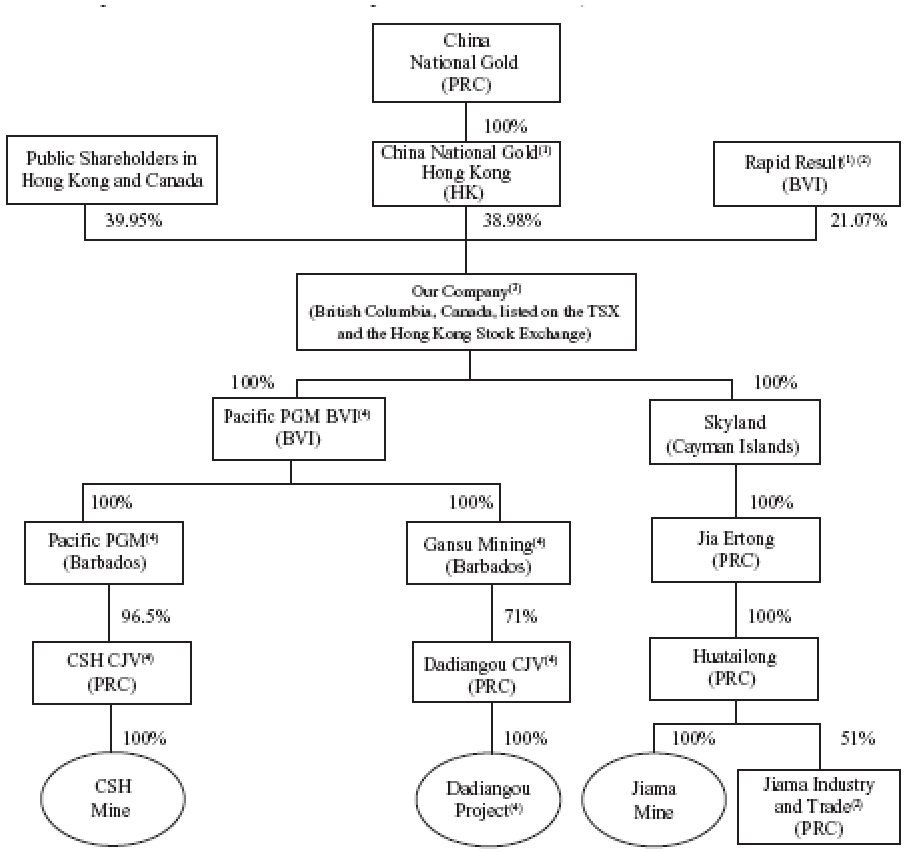
Source: Sinopac Securities

Core competence analysis

Supplier power
Medium: CGI has access to quite a few raw material suppliers.
Entry barrier
High: There are few economically-feasible large mines left.
Substitute product
Low: Mineral products have individual market prices.
Rivalry
Low: Despite a large number of global rivals, CGI's success relies mainly on the economic feasibility of its own mines.

Source: Sinopac Securities

Chart 1: Shareholding structure



Source: Company data, Sinopac Securities

China Gold Int'l (2099.HK) -cont'd

Key ratios

FYE Dec 31	FY10A	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	64.3	131.2	18.4	17.5
EBIT	203.9	102.9	33.0	28.8
EBITDA	172.4	106.7	37.6	31.3
Net profit	N/A	204.6	36.5	23.9
EPS	N/A	46.6	36.5	23.9
Profitability (%)				
Gross margin	48.5	41.6	46.6	50.9
Operating margin	43.9	38.5	43.3	47.5
EBITDA margin	51.1	45.7	53.2	59.4
Net margin	19.7	25.9	29.9	31.6
ROAA	2.9	4.4	5.3	5.7
ROAE	4.2	6.4	8.2	9.3
Solvency				
Gross Debt/Equity (%)	3.3	5.4	11.5	17.8
Net Debt/Equity (%)	NC	NC	NC	NC
Current ratio (x)	2.7	1.5	1.2	1.1
Quick ratio (x)	2.5	1.2	0.9	0.9
Net debt (mn)	(140)	(263)	(224)	(177)
Per share data				
EPS	0.138	0.202	0.275	0.341
CFPS	0.188	0.257	0.366	0.470
BVPS	6.295	3.230	3.505	3.846
EBITDA/share	0.307	0.299	0.398	0.513
DPS	N/A	N/A	N/A	N/A
Activity				
Asset Turnover (x)	0.1	0.2	0.2	0.2
Days accounts receivable	24.8	25.0	25.0	25.0
Days sales inventory	93.6	106.6	97.4	89.7
Days accounts payable	248.9	280.5	256.2	235.8

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year	1-(COGS / Revenue	+ Other expenses / Revenue	+ SG&A / Revenue)	= Operating margin
FY10A	44.3%	7.2%	4.6%	43.9%
FY11F	51.3%	7.2%	3.0%	38.5%
FY12F	43.5%	9.9%	3.3%	43.3%
FY13F	37.2%	11.9%	3.4%	47.5%

Fiscal year	1/(Working cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue)	= Capital turnover
FY10A	(28.1%)	237.0%	739.3%	10.5%
FY11F	(33.1%)	159.5%	324.8%	22.2%
FY12F	(29.0%)	184.1%	288.1%	22.6%
FY13F	(25.5%)	196.8%	256.8%	23.4%

Fiscal year	Op margin	x Capital turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10A	43.9%	10.5%	64.6%	3.0%
FY11F	38.5%	22.2%	76.5%	6.5%
FY12F	43.3%	22.6%	76.5%	7.5%
FY13F	47.5%	22.4%	76.5%	8.5%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10A	19.7%	14.6%	147.9%	4.2%
FY11F	25.9%	17.1%	144.8%	6.4%
FY12F	29.9%	17.6%	155.1%	8.2%
FY13F	31.6%	18.1%	162.3%	9.3%

Source: Company data, Sinopac Securities

Chart 2: CGI – revenue breakdown by metal type

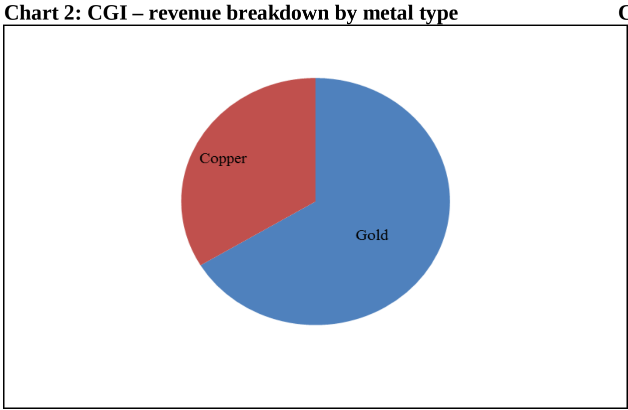
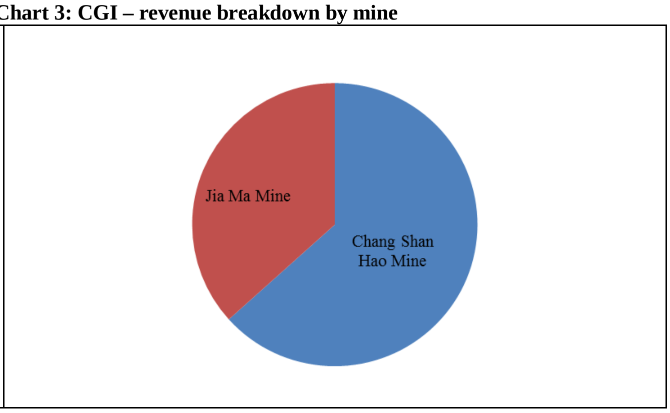


Chart 3: CGI – revenue breakdown by mine



Source: Company data, Sinopac Securities

SinoPac

China Gold Int'l (2099.HK) -cont'd

P&L statement forecast

FYE 31 Dec (US$ mn)	FY10A	FY11F	FY12F	FY13F
Revenues	**133**	**308**	**365**	**428**
Cost of goods sold	69	180	195	210
Gross Profit	**65**	**128**	**170**	**218**
Total operating expenses	6	9	12	15
Promotion expenses	-	-	-	-
R&D expenses	-	-	-	-
EBIT	**58**	**119**	**158**	**203**
Depreciation	10	22	36	51
Amortisation	-	-	-	-
EBITDA	**68**	**141**	**194**	**254**
Interest income	0	8	8	10
Net investment incomes	-	-	-	-
Other net operating incomes	(11)	(15)	(13)	(17)
Total non-operating incomes	**(11)**	**(7)**	**(5)**	**(7)**
Interest expenses	6	3	7	13
Total non-operating expenses	**6**	**3**	**7**	**13**
Profit before taxations	**42**	**108**	**146**	**183**
Income tax	15	25	34	49
Net profit before non-recurring items	**27**	**83**	**112**	**140**
Non-recurring items	(1)	(3)	(3)	(5)
Net income after preferred dividends	**26**	**80**	**109**	**135**
Common stock dividends	-	-	-	-
Retained earnings	**26**	**80**	**109**	**135**

