

March 17 2011

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Return

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Price as of Mar. 17, 2011 (HK\$)	7.61
12M target price (HK\$)	--
Upside/downside (%)	--
The percentile of excess return (%)	--
Dividend yield-2011 (%)	3.3

Balance Sheet

M

Book value/shr- 2011 (HK\$)	2.0
P/B- 2011E (x)	3.7
Net debt/equity- 2011 (%)	Cash

Trading

N

52-week trading range (HK\$)	2.4 - 9.4
Mkt cap-HK\$bn/US\$mn	8.4/1,073
Outstanding shares (mn)	1,100
Free floating shares (%)	42
The largest shareholder (%):	TCL Holding 47
3M avg. daily trading (mn)	2.5
Abs. performance (3,6,12M) (%)	0.1; 74; 217
Rel. performance (3,6,12M) (%)	3.6; 74; 205

Company Description

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TCL Communication is a global handset manufacturer with a diversified portfolio of mobile devices. TCL was established in 1999 under the name TCL Mobile before establishing a 55%-owned JV with Alcatel in 2004. The company is headquartered in Shenzhen with a production base in Huichou and R&D centers in Shenzhen, Ningbo and Huizhou. It operates under the TCL brand in China and the Alcatel brand in the international market. It has also been engaged in the ODM business with global telecom operators since 4Q09. In 4Q10, TCL ranked seventh among mobile brands globally in terms of shipments.

TCL Communication

(02618.HK/2618 HK)

IT channel

Not Rated

Hong Kong

China handset play with global exposure

Global expansion story intact

We are impressed by TCL's handset shipments growth in 4Q10, particularly its gaining of market share in Europe, the Middle East, Africa and Latin America. We expect strong Alcatel brand awareness in emerging markets and TCL's good relations with global operators to support further shipments growth.

Enhanced product mix to lift ASP & margin

TCL is diversifying its product portfolio by offering a wide range of entry-level smartphones to a variety of target customers at competitive prices. The product differentiation will enhance TCL's competitiveness in the midrange to high-end market. We also expect the enhanced product mix to lift ASP and gross margin in 2011 and 2012 (FY ends December).

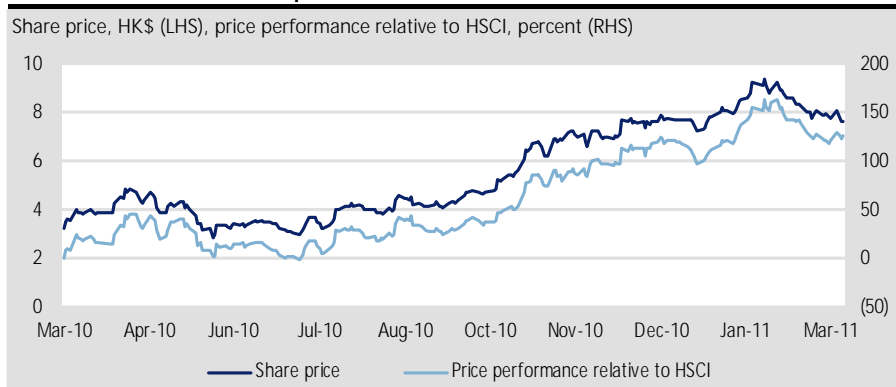
Valuation lower than global peers, deserves re-rating

We forecast earnings growth of 43.4% in 2011 and 20.9% in 2012. Having taken into account the TDR issue, we forecast respective EPS of HK\$0.84 and HK\$1.02 (or HK\$0.93 and HK\$1.13 prior to the TDR). Given the healthy growth trends of gross margin and net margin, we expect TCL to narrow the valuation gap with peer HTC (2498.TW, NT\$1,010, OP). We believe TCL deserves a re-rating up to the global peer average PE range of 12-13x.

Year to	Sales	Gross profit	EBIT	EBITDA	Net income	EPS
31-Dec	(HK\$ mn)	(HK\$ mn)	(HK\$ mn)	(HK\$ mn)	(HK\$ mn)	(HK\$)
2009A	4,361	949	(30)	30	23	0.03
2010F	8,701	1,948	530	598	702	0.65
2011F	12,658	2,869	917	1,013	1,007	0.84
2012F	15,339	3,467	1,131	1,276	1,217	1.02

Year to	EV/sales	EV/EBIT	EV/EBITDA	P/E	EV/Inv. C	ROAE
31-Dec	(X)	(X)	(X)	(X)	(X)	(%)
2009A	1.7	(245.4)	251.4	303.1	2.6	2.1
2010F	0.8	13.8	12.2	11.8	0.8	42.3
2011F	0.5	7.1	6.4	9.0	0.6	33.1
2012F	0.4	5.6	4.9	7.5	0.6	28.4

