



Hong Kong/China Market

Technical Strategy

H-shares will continue to underperform until the A-share recovery is further advanced, so careful stock picking needed...

Market Wrap

- The Hong Kong market was rangebound after the US Beige Book signalled pockets of weakness. The HSI was flat at 21,093 but the HSCEI came off 30 points (0.26%) to 11,942. Turnover was HK\$56.3 billion.
- HK Banks were bid up on news of ICBC Asia (349)'s privatization. BEA (23) jumped 4.8% and was the best-performing HSI constituent. China Banks were mixed despite expectations of higher new loan growth in July. ICBC (1398) rose 1.0% on a smaller-than-expected capital call.
- Airlines rose on traffic and yield improvements into the peak summer season. China Southern (1055) rose 3.6% on announcing a positive profit surprise for H1. Auto stocks rallied. Geely (175) surged 11.3% on the expected completion of the Volvo acquisition.
- Overnight, US stocks slipped back again as some earnings reports, including those from Colgate-Palmolive and Nvidia, were weaker than expected. The S&P 500 Index lost 0.42% to 1,101.53 while the Euro rose to USD1.31 and commodity prices advanced.

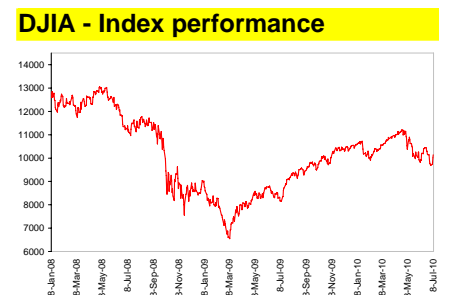
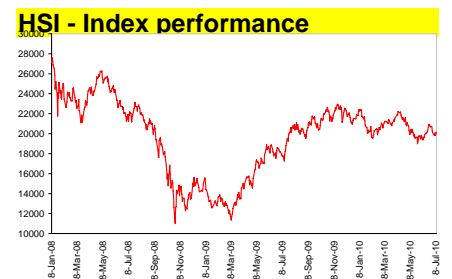
Macro View

- The HSCEI is underperforming both the HSI and Mainland A-share indices. This is because all the top components are trading at premiums to their A-shares and stuck in ranges mostly below their 200-day m.a.s.
- However in the second tier there are many interesting stocks that trade on their own merits.

Trading Idea

- COSL (2883) is China's leading oil services company and stands to benefit from CNOOC's rising capex plan. The stock has just crossed above its 200-day m.a. and appears to be developing an uptrend.

Indices	Latest	Chg. Pts
HSI	21,094	3
DJIA	10,467	-31
S&P 500	1,102	-5
NASDAQ	2,252	-13
H-share	11,942	-31
Red-chip	4,014	-8
Shanghai Comp	2,648	14
Shenzhen Comp	1,077	5





Industry News

- **China telecommunication sector:** The government has selected 12 cities for the pilot scheme for the project of integration of the mainland's television, telephone and computer networks, which is known as "three-network convergence". It is believed that the benefits of the convergence are enormous, which could create 200,000 jobs, with fixed broadband industry lifting the mainland's GDP by 0.8%. (SCMP)
- **China insurance sector:** China may ease the rules on the amount insurers are allowed to invest in infrastructure bonds, and insurers may be permitted to allocate 10% of their assets in infrastructure debt. The ceiling is currently 6% for life assurance companies and 4% for property insurers. Total exposure to infrastructure, debt or equity, is capped at 8% of assets. Insurance companies may be allowed to invest into unlisted equity investment and realty investment, with total investment capped at 5% of total assets, Shanghai Securities Journal reported. (China Daily, Shanghai Securities Journal)