Source: Company data, Sinopac Securities

Balance sheet forecast

FYE 31 Dec (US$ mn)	FY10A	FY11F	FY12F	FY13F
Total assets	**1,656**	**1,935**	**2,205**	**2,523**
Current assets	**355**	**444**	**484**	**580**
Cash & cash equivalents	308	325	352	434
Inventories	34	90	97	105
Accounts receivable	9	21	25	29
Other	4	8	10	12
Non-current assets	1,300	1,491	1,721	1,943
Long-term investment	-	-	-	-
Net PPE	316	491	671	843
Other	985	1,000	1,050	1,100
Total liabilities	**455**	**655**	**816**	**999**
Current liabilities	130	305	416	549
Accounts payable	91	237	256	277
Short-term borrowings	39	69	160	272
Other current liabilities	-	-	-	-
Long-term liabilities	325	350	400	450
Long-term borrowings	-	-	-	-
Other	325	350	400	450
Total equity	**1,200**	**1,280**	**1,389**	**1,524**
Share capital	1,228	1,228	1,228	1,228
Capital surplus	11	11	11	11
Retained earnings	(39)	41	150	285
Preferred stock	-	-	-	-

Source: Company data, Sinopac Securities

Cash flow forecast

FYE 31 Dec (US$ mn)	FY10A	FY11F	FY12F	FY13F
Net cash flow from operation	**59**	**175**	**152**	**193**
Net profit	26	80	109	135
Depreciation & amortisation	10	22	36	51
Change in working capital	23	73	7	7
Other	0	0	0	0
Net cash flow from investment	**(1,173)**	**(213)**	**(266)**	**(273)**
Net Capex	(189)	(197)	(216)	(223)
Change in long-term investment	0	0	0	0
Change in other assets	(985)	(15)	(50)	(50)
Free cash flow	**(1,115)**	**(37)**	**(114)**	**(80)**
Net cash flow from financing	**1,399**	**54**	**141**	**162**
Change in share capital	1,137	0	0	0
Change in borrowings	27	29	91	112
Change in other long-term liabilities	234	25	50	50
Net cash flow	**284**	**17**	**27**	**82**
Beginning cash & cash equivalents	24	308	325	352
Ending cash & cash equivalents	308	325	352	434

Source: Company data, Sinopac Securities

Key assumptions

FYE 31 Dec	FY10A	FY11F	FY12F	FY13F
Growth rate				
CSH Mine	58.4%	51.9%	19.6%	18.5%
Jia Ma Mine		2256.3%	16.3%	15.8%
Price assumptions				
Gold (US$/oz)	1227	1560	1794	1973
Copper(US$/tonne)		10356	9865	10509

Source: Company data, Sinopac Securities

SinoPac

Building Material

Share price	Target price
HK$9.64	HK$14.56

Reason for note	Company update
Recommendation	Unchanged

Trading data

52-week range (HK$)	17.58/5.51
Market cap. (HK$ mn)	625,510
Market cap. (US$ mn)	80,194
Shares outstanding (mn)	5,399
Avg. daily volume (mn)	54.5
Avg. daily value (HK$ mn)	441.2
Major sh (%)	BNBMG -44.10.
Free float (%)	53

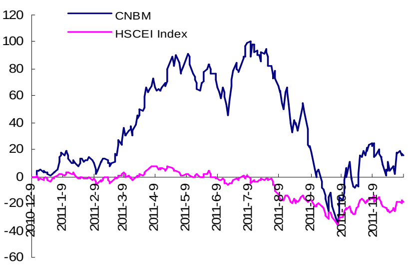
Financial data

	FY10
Equity (HK$ mn)	27,898
PBR (x)	1.76
ROA (%)	3.0
ROE (%)	12.1
Net gearing (%)	187
BVPS (RMB)	5.47

Performance

	1-mth	3-mth	12-mth
Stock price	-1.8	2.4	16.6
HSCEI	-7.8	-3.8	-20.9

Relative



Zhouyu
(86) 21 6886 5358 Ext163
Yu.zhou@sinopac.com

China National Building Material (3323.HK) BUY

Largest beneficiary of expected monetary easing in 2012

- **Largest beneficiary of expected monetary easing in 2012. China National Building Material ("CNBM", 3323.HK)** makes 75% of its cement sales in East China. In 2H11, cement demand in the region fell sharply due to the crackdown on real estate market, as well as the suspension or even termination of infrastructure projects as a result of the July 23 high-speed railway train crash and the serious fund shortage facing local governments. In the face of the significantly decreased demand, the leading cement companies in the region, including CNMB and Conch Cement, took measures such as "supporting prices by limiting production" and "setting up price alliance" and thus kept their gross margins at relatively high levels, although failing to meet their sales targets. For 2012, we expect that China's economy will take a V-shaped pattern; infrastructure and other fixed asset investment (FAI) will recover as a result of monetary easing and fiscal policy support; and the property market regulation will remain stringent. Accordingly, we believe CNBM will benefit most from the expected monetary easing since the company has more sales from infrastructure projects and rural constructions than from real estate development.

- **Corporate value to be raised by "de-leveraging", with asset-liability ratio to be significantly improved by the planned A-share issuance.** CNBM plans to issue not more than 1bn A-shares to fund its acquisitions, capex, loan payments and liquidity replenishment. The issuance, if carried out, will reduce its net gearing ratio to 95% from current 183%. Further, with the proceeds from the issuance, the company will have sufficient funds to consolidate its market position and enhance its pricing power in East China and thus have better gross margin.

- **Current valuation unjustified.** Investors value CNBM at a significant discount to Conch Cement as they are worried CNBM may go bankrupt due to its substantially high debt ratio. However, we see low possibility of bankruptcy for CNBM because: (a) CNBM, as a key state-run company, undertakes the mission of consolidating domestic cement market. Therefore, the government will not stand by if the "too-big-to-fall" company encounters serious financial problems; (b) the planned A-share issuance will significantly improve its financial structure, and with the monetary policies expected to ease gradually, the company will have much lighter financial burden; and (c) as of the end of 1H11, CNBM recorded operating cash flow of RMB4.848bn and unused credit line of RMB21.1bn, meaning its financial status was adequate. As it has slowed its pace in capacity expansion, CNBM can gradually repay the debts piled up during its previous rapid expansion (long-term debts of RMB21.6bn and short-term debts of RMB36.7bn) and its financial structure will thus improve.

- **Valuation and recommendation:** With the monetary policies expected to ease in 2012, we believe CNBM will benefit from demand recovery and revaluation. We expect its cement sales to grow 16% and 17% in 2012 and 2013 respectively. We set our TP at HK$14.56, which we believe can reasonably reflect its intrinsic value. The company is currently trading at 4.53x 2011 EPS, 3.84x 2012 EPS or 3.24x 2013 EPS, still undervalued in our view. Maintain **BUY**.

Financial summary

FYE 31 Dec (RMB mn)	FY09	FY10	FY11F	F12F	F13F
Turnover	33,297	51,988	74,500	86,850	101,490
% chg	26.3	56.1	43.3	16.6	16.9
Gross profit	6,499	11,209	21,958	25,558	29,899
Gross margin%	19.5	21.6	29.5	29.4	29.5
EBITDA	6,707	10,944	20,092	22,956	26,346
% chg	49.1	67.9	83.6	14.3	14.8
Net profit	2,352	3,369	8,628	10,041	11,817
% chg	36.3	37.5	156.1	16.4	17.7
EPS (RMB)	0.480	0.662	1.690	1.967	2.315
% chg	36.3	37.5	156.1	16.4	17.7
EPS consensus (RMB)	0.32	0.64	1.42	1.61	2.05
PER (x)	17.7	12.8	4.6	4.0	3.4
DPS (RMB)	0.070	0.100	0.170	0.190	0.230
Yield (%)	0.1	1.1	2.2	2.4	2.9

Source: Company data, Sinopac Securities

China National Building Material (3323.HK) -cont'd

SWOT analysis

Strengths	**Weaknesses**
• The largest cement producer in China • Rapid non-organic growth driven by merger and acquisition • Broadening revenue source by developing non-cement business	• Rapid demand growth sustained by heavy investment in affordable housing, water conservancy, high-speed railway and other infrastructure projects • Earnings to be further driven by acquisitions in North East
Opportunities	**Threats**
• Large operational risks due to high financial leverage • Cement demand subject to real estate and infrastructure development	• Cement demand adversely affected by FAI decrease • Earnings to be negatively impacted by heavier debt burden as a result of interest rate increases