TCL Communication share price chart



Valuation

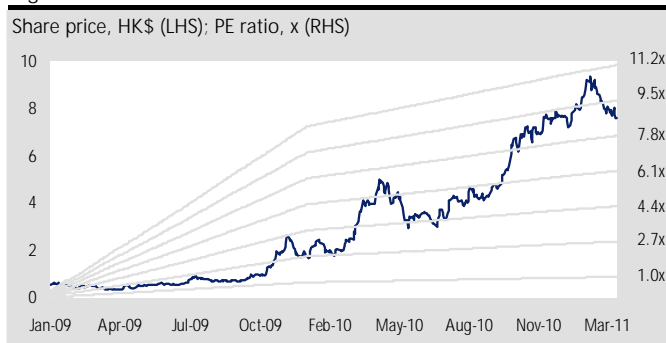


Valuation lower than global peers

We believe TCL deserves a further re-rating given: (1) the move up to the midrange to high-end mobile market; and (2) strong momentum of global smartphone sales.

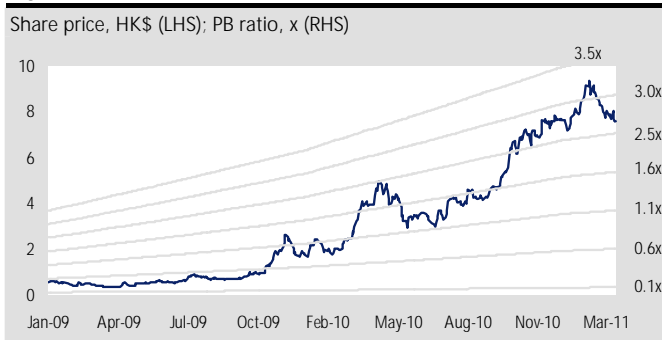
Our earnings forecasts for 2011 and 2012 are HK\$1.01bn and HK\$1.22bn, respectively, representing a CAGR of 32%. We have taken into account the TDR issue and assume shares will increase by 10%, or 110mn. We forecast 2011 and 2012 EPS of HK\$0.84 and HK\$1.02, respectively (HK\$0.93 and HK\$1.13 prior to the TDR). TCL is currently trading at 9.0x 2011 (8.2x prior to TDR) and 7.5x 2012 (6.7x prior to TDR) consensus earnings. Global peers are trading at 12.1x 2011 consensus. Our 2011 target PE for TCL is at a 26% discount to global peers. This valuation is undemanding.

Figure 1: TCL's 12M forward PE band



Source: KGI Asia Limited estimates

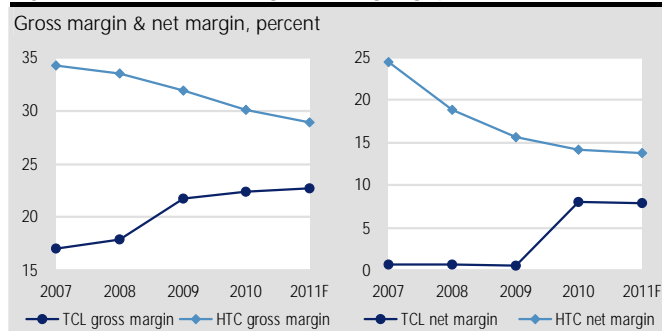
Figure 2: TCL's 12M forward PB band



Source: TEI; KGI Asia Limited estimates

TCL is trading below peer HTC (2498.TW, NT\$1,010, OP), which is trading at 11.1x our EPS forecast. HTC's PE is higher due to its higher exposure to smartphone and better economies of scale, which lead to stronger gross margin and net margin. As TCL expands its scale and improves its product mix, we believe per unit costs will go down and ASP will rise. We believe the valuation gap between HTC and TCL will narrow on the latter's rising gross margin and net margin. We expect TCL's shares to re-rate up to global peer average PE range of 12-13x.