Corporate News

- **ASM Pacific (522 HK):** ASM Pacific said its interim net profit rocketed 14 times yoy to HKD1.48bn, thanks to the robust market demand and accumulated orders during 2Q10. An interim dividend of HKD1.6 per share is recommended. The company further announced that it has agreed to buy the money-losing Siemens Electronics Assembly Systems for a symbolic EUR1, and pledged to turn the business in the near future. Under the deal, Siemens will pay EUR29m to ASM, and ASM will pay back revolving loans worth EUR40m and offer up to EUR120m worth of support over six years. The counter rose 10.4% to HKD71.55 yesterday. (The Standard, HKEx)
- **China Huiyuan Juice (1886 HK):** Huiyuan has confirmed that Danon has sold its entire shareholding in Huiyuan to SAIF for EUR200m. SAIF indicated that it does not rule out the possibility of acquiring more of Huiyuan's shares in the future. (SCMP)
- **China XLX Fertilizer (1866 HK):** XLX said the mainland fertilizer players are facing the dilemma of expanding or being taken over as the mainland fertilizer market has been oversupplied for about a decade and the government has sent out signal favoring large-scale companies, as well as strong competition from state-owned energy companies as the government is encouraging large energy companies to engage in the production of fertilizers and other by-products. However, XLX said it has not changed its plans of expanding production capacity of urea to 2m tones and will continue to focus on the Henan market in spite of oversupply in that region. (SCMP)
- **Agricultural Bank of China (1288 HK):** ABC increased its IPO offering size to about USD20.8bn after selling more stocks in Hong Kong, taking it closer to becoming the largest first-time share sale. ABC sold a further 3.81bn shares at the IPO price of HKD3.20 apiece, raising an additional HKD12.2bn, after raising USD19.2bn in Shanghai and Hong Kong before the over allotment. (HKEx)



- **Chalco (2600 HK):** Chalco has agreed to pay USD1.35bn for a stake in Rio Tinto's Simandou iron ore project in Guinea, and Chalco will acquire a 44.65% stake by funding development over the next two to three years. Rio said it is the world's top undeveloped iron ore deposit. Market estimated that the project could be worth about USD9.5bn. (Bloomberg)
- **Geely Auto (0175 HK):** China's Ministry of Commerce said it has approved Zhejiang Geely Holding Group Co's purchase of Ford Motor Co's Volvo Car unit, paving the way for completion of the USD1.8bn acquisition agreed by the two companies in Mar10. (China Daily)
- **Qifeng Fiber (549 HK):** Qifeng said flooding in certain parts of Jilin City due to heavy rainfall has led a rise in the opaqueness of water from Songhua, making its production lines cannot function normally. Qifeng expects the relevant production lines to be suspended for three days. (HKEx)
- **Tianjin Development (882 HK):** Tianjin Development will dispose of all its 83.93% stakes in Jinzheng, an operator of the Eastern Outer Ring Road in Tianjin, at a consideration to be determined with reference to its net book value or the fair value according to the independent valuation report, whichever is higher. The company expects that a cumulative income recognised in the exchange reserve of approximately HKD318m will be realised as a gain upon disposal. (HKEx)
- **Greatwall Auto (2333 HK):** The company has issued a positive earnings alert and expected net profit for 1H10 to increase by over 50%. Greatwall recorded a net profit of Rmb262m last year (HKET)

Result Announcement

- **Cheung Kong Infrastructure (1038 HK):** CKI said net profit dived 48% to HKD2.03bn in 1H10. However, excluding exceptional items of HKD2.18bn, net profit grew 19% yoy, with turnover surging 40% to HKD1.29bn. An interim dividend of HK33 cents is declared. CKI further said it would continue to expand its portfolio around the globe after cutting three deals in 1H10 and is in the final stage of negotiations on acquisitions. (The Standard)
- **Kin Yat Holdings (638 HK):** Kin Yat said its net profit for the year ended 31 Mar10 surge 77.7% yoy to a record HKD158.6m despite a decrease in revenue. A final dividend of HK8 cents is declared. While 70.6% of the firm's revenue came from electrical and electronic products, chairman Raymond Cheng Chor-kit said the fast-growing motors sector is expected to be the company's growth driver in manufacturing. (The Standard)
- **Sands China (1928 HK):** Net profit for the 2Q10 was USD134m, up 3.3x yoy. (Mingpao)

TECHNICAL STRATEGY

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ICBC is testing its 200-day m.a. at HK\$6.00 and a move above that will be a buy signal. **Buy on a move above HK\$6.00 or hold with a stop loss at HK\$5.75.**