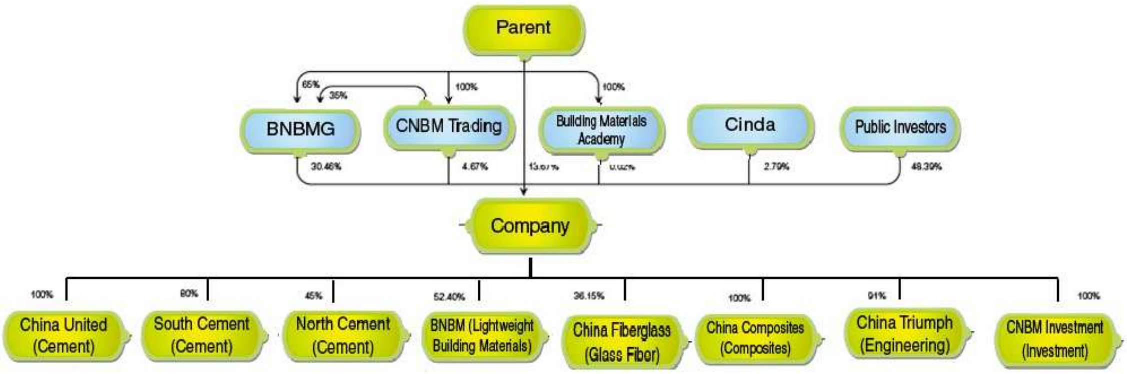
Source: Sinopac Securities

Core competence analysis

Supplier power
High: coal and electricity prices combine to represent more than 60% of CNBM's total costs, and coal and electricity companies have full pricing power.
Entry barrier
High: new entrants nearly barred from the industry by the government's curbing of coal capacity
Substitute product
Low: currently no economically-feasible alternatives to cement as a type of building material
Rivalry
Medium: low market concentration due to the strong regional features of cement production

Source: Sinopac Securities

Chart 1: Shareholding structure



Source: Company data, Sinopac Securities

China National Building Material (3323.HK) -cont'd

Key ratios

FYE Dec 31	FY10A	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	56.1	44.7	21.2	15.3
EBIT	58.6	96.8	22.0	13.7
EBITDA	50.1	81.7	20.9	13.5
Net profit	43.2	152.4	25.7	15.8
EPS	43.2	152.4	25.7	15.8
Profitability (%)				
Gross margin	21.6	29.0	29.7	29.7
Operating margin	7.8	16.6	17.7	18.0
EBITDA margin	21.1	26.4	26.4	26.0
Net margin	6.5	11.3	11.7	11.8
ROAA	3.0	6.5	7.2	7.4
ROAE	12.1	22.4	21.3	19.2
Solvency				
Gross Debt/Equity (%)	300	245	197	159
Net Debt/Equity (%)	187	128	101	80
Current ratio (x)	0.73	0.63	0.68	0.73
Quick ratio (x)	0.58	0.51	0.55	0.59
Net debt (Mn)	52,255	48,734	50,770	51,377
Per share data				
EPS	0.66	1.67	2.09	2.42
CFPS	1.56	1.89	2.55	4.05
BVPS	5.47	7.45	9.83	12.60
EBITDA/share	2.14	3.90	4.71	5.35
DPS	0.10	0.16	0.21	0.24
Activity				
Asset Turnover (x)	0.47	0.57	0.61	0.63
Days accounts receivable	61.9	57.9	50.2	49.1
Days sales inventory	53.7	52.1	48.9	47.8
Days accounts payable	91.1	90.5	89.4	81.3

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year	1-(COGS / Revenue	+ SG&A / Revenue	+ Other expenses / Revenue	)= Operating margin
FY10A	78.44%	9.39%	4.37%	7.80%
FY11F	71.00%	9.36%	3.08%	16.57%
FY12F	70.33%	9.36%	2.59%	17.72%
FY13F	70.34%	9.36%	2.29%	18.01%

Fiscal year	1/(Working cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue	)= Capital turnover
FY10A	14.31%	111.43%	27.05%	0.7
FY11F	3.70%	90.55%	15.20%	0.9
FY12F	5.64%	84.92%	14.26%	1.0
FY13F	7.69%	82.41%	13.84%	1.0

Fiscal year	Op margin	x Capital turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10A	7.80%	0.7	83.50%	4.26%
FY11F	16.57%	0.9	83.50%	12.64%
FY12F	17.72%	1.0	83.50%	14.12%
FY13F	18.01%	1.0	83.50%	14.47%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10A	6.48%	0.5	4.00	12.08%
FY11F	11.31%	0.6	3.45	22.37%
FY12F	11.72%	0.6	2.97	21.30%
FY13F	11.77%	0.6	2.59	19.24%

Source: Company data, Sinopac Securities

Chart 2: CNBM - revenue breakdown for FY10

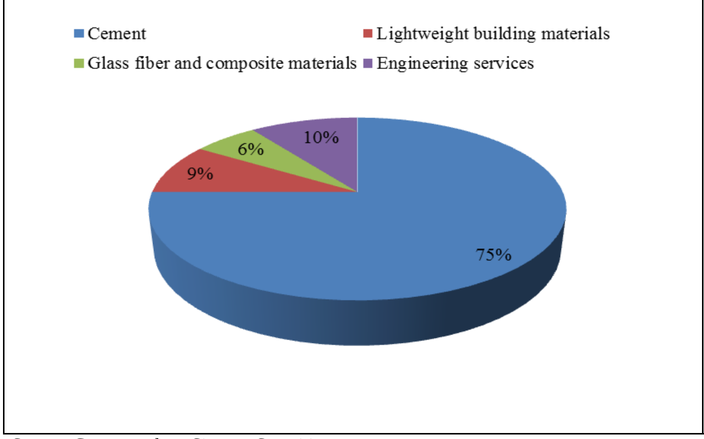
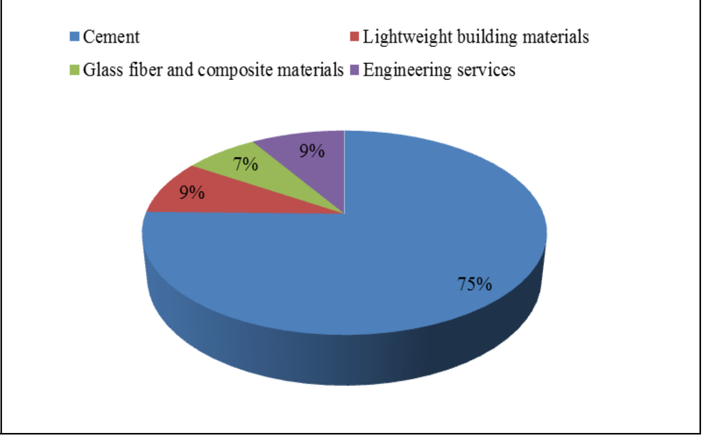


Chart 3: CNBM – gross profit breakdown for FY10



Source: Company data, Sinopac Securities

China National Building Material (3323.HK) -cont'd

P&L statement forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Revenues	51,988	74,500	86,850	101,490
Cost of goods sold	40,779	52,542	61,292	71,591
Gross Profit	11,209	21,958	25,558	29,899
Other operating income	2,273	2,319	2,365	2,412
SG&A expenses	4,882	6,970	8,125	9,495
Other operating expenses	0	0	0	0
Operating profit	8,600	17,307	19,798	22,817
Interest income	27	29	30	31
Interest expenses	2,721	2,953	3,077	3,113
Net interest income (expenses)	2,694	2,924	3,046	3,083
Results from associates	198	218	240	264
Other	0	0	0	0
Profit before taxations	6,104	14,601	16,992	19,998
Income tax	1,361	3,256	3,789	4,460
Profit after taxations	4,743	11,345	13,202	15,538
Minority interest	1,374	2,717	3,162	3,721
Net profit attri to share holders	3,369	8,628	10,041	11,817
	0	0	0	0
Dividends	502	853	993	1,169
Retained earnings	2,867	7,775	9,048	10,648
	0	0	0	0
EBITDA	10,944	20,092	22,956	26,346
Depreciation & amortisation	2,146	2,567	2,918	3,265
EBIT	8,798	17,525	20,038	23,080