Figure 3: TCL is narrowing the margin gap with HTC



Source: Company data; KGI Asia Limited estimates

Figure 4: Peer comparison – Valuation

Company	Code	Market cap (US\$m)	EPS (local currency)			EV/EBITDA (x)			ROE (%)			PE (x)			P/B (x)		
			2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F
TCL	02618.HK	1,073	0.65	0.84	1.02	15.1	8.1	6.3	42.3	33.1	28.4	11.8	9.0	7.5	3.7	2.4	1.9
Nokia Oyj	NOK1V FH	30,035	0.61	0.47	0.56	4.5	5.1	4.3	13.5	9.1	11.6	9.4	12.4	10.3	1.5	1.5	1.5
Ericsson	ERICB SS	39,316	5.08	5.68	6.42	7.0	5.7	5.4	7.8	11.9	12.3	15.0	13.4	11.9	1.7	1.6	1.5
Samsung	005930 KS	117,470	105,992	97,648	110,841	6.0	4.0	3.6	17.8	16.8	16.3	8.4	9.1	8.0	1.4	1.5	1.3
LG	066570 KS	12,884	7,612	9,238	15,043	NA	6.6	4.8	NA	11.2	15.7	13.1	10.8	6.6	1.5	1.1	1.0
Apple	AAPL US	304,031	15	23.04	26.43	12.2	9.1	7.6	35.3	34.9	29.4	21.8	14.3	12.5	5.6	4.4	3.3
Motorola	MSI US	13,684	2.73	2.34	2.56	5.7	5.0	4.3	6.1	9.0	12.0	14.9	17.4	15.9	1.3	2.1	1.7
RIM	RIMM US	31,322	4.50	6.31	6.85	5.7	5.5	5.1	36.5	40.0	32.6	13.3	9.5	8.7	3.9	3.7	2.6
HTC	2498.TW	28,477	48.22	90.65	106.97	17.7	10.2	8.8	52.5	69.5	75.8	20.9	11.1	9.4	9.7	6.5	5.7
China Wireless	02369.HK	920	0.12	0.29	0.37	13.7	11.5	8.6	31.6	51.7	43.7	27.2	11.2	8.6	5.7	5.0	3.3
Average						9.1	7.0	5.8	25.1	28.2	27.7	16.0	12.1	10.2	3.6	3.0	2.4

Source: Bloomberg; KGI Asia Limited estimates

Investment thesis

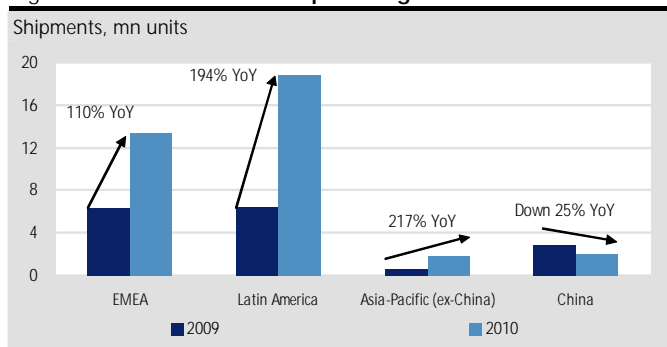


Overseas markets drive growth

TCL has positioned itself as a global handset vendor with significant overseas exposure. This differs from other Chinese vendors that are focused solely on the domestic market. We believe TCL will benefit from its geographical expansion on: (1) strong handset demand from emerging countries in the Europe, Middle East and Africa (EMEA) and Latin America regions; (2) increased Alcatel brand awareness globally; (3) strong relations with major global operators; and (4) scale expansion, which will lower manufacturing costs.

In 2010, sales in the Americas saw the strongest growth, with shipments up 194% YoY to 18.8mn units. The Alcatel brand has become the fourth largest brand in Latin America by market share. In EMEA, shipments rose 110% to 13.4mn units, while in the Asia-Pacific region sales surged 217% to 1.9mn units, thanks to the successful launch of new phones. In China, sales declined 25% YoY to 2.1mn units due to a lackluster ODM business.

Figure 5: Robust overseas shipments growth in 2010



Source: Company data; KGI Asia Limited estimates

Product upgrading & aggressive smartphone push

TCL successfully diversified its product portfolio by offering midrange feature phones at competitive prices in 2010. It established a foothold in the midrange market in 2009 by launching the popular OT-800 and OT-708 models. OT-800 features a QWERTY keypad, while OT-708 is a touch screen mobile. The launch of these two top-selling models saw shipments growth turn from negative to positive after July 2009. In 2011, we estimate TCL will lower the contribution from low-end feature phone to 30-35%, down from 55% in 2010.

On the smartphone front, TCL launched OT980, its first smartphone, in September 2010. The model runs Android OS 2.1 and targets the Europe market at a retail price of €199. It will launch 11 new smartphone models in 2011, expanding its 3G market. We believe product differentiation and the broadening range of smartphones targeting different consumer groups will enhance TCL's

competitiveness in the midrange to high-end market segment.