Source: Thomson Financial Datastream

CM Bank is trending higher, towards the top of its range in the HK\$22.00 area. **Buy or hold with a stop loss at HK\$20.00**



Source: Thomson Financial Datastream

Jiangxi Copper has crossed above its 200-day m.a. and may start to move away from it soon. **Trading buy with a stop loss at HK\$16.80.**



Source: Thomson Financial Datastream

TECHNICAL STRATEGY

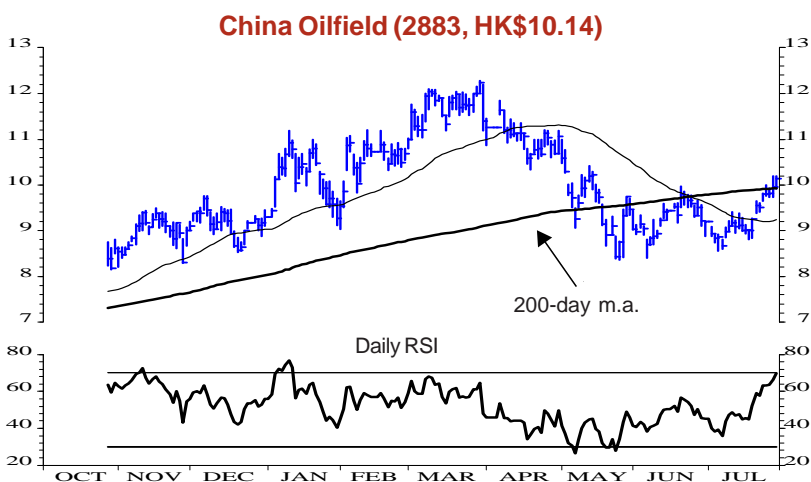
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R&F Properties is consolidating at its 200-day m.a. as the RSI is a little overbought. Trading buy on a move above HK\$12.50.



Source: Thomson Financial Datastream

China Oilfield crossed above its 200-day m.a. and the 50-day m.a. is turning up in support. Trading buy with a stop loss at HK\$9.70.



Source: Thomson Financial Datastream

Hang Seng Composite Sectors

Sector	Index	Day (%)	Week (%)	MTD (%)	YTD (%)
Hang Seng Index (HSI)	21093.82	0.01	2.45	4.79	-3.56
Hang Seng Composite	2957.92	0.07	2.30	5.24	-3.08
HSCI Industrial Goods	1479.72	1.59	5.42	12.52	5.60
HSCI Info Technology	2280.12	1.31	5.62	7.06	-14.58
HSCI Consumer Goods	5279.44	0.42	1.96	3.30	2.01
HSCI Property & Construction	2787.23	0.17	1.50	9.09	-4.42
HSCI Services	3643.77	0.16	1.62	6.52	8.92
HSCI Materials	9534.04	0.15	1.75	6.58	-11.91
HSCI Conglomerates	2067.23	0.09	3.22	7.00	-4.79
HSCI Financials	3404.34	0.04	3.12	5.97	-5.42
HSCI Utilities	5131.15	-0.06	0.62	1.18	3.58
HSCI Energy	12120.03	-0.42	1.74	1.77	-5.40
HSCI Telecommunication	1641.06	-0.74	-0.06	0.41	7.31
HS Mainland 100	6728.30	-0.17	1.41	3.96	NA
HS China Enterprises	11942.21	-0.26	1.60	4.15	-6.66
HS China H-Financial	16957.10	-0.06	1.20	3.42	-4.07
HS China Affiliated Corps	4013.56	-0.20	1.09	5.11	-1.14
HS HK 35	2183.39	0.63	3.04	6.24	NA
HS HK Comp Large Cap	1715.98	-0.01	2.22	4.85	NA
HS HK Comp MidCap	4397.08	0.27	2.38	6.82	NA
HS HK Comp Small Cap	2295.78	0.63	3.18	5.66	NA

Source: Thomson Financial Datastream

IPO Fact Sheet: Infinity Chemical Holdings Company Limited (640 HK)