Source: Company data; Sinopac Securities

Balance sheet forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Total assets	111,516	131,170	149,112	166,875
Non-current Assets	75,581	88,545	100,657	112,648
Property, plant & equipment	57,931	68,117	77,434	86,659
Long-term investment	3,587	8,992	10,222	11,440
Other	14,063	11,436	13,001	14,549
Current assets	35,936	42,625	48,455	54,228
Cash & cash equivalents	9,240	13,324	15,146	16,950
Inventories	7,210	8,035	9,134	10,222
Account receivables	12,115	11,740	13,346	14,936
Other	7,371	9,527	10,830	12,120
Total liabilities	83,618	93,154	98,948	102,567
Current liabilities	49,469	67,365	71,554	74,171
Short-term borrowings	28,760	37,399	39,725	41,178
Account payables	11,244	15,238	16,185	16,777
Other	9,464	14,728	15,644	16,216
Non-current liabilities	34,149	25,790	27,393	28,395
Long-term borrowings	32,734	24,658	26,192	27,150
Other	1,414	1,131	1,202	1,246
Net assets	27,898	38,016	50,164	64,309
Shareholder's equity	19,162	27,255	35,965	46,106
Share capital	2,700	5,328	7,030	9,013
Capital surplus	16,463	21,928	28,935	37,093
Minority interest	8,736	10,760	14,199	18,203
Total equity	27,898	38,016	50,164	64,309

Source: Company data; Sinopac Securities

Cash flow forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Profit before tax	8,798	17,525	20,038	23,080
Adjustments:	0	0	0	0
Depreciation & amortisation	2,146	2,567	2,918	3,265
Change in working capital	(3,895)	(2,678)	(1,568)	(1,156)
Other	(1,072)	(2,285)	(957)	(629)
Net cash flow from operation	5,977	15,129	20,431	24,561
Net Capex	(16,1120	(14,501)	(13,162)	(10,352)
Interest income	288	0	0	0
Other	748	(222)	(887)	(1,380)
Net cash flow from investment	(17,148)	(14,723)	(14,048)	(11,731)
Dividends paid	(342)	(502)	(1,061)	(1,268)
Interest expenses	(623)	(895)	(1,066)	(1,179)
Proceeds from shares issued	2,994	0	0	0
Net borrowings	14,408	6,131	3,208	1,679
Other	(1,137)	0	0	0
Net cash flow from financing	15,300	1,277	(3,035)	(5,139)
Net effects of FX change on cash	0	0	0	0
Net change in cash & cash equivalents	4,129	1,683	3,348	7,691
Beginning cash & cash equivalents	5,110	9,240	13,324	15,146
Ending cash & cash equivalents	9,240	13,324	15,146	16,950

Source: Company data; Sinopac Securities

Key assumptions

FYE 31 Dec	FY10A	FY11F	FY12F	FY13F
revenues (RMB mn)	51,988	74,500	86,850	101,490
Lightweight building materials	4,354	5,400	6,200	7,000
Glass fiber and composite	2,984	3,600	4,200	4,800
Engineering Services	5,096	5,400	6,200	7,200
Cement	44,650	65,500	76,450	89,690
Gross margin (%)				
Consolidated gross margin	21.6	29.0	29.7	29.7
Key ratios				
Selling expense ratio	3.5%	3.5%	3.5%	3.5%
Administrative expense ratio	5.9%	5.9%	5.9%	5.9%
Effective tax rate	22.3%	22.3%	22.3%	22.3%

Source: Company data; Sinopac Securities

SinoPac

Railway Equipment

Share price	Target price
HK$17.18	HK$26.38

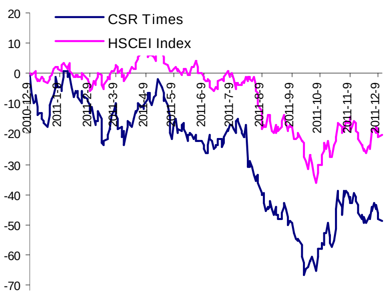
Reason for note	Company update
Recommendation	Unchanged

Trading data	
52-week range (HK$)	10.82/34.5
Market cap. (HK$ mn)	18,454
Market cap. (US$ mn)	2,366
Shares outstanding (mn)	1,084
Avg. daily volume (mn)	26.1
Avg. daily value (HK$ mn)	107.7
Major sh (%)	CSR 57.0
Free float (%)	43

Financial data	FY10
Equity (RMB mn)	4,406
PBR (x)	3.1
ROA (%)	13.7
ROE (%)	20.8
Net gearing (%)	NC
BVPS (RMB)	4.064

Performance	1-mth	3-mth	12-mth
Stock price	6.0	35.0	-49.4
HSCEI	-7.8	-3.8	-20.9

Relative



Vivian Liu
(86) 21 6886 5358 ext 186
liu.zheng@sinopac.com

CSR Times Electric (3898.HK) BUY

Outstanding technological advantages

- **Leading supplier of vehicle-mounted electrical systems and electrical components. CSR Times Electric ("CTE", 3898.HK)**, the flagship electric system unit of CSR Corp, is the leading supplier of integrated electrical systems for rail transport in China, with technological advantages over its major domestic rival, namely CNR's electrical system subsidiary. CTE owns core technologies in the seven fields of (a) converters, (b) vehicle-mounted control and diagnose systems, (c) train control, (d) engineering, mechanical, electrical control and integration, (e) power semiconductor devices, (f) test and control and (g) communication and information. Now, the company is expanding into new industries with the significant core technologies.

- **FY12 locomotive product revenues expected to be driven by resumption of MOR's tenders.** As of September 30, **CTE** had orders in hand of RMB4-5bn, of which orders for EMU trains amounted to RMB2bn (production for the orders will last till 2Q12) and orders for urban rail products topped RMB1bn (production for the orders will last till 1Q13). On the other hand, its locomotive production has been in suspension for 2H11. Given the need to unfrozen railway equipment demand and the earlier-than-usual 2012 Spring Festival, we view it as probable that MOR will resume tenders before the year-end of 2011 as part of its efforts to meet the huge transportation needs during the festival. And in the longer term, China's railway construction restructuring will lead to more demand for locomotives. Therefore, we expect a close to 60% growth in CTE's locomotive product revenues in 2012.

- **Gross margin expected to rise.** (1) With the expected resumption of MOR's tenders, CTE will have a larger share of high-margin locomotive products in total revenue in 2012 than in 2011 and will therefore have a higher gross margin; its 2011 gross margin is expected to be poor as a result of the suspension of locomotive production during 2H11. (2) CTE said it has new proprietary technologies regarding locomotive and urban rail products in the pipeline. In the future, when railway equipment demand gets unfrozen, the technologies will translate into higher gross margin. We expect its consolidated gross margin to be 36.3%, 37.5% and 38.0% in 2011-13 respectively.

- **IGBT project to win government financial support.** CTE's self-developed IGBT modules have been applied in urban rail vehicles on a small scale basis. Going forward, the company will produce IGBT modules mostly in the high-power IGBT indusrial base of its parent CSR Corp.The base, which is expected to come on line in 2014, will have a capacity of 120,000 8-inch IGBT chips and 1m untis of high-power IGBT components and an output value of more than RMB2bn annually. The IGBT project, as a national key scientific and technological project set to fill the gap in related technological field, will win government financial support.

- **Maintain BUY.** We appreciate CTE's technological advantages and solid fundamentals and see the strong long-term demand for railway equipment in China. We expect a CAGR of 28% in its EPS in 2011-13. Applying a 15.0x 2012 EPS, we set TP at HK$26.38.

Financial summary

FYE 31 Dec (RMB mn)	FY09	FY10	FY11F	FY12F	FY13F
Turnover	*3,326*	*5,831*	*6,601*	*8,355*	*9,682*
% chg	*56.9*	*75.3*	*13.2*	*26.6*	*15.9*
Gross profit	1,207	2,152	2,396	3,133	3,679
Gross margin%	*36.3*	*36.9*	*36.3*	*37.5*	*38.0*
EBITDA	690	1,076	1,421	1,845	2,165
% chg	*30.2*	*56.0*	*32.0*	*29.8*	*17.3*
Net profit	531	852	1,176	1,525	1,806
% chg	*25.7*	*60.5*	*38.0*	*29.7*	*18.4*
EPS (RMB)	0.490	0.786	1.085	1.407	1.665
% chg	*25.7*	*60.5*	*38.0*	*29.7*	*18.4*
EPS consensus (RMB)	-	-	1.152	1.318	1.618
PER (x)	30.9	18.8	12.8	9.8	8.3
DPS (RMB)	0.195	0.305	0.423	0.549	0.649
Yield (%)	1.3	2.1	3.0	4.0	4.7

Source: Company data, Sinopac Securities

CSR Times Electric (3898.HK) -cont'd

SWOT analysis

Strengths	Weaknesses
• Leading manufacturer of vehicle-mounted electrical systems and components • Having constant introduction of new products with continual innovation and strong R&D capabilities • Mastering advanced semiconductor and IGBT module technologies through its subsidiary DYNEX	• Growth subject to order inflow from CSR • CSR, as its major customer, has considerable bargaining power • Still need to import some of electrical system components
Opportunities	**Threats**
• Demand for railway equipment in the future years • Bright outlook for other business segments	• Competition from the electrical system unit of CNR and international peers • Gross margin subject to product mix adjustment and prices for raw materials and purchased parts and components

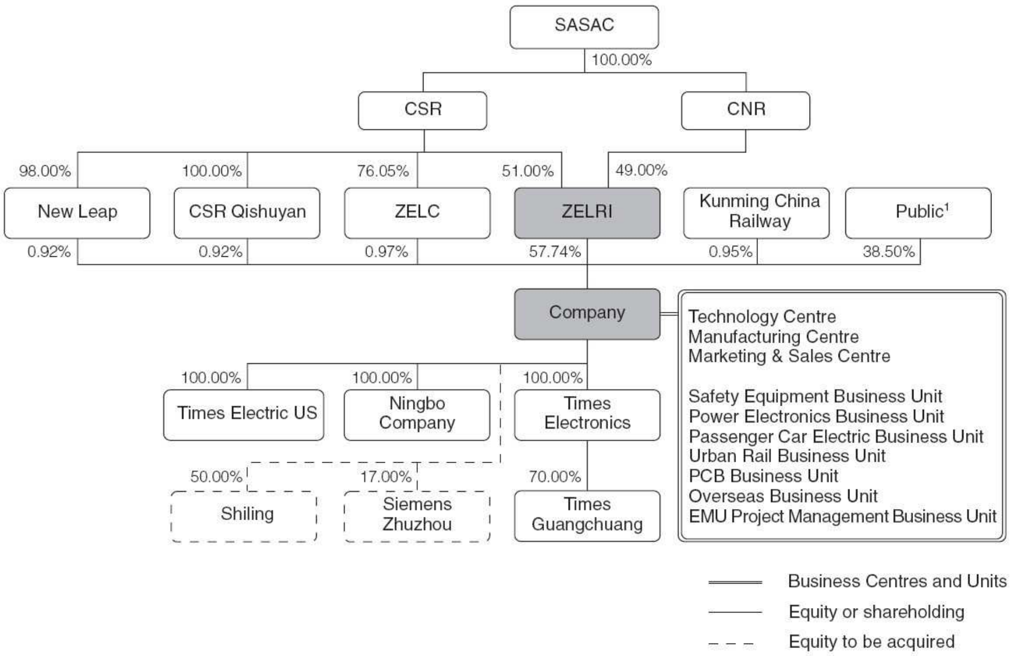
Source: Sinopac Securities

Core competence analysis

Supplier power
Medium: still need to import some of electrical system components
Entry barrier
High: high technology contents; strict requirements regarding certification, production scale and capital
Substitute product
Low: few economically-feasible alternatives to its products due to its cutting-edge technologies
Rivalry
Low: significant advantages as well as strong innovation and R&D capabilities

Source: Sinopac Securities

Chart 1: Shareholding structure



Source: Company data, Sinopac Securities

CSR Times Electric (3898.HK) -cont'd

Key ratios

FYE Dec 31	FY10A	FY11F	FY12F	FY13F
Growth (% y-o-y)				
Sales revenue	75.3	13.2	26.6	15.9
EBIT	56.2	36.8	32.6	17.9
EBITDA	56.0	32.0	29.8	17.3
Net profit	60.5	38.0	29.7	18.4
EPS	60.5	38.0	29.7	18.4
Profitability (%)				
Gross margin	36.9	36.3	37.5	38.0
Operating margin	16.1	19.4	20.4	20.7
EBITDA margin	18.5	21.5	22.1	22.4
Net margin	14.6	17.8	18.3	18.7
ROAA	13.7	15.9	18.0	18.3
ROAE	20.8	24.4	26.6	26.3
Solvency				
Gross Debt/Equity (%)	57.0	47.8	44.6	40.4
Net Debt/Equity (%)	NC	NC	NC	NC
Current ratio (x)	2.2	2.5	2.6	2.9
Quick ratio (x)	1.4	1.7	1.8	2.0
Net debt (mn)	(1,196)	(1,411)	(1,242)	(1,947)
Per share data				
EPS	0.786	1.085	1.407	1.665
CFPS	0.478	0.215	(0.156)	0.650
BVPS	4.064	4.818	5.768	6.876
EBITDA/share	0.993	1.310	1.701	1.997
DPS	0.305	0.423	0.549	0.649
Activity				
Asset Turnover (x)	0.9	0.9	1.0	1.0
Days accounts receivable	96	120	130	120
Days sales inventory	121	123	125	123
Days accounts payable	102	104	104	104

Source: Company data, Sinopac Securities

Rates of return on investment

Fiscal year	1-(COGS / Revenue	+ SG&A / Revenue	+ Other expenses / Revenue	)= Operating margin
FY10A	63.1%	22.3%	20.4%	16.1%
FY11F	63.7%	18.2%	19.4%	19.4%
FY12F	62.5%	18.2%	18.6%	20.4%
FY13F	62.0%	18.2%	17.7%	20.7%

Fiscal year	1/(Working cap / Revenue	+ Net PPE / Revenue	+ Other assets / Revenue	)= Capital turnover
FY10A	48.1%	23.6%	7.9%	1.3
FY11F	53.1%	21.8%	7.9%	1.2
FY12F	51.7%	19.1%	7.0%	1.3
FY13F	54.9%	17.9%	6.7%	1.3

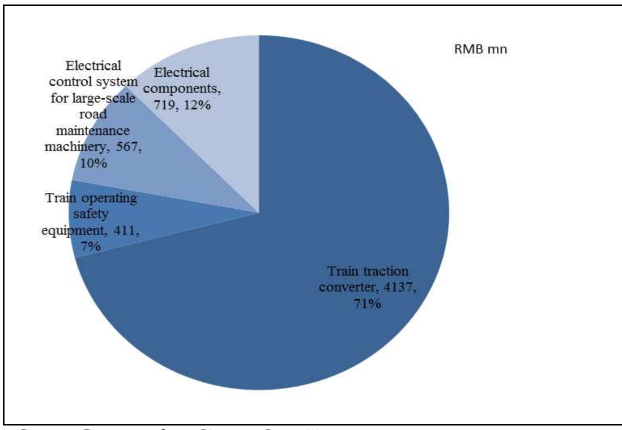
Fiscal year	Op margin	x Capital turnover	x 1- Cash tax rate	= After-tax return on Inv. Cap
FY10A	16.1%	1.3	86.1%	17.4%
FY11F	19.4%	1.2	85.0%	20.0%
FY12F	20.4%	1.3	85.0%	22.3%
FY13F	20.7%	1.3	85.0%	22.1%

ROAE

Fiscal year	Net income / Revenue	x Revenue / Assets	x Assets / Equity	= ROAE
FY10A	14.6%	0.9	1.5	20.8%
FY11F	17.8%	0.9	1.5	24.4%
FY12F	18.3%	1.0	1.5	26.6%
FY13F	18.7%	1.0	1.4	26.3%

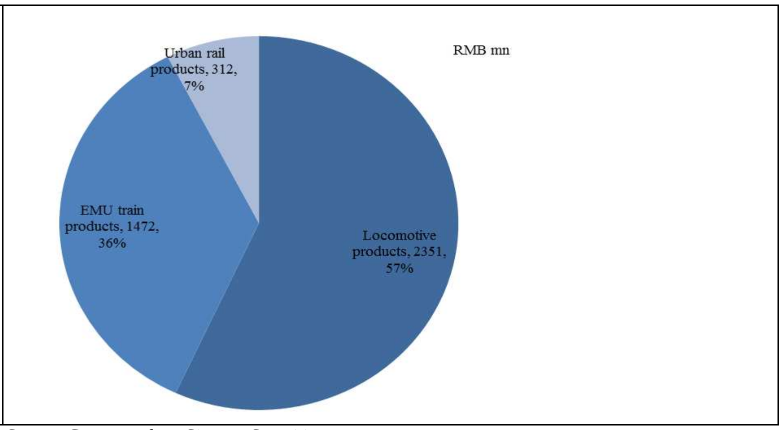
Source: Company data, Sinopac Securities