640	
Issuer	Infinity Chemical
Industry/Sector	Chemical/Industrial
Listing exchange	Mainboard
Major shareholders	Mr. Yang (67.5%)
Total shares outstanding (m)	500
Issue price (HK\$)	0.585-0.75
Total share offer size (HK\$ m)	73.125-93.75
Total share offer size (m shares)	125
Shares offered for placement (m shares)	112.5
Shares offered for IPO (m shares)	12.0
Market cap. (HK\$ m)	292.5-375
Earnings forecast: FY1H10 (Rmb m)	nil
Board lot (share)	4000
IPO open	29-Jul-10
IPO close	3-Aug-10
Expected price determination date	4-Aug-10
Results announcement	11-Aug-10
Cheques refunded	11-Aug-10
Dealing commence	12-Aug-10
Global Coordinator, sponsor	SinoPac Securities (Asia); HaiTong Capital (HK)
Bookrunner & Lead manager	SinoPac Securities (Asia); First Shanghai; Sun Hung Kai Int'l
Cornerstone investors	-

Source: Prospectus, Media reports

The company: Infinity Chemical Holdings Company Limited (Infinity) is a Macau based chemical company, principally engaged in the production, sale and development of adhesives and primers and the distribution of hardeners, which are widely used by the company's customers in the process of footwear manufacturing in the PRC and Vietnam.

Business highlights:

- The products.** Adhesives are used for bonding all components of footwear including outsoles, insoles and uppers. Primers are used in the pre-treatment of footwear components prior to the application of adhesives. Hardeners, being a curing agent, are used by mixing with adhesive for controlling or promoting the curing action of adhesive.
- Customers.** Except for the adhesives and primers produced and sold by the company under OEM basis, the company markets and sells its adhesives and primers under its own brand "Zhong Bu". Most of Infinity's customers are footwear manufacturers engaged in the production of footwear for footwear suppliers. Po Chen Group, the largest customer of the company over the past few years, has more than 17 years of business relationship with Infinity. Infinity also produces and sells adhesives and primers under brands of third parties on OEM basis to customers in the PRC, but the revenue derived from OEM customers represents less than 1% of Infinity's total revenue. Infinity is also an exclusive distributor of a series of hardeners products namely "IRODUR" in Hong Kong, Macau, the PRC, Taiwan and Vietnam.
- New products.** In early 2009, the company successfully developed its Vulcanized Shoes Adhesive Related Products, a new product specifically developed for the

manufacture of vulcanized shoes, being a new market in the footwear adhesive industry to the company.

- **Production base.** The company has two operating production plants located in the PRC, each in Zhongshan and Zhuhai, and one operating production plant located in Vietnam.

Financial highlight:

(Rmb m)	Sep-07	Sep-08	Sep-09	Jan-Apr10
Revenue	218	288	268	87.22
Cost of sales	-178	-241	-203	-66.228
Gross profit	41	47	65	21
Fair value gains on investment properties	1	6	-4	0.32
Net profit attributable to shareholders	21	31	30	4.498
Gross margin	19%	16%	24%	24%
Net margin (net of fair value gains)	9%	9%	13%	5%
Net margin	10%	11%	11%	5%

Source: Prospectus

The Deal

- Market news has it that Cheung Kong (001) may acquire Infinity's shares through international placement.
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- Infinity's net profit for J-A10 dropped 26.2% yoy to HKD4.69m, following a net profit decline of 3% yoy to HKD30.36m for end-SepFY09.
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- The company plans to relocate its production plants from Zhongshan and Zhuhai to Nansha. The move may lead to an increase in depreciation costs in coming years.
- The company distributed HKD30m special dividend to chairman Mr. Yang in Mar10.
- The company has indicated that there may be the need to raise additional funds, if the IPO offer price will be set at the lower-end.
- The company has introduced P-fund Raffles Partners as a pre-IPO strategic partner, which will hold a 7.5% stake in the company after the completion of the IPO.

Use of proceeds:

- ~HKD46m for the expansion of production capacity including the construction of factory and procurement of the relevant equipment.
- ~HKD5m for the investment in R&D.
- ~HKD5m for the expansion of the marketing and technical service.
- ~HKD6.3m for funding general working capital.

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