FY10 revenue breakdown



Source: Company data, Sinopac Securities

FY10 train traction converter revenue breakdown



Source: Company data, Sinopac Securities

CSR Times Electric (3898.HK) -cont'd

P&L statement forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Revenues	**5,831**	**6,601**	**8,355**	**9,682**
Cost of goods sold	3,679	4,205	5,222	6,003
Gross Profit	**2,152**	**2,396**	**3,133**	**3,679**
Total operating expenses	1,302	1,201	1,521	1,762
Promotion expenses	-	-	-	-
R&D expenses	-	-	-	-
EBIT	**528**	**1,002**	**1,422**	**1,846**
Depreciation	138	138	144	160
Amortisation	-	-	-	-
EBITDA	**1,076**	**1,421**	**1,845**	**2,165**
Interest incomes	8	67	52	74
Net investment incomes	-	-	-	-
Other net operating incomes	146	150	158	163
Total non-operating incomes	**154**	**217**	**211**	**237**
Interest expenses	11	25	25	25
Total non-operating expenses	**11**	**25**	**25**	**25**
Profit before taxations	**992**	**1,387**	**1,798**	**2,129**
Income tax	138	208	270	319
Net profit before non-recurring items	**854**	**1,179**	**1,528**	**1,809**
Non-recurring items	(2)	(2)	(3)	(4)
Net income after preferred dividends	**852**	**1,176**	**1,525**	**1,806**
Common stock dividends	331	459	595	704
Retained earnings	**521**	**718**	**930**	**1,101**

Source: Company data, Sinopac Securities

Balance sheet forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Total assets	**7,012**	**7,822**	**9,145**	**10,572**
Current assets	**5,171**	**5,863**	**6,967**	**8,186**
Cash & cash equivalents	1,681	1,914	1,745	2,450
Inventories	1,590	1,417	1,788	2,023
Accounts receivable	1,693	2,170	2,976	3,183
Other	206	362	458	531
Non-current assets	1,841	1,959	2,178	2,386
Long-term investment	168	223	286	354
Net PPE	1,378	1,440	1,596	1,736
Other	296	296	296	296
Total liabilities	**2,510**	**2,499**	**2,789**	**3,011**
Current liabilities	2,368	2,358	2,647	2,870
Accounts payable	1,209	1,198	1,488	1,710
Short-term borrowings	501	501	501	501
Other current liabilities	659	659	659	659
Long-term liabilities	141	141	141	141
Long-term borrowings	2	2	2	2
Other	139	139	139	139
Total equity	**4,406**	**5,223**	**6,254**	**7,455**
Retained earnings	1,288	2,006	2,936	4,038
Share capital & Capital surplus	2,787	2,887	2,987	3,087
Minority interest	97	99	102	106

Source: Company data, Sinopac Securities

Cash flow forecast

FYE 31 Dec (RMB mn)	FY10A	FY11F	FY12F	FY13F
Net cash flow from operation	**740**	**718**	**567**	**1,529**
Net profit	992	1,387	1,798	2,129
Depreciation & amortisation	138	138	144	160
Change in working capital	(347)	(470)	(983)	(292)
Other	(43)	(337)	(392)	(468)
Net cash flow from investment	**(389)**	**(126)**	**(241)**	**(219)**
Net Capex	(230)	(200)	(300)	(300)
Change in long-term investment	7	7	7	7
Change in other assets	(166)	67	52	74
Free cash flow	**510**	**518**	**267**	**1,229**
Net cash flow from financing	**167**	**(359)**	**(495)**	**(604)**
Change in share capital	0	100	100	100
Change in borrowings	378	0	0	0
Change in other long-term liabilities	**(211)**	**(459)**	**(595)**	**(704)**
Net cash flow	518	233	(169)	705
Beginning cash & cash equivalents	1,163	1,681	1,914	1,745
Ending cash & cash equivalents	1,681	1,914	1,745	2,450

Source: Company data, Sinopac Securities

Key assumptions

FYE 31 Dec	FY10A	FY11F	FY12F	FY13F
Revenue growth				
Vehicle-mounted electrical systems	96%	15%	27%	17%
Electrical components	0%	0%	20%	6%
Gross margin	37%	36%	38%	38%

Source: Company data, Sinopac Securities

Dual-listed Stocks: A+H shares (as of 09 December 2011)

	Stock Code		Close Price			Premium (%)
Company Name	**H share**	**A share**	**H share (HK$)**	**A share (RMB)**	**A share (HK$)**	**A share/H share**
Auto						
BYD	1211	002549	17.76	22.60	27.63	55.57%
Great Wall Motor	2333	601633	10.58	11.20	13.69	29.41%
Banks						
China Construction Bank	939	601939	5.54	4.77	5.83	5.26%
China Citic Bank	998	601998	4.41	4.09	5.00	13.38%
ICBC	1398	601398	4.70	4.17	5.10	8.46%
Bank of Communication	3328	601328	5.30	4.60	5.62	6.10%
China Merchants Bank	3968	600036	15.62	11.90	14.55	-6.87%
Bank Of China	3988	601988	2.80	2.92	3.57	27.49%
China Minsheng Bank	1988	600016	6.60	6.05	7.40	12.06%
Agricultural bank of China	1288	601288	3.38	2.59	3.17	-6.32%
CITIC Securities	6030	600030				
Capital goods						
NE Electric	42	000585	0.73	2.98	3.64	399.05%
Beiren Printing	187	600860	1.70	4.95	6.05	255.96%
Jiaoda Hightech	300	600806	2.30	7.07	8.64	275.78%
Guangzhou Ship	317	600685	5.95	17.47	21.36	258.94%
Jingwei Textile	350	000666	4.01	10.44	12.76	218.28%
Dongfang Electrical	1072	600875	24.00	24.79	30.31	26.27%
Weichai Power	2338	000338	37.55	33.58	41.05	9.32%
Shanghai Electric	2727	601727	3.42	5.58	6.82	99.46%
CPIC	2208	002202	4.32	9.04	11.05	155.82%
Zoomlion	1157	000157	7.97	7.86	9.61	20.56%
Commercial services & supplies						
Tianjin Capital	1065	600874	2.03	5.91	7.22	255.91%
Energy					0.00	
Sinopec Corp	386	600028	7.99	7.40	9.05	13.22%
China Petrochem	857	601857	9.47	9.66	11.81	24.70%
China Shenhua	1088	601088	34.45	25.51	31.19	-9.48%
Yanzhou Coal	1171	600188	17.58	24.92	30.46	73.29%
China Oilfield	2883	601808	11.44	14.08	17.21	50.46%
China Coal	1898	601898	9.10	8.98	10.98	20.64%
Zijin Mining	2899	601899	3.36	4.22	5.16	53.54%
Shangdong Molong	568	2490	9.62	20.36	24.89	158.73%
Food beverage						
Tsingtao Brew	168	600600	43.45	34.13	41.72	-3.97%
Insurance						
Pingan Insurance	2318	601318	55.90	37.97	46.42	-16.96%
China Life	2628	601628	20.25	17.90	21.88	8.06%
China Pacific Insurance	2601	601601	21.85	19.10	23.35	6.86%
Industry						
Guangdong Kelon	921	000921	1.35	4.16	5.09	276.71%
Materials						
Maanshan Iron	323	600808	2.31	2.69	3.29	42.36%
Angang Steel	347	000898	5.39	4.78	5.84	8.41%
Shanghai Pechem	338	600688	2.64	6.64	8.12	207.48%
Jiangxi Copper	358	600362	17.94	24.27	29.67	65.38%
Anhui Conch	914	600585	24.75	17.00	20.78	-16.03%
Yizheng Chemical	1033	600871	1.81	8.21	10.04	454.51%
Chongqing Iron & Steel	1053	601005	1.21	3.14	3.84	217.24%
Luoyang Glass	1108	600876	1.60	7.22	8.83	451.65%
China Alumi	2600	601600	3.64	7.65	9.35	156.93%
Metallurgical Co. of China	1618	601618	1.65	2.87	3.51	112.64%
Chenming Paper	1812	000488	3.59	5.15	6.30	75.37%
BBMG	2009	601992	5.70	8.58	10.49	84.02%
Pharmaceuticals biotechnology & life sciences						
Shandong Xinhua	719	000756	2.00	6.13	7.49	274.69%
Guangzhou Pharmaceutical	874	600332	6.07	13.14	16.06	164.64%
Shanghai Pharmaceutical	2607	601607	14.00	12.44	15.21	8.63%

Source: Bloomberg, SinoPac securities
* Assuming the exchange rate is RMB1=HK$0.818

Dual-listed Stocks: A+H shares (as of 09 December 2011)

	Stock Code		Close Price			Premium (%)
Company Name	**H share**	**A share**	**H share (HK$)**	**A share (RMB)**	**A share (HK$)**	**A share/H share**
Real Estate						
Beijing North Star	588	601588	1.19	2.81	3.44	188.67%
Technology hardware & equipment						
Nanjing Panda	553	600775	1.39	6.14	7.51	440.01%
ZTE	763	000063	23.35	17.75	21.70	12.00%
Transportation						
Jiangsu Express	177	600377	7.03	5.82	7.11	1.21%
Guangshen Railway	525	601333	2.78	3.44	4.21	51.27%
Shenzhen Expressway	548	600548	3.48	3.91	4.78	37.35%
China East Air	670	600115	2.85	3.98	4.87	70.72%
Air China	753	601111	5.87	6.53	7.98	35.99%
Anhui Expressway	995	600012	4.41	4.34	5.31	20.31%
China South Airlines	1055	600029	3.96	5.05	6.17	55.90%
China Shipping Development	1138	600026	4.85	6.54	8.00	64.85%
China Railway Group	390	601390	2.52	2.88	3.52	39.71%
China Shipping Container	2866	601866	1.65	2.75	3.36	103.75%
China Railway Construction	1186	601186	4.60	4.37	5.34	16.14%
Sichuan Expressway	107	601107	3.05	4.06	4.96	62.73%
China Cosco	1919	601919	3.99	5.76	7.04	76.48%
China South Locom.	1766	601766	5.13	5.19	6.34	23.68%
Dalin Port	2880	601880	3.44	2.82	3.45	0.22%
Utilities						
Huaneng Power	902	600011	3.80	4.41	5.39	41.87%
Datang Power	991	601991	2.43	4.44	5.43	123.37%
Huadian Power	1071	600027	1.45	2.82	3.45	137.75%

Source: Bloomberg, SinoPac Securities
* Assuming the exchange rate is RMB1=HK$0.818

SinoPac

Hong Kong/China Stock Coverage (as of 09 December 2011)

Code	Company name	Close price (HK$)	Target price (HK$)	Current Rating	EPS(RMB) FY10F	EPS(RMB) FY11F	EPS(RMB) FY12F	PER (x) FY10	PER (x) FY11F	PER (x) FY12F	DPS FY10	DPS FY11F	DPS FY12F	Yield FY11F
Auto & auto parts														
0489	Dongfeng Motor	12.36	14.76	Buy	1.274	1.304	1.532	8.3	7.7	6.5	0.180	0.196	0.230	2.0%
2333	Great Wall Motor	10.58	13.15	Buy	0.985	1.273	1.213	9.2	6.7	7.1	0.200	0.293	0.291	3.4%
0175	Geely Auto	1.81	2.20	Neutral	0.186	0.176	0.203	8.4	8.3	7.2	0.023	0.023	0.028	1.6%
0881	Zhongsheng Group	13.16	16.66	Buy	0.560	0.715	1.152	20.2	14.9	9.3	0.105	0.211	0.331	2.0%
Glass & new materials														
0868	Xinyi Glass	4.73	7.17	Buy	0.440	0.512	0.623	10.7	9.2	7.6	0.209	0.241	0.280	5.1%
0067	Lumena New Materials	1.52	3.40	Buy	0.373	0.314	0.370	3.5	3.9	3.3	0.074	0.075	0.089	6.1%
0189	Dongyue Group	6.41	12.80	Buy	0.352	0.893	0.999	15.7	5.8	5.2	0.117	0.297	0.332	5.7%
2128	China Liansu	3.54	5.40	Buy	0.425	0.448	0.598	7.2	6.4	4.8	0.113	0.121	0.161	4.2%
Metals														
1818	Zhaojin Mining	13.92	UR	UR	0.824	1.168	1.624	14.5	9.7	6.9	0.300	0.480	0.660	4.3%
0246	Real Gold	8.81	UR	UR	0.951	1.264	1.724	8.0	5.6	4.1	0.050	0.050	0.050	0.7%
2899	Zijin Mining	3.36	UR	UR	0.331	0.483	0.596	8.7	5.6	4.6	0.100	0.100	0.100	3.7%
3993	China Molybdenum	3.69	UR	UR	0.198	0.296	0.333	16.0	10.1	9.0	0.404	0.148	0.167	13.5%
2099	China Gold Int'l	20.65	28.80	Buy	0.138	0.237	0.284	19.2	11.2	9.3	N/A	N/A	N/A	N/A
Chemicals & chemical fiber														
1033	Yizheng Chem	1.81	2.40	Neutral	0.308	0.224	0.225	5.1	6.5	6.5	0.030	0.034	0.039	2.3%
Electrical appliance														
0449	Chigo Holding	0.21	0.46	Neutral	0.057	0.017	0.043	3.2	10.0	3.9	0.012	0.004	0.010	2.4%
0751	Skyworth Digital*	3.07	3.59	Neutral	0.495	0.442	0.513	6.2	6.9	6.0	0.160	0.140	0.162	4.6%
1070	TCL	2.39	3.87	Buy	(0.921)	0.215	0.366	N/A	11.1	6.5	0.000	0.066	0.112	2.8%
F&B														
1068	China Yurun Food*	10.42	14.82	Neutral	1.551	1.371	1.646	6.7	7.6	6.3	0.405	0.343	0.412	4.1%
0151	Want Want China**	7.76	7.70	Neutral	0.027	0.030	0.036	36.8	33.2	27.6	0.023	0.015	0.018	0.0%
0168	Tsingtao brewery	43.45	42.73	Neutral	1.125	1.236	1.537	33.2	28.5	22.9	0.160	0.371	0.461	1.1%
0538	Ajisen	9.70	16.00	Buy	0.418	0.538	0.648	23.2	18.0	15.0	0.230	0.296	0.356	3.1%
Heavy Truck														
2338	Weichai power	37.55	44.15	Neutral	4.070	3.445	3.665	7.9	8.8	8.3	0.430	0.379	0.440	1.2%
3808	Sinotruck	4.17	6.05	Neutral	0.536	0.558	0.559	6.7	6.1	6.0	0.153	0.162	0.162	4.8%
New Energy														
0819	Tianneng Power	3.73	5.50	Buy	0.315	0.560	0.762	10.2	5.4	4.0	0.098	0.169	0.229	5.6%
1043	Coslight Tech.	1.92	4.80	Neutral	0.021	0.066	0.139	78.6	23.6	11.2	NA	NA	NA	NA
0515	TC Interconnect	2.00	4.50	Buy	0.142	0.257	0.372	14.1	7.8	5.4	0.028	0.062	0.089	3.1%
0951	Chaowei Power	3.40	5.00	Buy	0.307	0.540	0.706	9.5	5.1	3.9	0.080	0.162	0.212	5.9%
Machinery														
0317	Guangzhou Shipyard	5.95	9.80	Buy	1.101	0.833	1.021	4.6	5.8	4.7	0.080	0.170	0.180	3.5%
0658	China High Speed	3.52	5.39	Neutral	0.905	0.448	0.491	3.3	6.4	5.8	0.280	0.164	0.176	5.8%
0631	Sany Heavy Equipment Int'l	7.62	8.12	Buy	0.215	0.295	0.377	30.5	20.9	16.4	0.043	0.058	0.075	0.9%
1683	International Mining Machinery	8.25	7.47	Neutral	0.282	0.345	0.422	25.2	19.4	15.8	0.270	0.069	0.084	1.0%
1766	China South Locomotive	5.13	6.77	Buy	0.214	0.309	0.361	20.6	13.4	11.5	0.040	0.062	0.072	1.5%
3898	CSR Times Electric	17.18	26.38	Buy	0.786	1.085	1.407	18.8	12.8	9.9	0.305	0.423	0.549	3.0%
2208	Goldwind	4.32	4.52	Neutral	0.990	0.313	0.300	3.8	11.2	11.7	0.734	0.188	0.180	5.4%
Power/Gas/Coal/Utilities														
1088	China Shenhua	34.45	43.00	Buy	1.917	2.378	2.931	15.5	11.7	9.5	0.767	0.951	1.172	3.4%
1898	China Coal	9.10	12.70	Buy	0.563	0.792	1.032	13.9	9.3	7.1	0.156	0.218	0.285	3.0%
1171	Yanzhou Coal	17.58	23.00	Buy	1.887	1.779	2.180	8.0	8.0	6.5	0.590	0.556	0.681	3.9%
0639	Shougang Res*	2.85	4.50	Buy	0.335	0.503	0.546	8.5	5.7	5.2	0.101	0.151	0.164	5.3%
0916	Longyuan Power	5.40	10.70	Buy	0.270	0.394	0.463	17.2	11.1	9.4	0.054	0.047	0.056	1.1%
Building Material														
3323	CNBM	9.64	14.56	Buy	0.662	1.690	1.967	12.5	4.6	4.0	0.100	0.170	0.190	2.2%
0914	Conch Cement	24.75	34.92	Buy	1.160	2.390	2.880	18.3	8.4	7.0	0.300	0.410	0.490	2.0%
0691	Shanshui Cement	5.72	7.54	Buy	0.360	0.960	1.150	13.7	4.8	4.0	0.150	0.280	0.340	6.0%
1313	ChinaResCement	5.71	7.20	Buy	0.313	0.724	0.905	18.2	7.9	6.3	0.050	0.120	0.140	2.1%

Source: SinoPac Securities estimates
#: Year end March 31st   *: EPS denominated in HK$ **: EPS denominated in US$

Hong Kong/China Stock Coverage (as of 09 December 2011)

Code	Company name	Close price (HK$)	Target price (HK$)	Current Rating	EPS(RMB) FY10F	EPS(RMB) FY11F	EPS(RMB) FY12F	PER (x) FY10	PER (x) FY11F	PER (x) FY12F	DPS FY10	DPS FY11F	DPS FY12F	Yield FY11F
Retails														
2331	Li Ning	6.36	7.67	Sell	1.044	0.495	0.697	5.2	10.4	7.4	0.421	0.149	0.202	2.9%
2020	Anta	8.51	7.63	Neutral	0.620	0.707	0.678	11.8	9.7	10.2	0.385	0.424	0.407	6.2%
1968	Peak	2.24	1.68	Sell	0.392	0.444	0.450	4.9	4.1	4.0	0.146	0.111	0.135	6.1%
1361	361 degree	3.18	3.63	Neutral	0.443	0.576	0.613	6.2	4.5	4.2	0.133	0.232	0.245	9.0%
1368	Xtep	2.25	3.20	Neutral	0.373	0.447	0.509	5.2	4.1	3.6	0.188	0.223	0.254	12.2%
3818	China Dongxiang	1.29	1.46	Sell	0.258	0.091	0.101	4.3	11.5	10.3	0.181	0.064	0.071	6.1%
1234	China Lilang	6.95	9.07	Buy	0.347	0.498	0.599	17.2	11.3	9.4	0.170	0.324	0.360	5.8%
0891	Trinity	5.24	7.35	Buy	0.210	0.312	0.368	25.0	16.8	14.2	0.150	0.172	0.202	3.3%
3998	Bosideng	2.34	2.40	Neutral	0.139	0.157	0.182	14.5	20.0	10.4	0.126	0.141	0.164	7.4%
Transportation Infrastructure														
1800	China Comm. Construction	5.99	6.00	Neutral	0.665	0.724	0.675	7.7	6.7	7.2	0.160	0.174	0.200	3.6%
0390	China Railway Group	2.52	2.04	Sell	0.352	0.236	0.292	6.2	8.6	7.0	0.055	0.038	0.047	1.9%
1186	China Railway Construction	4.60	4.56	Neutral	0.344	0.528	0.605	11.5	7.1	6.2	0.100	0.153	0.175	4.1%
1900	China ITS	1.04	1.59	Neutral	0.206	0.220	0.246	4.3	3.8	3.4	0.000	0.000	0.000	0.0%
Transportation														
1138	China Shipping Development	4.85	5.15	Neutral	0.504	0.292	0.377	8.3	13.5	10.4	0.170	0.100	0.130	2.5%
2866	China Shipping Container	1.65	1.40	Neutral	0.360	(0.149)	0.056	3.9	N/A	23.9	N/A	N/A	N/A	N/A
1919	China COSCO holdings	3.99	3.10	Sell	0.671	(0.206)	0.103	5.1	N/A	31.4	0.090	0.000	0.020	0.0%

Source: SinoPac Securities estimates
#: Year end March 31st *: EPS denominated in HK$ **: EPS denominated in US$

Formulas applied in the report

1. EBIT = Net profit + Interest Expense + Income Tax
2. EBITDA = EBIT + Depreciation + Amortization
3. ROAA = Net income x 2 / (Total assets $_{Beg}$ + Total assets $_{End}$)
4. ROAE = Net income x 2 / (Total equity $_{Beg}$ + Total equity $_{End}$)
5. Current Ratio = Current assets $_{End}$ / Current liabilities $_{End}$
6. Quick Ratio = (Current assets $_{End}$ –Prepayment $_{End}$ - Inventory $_{End}$) / Current liabilities $_{End}$
7. Asset Turnover = Sales x 2 / (Total assets $_{Beg}$ + Total assets $_{End}$)
8. Account Receivable Days = 365×(Accounts receivable $_{Beg}$ + Accounts receivable $_{End}$) / (2×Sales)
9. Inventory Turnover Days = 365×(Inventory Beg + Inventory End) / (2×COGS)
10. Account Payable Days = 365×(Accounts payable $_{Beg}$ + Accounts payable $_{End}$) / (2×COGS)
11. Operating margin = 1 – (COGS / Revenue + D&A / Revenue + SG&A / Revenue)
12. Capital Turnover = 1 / (OP. WC / Revenue + Net PP&E / Revenue + Other assets / Revenue)

    Where: Total capital = Total equity + Long-term debt

    Operating Working Capital = Inventory + Accounts receivable – Accounts payable

    Net PP&E = Net PP&E $_{Beg}$ + Capex – Deprecation

    Other assets = Total capital – OP. WC – Net PP&E
13. Return on Invested Capital = Operating margin x Capital Turnover x (1 – effective tax rate)
14. ROE = ROAE = (Net income/Sales) x (Sales/Average assets) x (Average assets/Average equity)
15. Enterprise Value = Market Cap + Minority Interest + Net Debt
16. Gross Debt / Equity = (LT Interest-bearing Debt + ST Interest-bearing Debt) / Total Equity
17. Net Debt / Equity = (LT Interest-bearing Debt $_{End}$ + ST Interest-bearing Debt $_{End}$ – Cash & Cash equivalent $_{End}$) / Total Equity $_{End}$
18. BVPS = Total Equity $_{End}$ / Number of Shares $_{End}$
19. CFPS = (Operating Cash Flow + Investing Cash Flow + Financing Cash Flow)/ Number of Shares $_{End}$
20. DPS = (Interim Dividend + Final Dividend) / Number of Shares $_{End}$

HONG KONG
SinoPac Securities (Asia) Ltd.
21st Floor, One Peking,
1 Peking Road,
Tsim Sha Tsui, Kowloon,
Hong Kong
Tel: (852) 2586 8288
Fax: (852) 2586 8300

SHANGHAI
SinoPac Securities (Asia) Limited
Suite 2405, Hua Xia Bank Tower,

256 South Pudong Road, Shanghai
PRC
Tel: (86 21) 6886-5358
Fax: (86 21) 6886-5969

LONDON
SinoPac Securities (Europe) Ltd.
5th Floor, Habib House
42 Moorgate
London EC2R 6EL
United Kingdom
Registered in England and Wales No. 3766464
Tel: (44 20) 7614 9999
Fax: (44 20) 7614 9970

TAIPEI
SinoPac Securities Corporation
18/F, 2 Chung Ching S. Road, Sec 1
Taipei
Taiwan 100, R.O.C.
Tel: (886 2) 2388-4583/2316-5150
Fax: (886 2) 2375-1254

ANALYST CERTIFICATION

For each company mentioned in this research report, the respective analyst – or analysts who cover the company certifies that all of the views expressed in this research report accurately reflect the analyst's or analysts' personal views about any and all of the subject issuer(s) or securities. The analyst or analysts also certify that no part of analyst's compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

This document is for information purposes only. Information has been obtained from sources believed to be reliable but SinoPac Securities (Asia) Limited or its affiliates and/or subsidiaries do not warrant its completeness or accuracy. Opinions and estimates constitute our judgement as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. Our research is available at www.sinopacasia.com, www.thomsononeanalytics.com and Bloomberg (page: SINO).

This research report has been published in accordance with our research policy stated in our General Compliance Manual.

Recommendation definitions:

BUY: More than 15% upside to our 12-month TP, based on the share price at the time of the most recent model review.

NEUTRAL: Less than 15% upside, but no more than 15% downside to our 12-month TP calculated at the time of the most recent model review.

SELL: More than 15% downside to our 12-month TP, based on the share price at the time of the most recent model review.

To our readers in Taiwan: This research report is made available in Taiwan through SinoPac Securities Corporation, which is regulated by Securities & Futures Bureau. Such report is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. This publication may not be distributed to the public media or quoted or used by the public media without the express written consent of SinoPac Securities Corporation. Information on securities that do not trade in Taiwan is for information purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities. SinoPac Securities Corporation and/or its affiliates may have an investment banking relationship with the company or companies referenced in this report.

To our readers in the United Kingdom: This research report is made available in the United Kingdom through SinoPac Securities (Europe) Limited, which is regulated by the Financial Services Authority ("FSA"). Such report may only be issued or passed on to any person in the United Kingdom if that person is of a kind described in Article 19(5) or Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or otherwise pursuant to exemptions to Section 21 of the Financial Services and Markets Act 2000 ("FSMA 2000"). In addition, no person who is an Authorised Person (as defined in the FSMA 2000) may issue or pass on this report, or otherwise promote the Company, to any person in the United Kingdom other than by the rules of the FSA applicable to such Authorised Persons. This report is confidential and is intended solely for the use of its recipient.