Competitors such as Nokia (FIN), Samsung (KOR) and LG (KOR) will increase smartphone exposure in 2011. We also expect companies like Apple (US) and HTC to stay focused on the high-end segment, which leaves room in the entry-level smartphone market for second-tier handset manufacturers like TCL. We believe moving into the entry-level smartphone market will stabilize TCL's ASP and boost its gross margin given the higher premium that smartphones enjoy. TCL has 2G, 2.5G and 3G patents which are applicable to GSM, CDMA, WCDMA and TD-SCDMA formats. After the acquisition of Sagem Mobile's (FR) research unit in Ningbo, TCL will have a strong R&D division of 2,000 personnel. We believe the company can quickly expand its 3G smartphone market overseas and in China, supported by its patents and strong R&D capability.

Figure 6: Upgrading to higher-end products



Source: Company data

Investment risk



In 2011, we believe TCL will continue to leverage its technological know-how and relations with top-tier operators to expand its market share. The company also has competitive advantages over global peers in pricing and cost structure. However, peers like Nokia and Samsung may strengthen marketing efforts in feature phone, which could put a dent in TCL's shipments growth this year. In addition, Motorola (US), TCL's largest ODM customer, is likely to sustain its strategic focus on launching high-end/midrange smartphones. Thus, Motorola's lower feature and basic phone exposure could negatively impact TCL's ODM business in the long run. According to Gartner, Motorola sold 10.9mn phones in 4Q10, up 21.7% QoQ but down 9.3% YoY. Its market share declined slightly from 4.7% in 3Q10 to 4.6% in 4Q10.

Regarding the low-end, white-box segment, Chinese handset makers such as Huawei (unlisted) and ZTE (00763.HK) are making inroads. ZTE in particular was able to penetrate the Europe and Japan markets by offering US\$150 Android devices and cheap 3G

feature phones. According to Gartner, white-box phone sales have risen strongly, reaching 115mn units in 4Q10 and 360mn units in 2010. Whereas previously consumers could only get white-box communication devices in certain emerging markets, they are now widely available globally. As such, consumers have turned away from refurbished products and opted for white-box phones instead. We believe the midrange to low-end smartphone segments offer great growth opportunity for Chinese smartphone brands. However, at the same time they attract new entrants, which results in lower margins for all players.

As smartphone and handset has several hundred to over a thousand components, we expect Japan's earthquake will disrupt the supply chain in 2Q11. From our initial assessment, materials used in IC substrate will be most severely impacted in light of Japan's dominance in BT resin. We believe supply disruption will weigh on smartphone and handset growth in 2Q11, and could extend into 3Q11, leading to components shortage. We believe smartphone will be more directly impacted, however, we maintain our positive view on the overall growth outlook for smartphone in 2011. Some of the key smartphone components that may face supply disruption are:

- (1) **IC substrate.** In a letter to customers, MGC said it will suspend supply of BT resin, a key chemical used in making IC substrate for smartphone. MGC is a leading supplier of BT resin, with a 50% global market share and all plants in Japan. Hitachi Chemical (JP) is the No.2 supplier with a 40% market share. Combined, MGC and Hitachi supply 90% of global demand of substrate resin.
- (2) **CMOS sensor.** Toshiba's (JP) plant at Iwate-ken producing logic IC and CMOS sensor has suffered power outage due to the earthquake. We estimate Toshiba supplies around 10% of CMOS sensors for phone camera, NB, DSC and others. While CMOS sensor used in smartphone/ handset is in tight supply, we don't think sensor supply disruption will be significant.
- (3) **VCM.** In most smartphones and midrange to high-end feature phones, VCM (voice coil motor) is used to control lens position during zooming. A high percentage of VCM are supplied by Japanese firms with manufacturing sites in China. Post-quake power outages may lead to near-term supply disruption.
- (4) **Quartz crystal.** Epson Toyocom, NDK, Kyocera Kinseki and KDS, which together account for around 50% global market share in quartz crystal/oscillator used in handset/smartphone.

While TCL's smartphone exposure is still low in 2011, there is potential downside risk to its aggressive shipments target if components supply disruption persists.

Company profile

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Company background

TCL was established in 1999 under the name TCL Mobile, before establishing a 55%-owned JV with Alcatel in 2004. TCL acquired the remaining shares of the JV in 2005 and since then has been licensed to use the Alcatel logo in sales and marketing. The license was granted for a 20-year period. The company is headquartered in Shenzhen with production based in Huizhou. According to iSuppli, TCL ranked seventh among mobile brands globally in terms of shipments in 4Q10.

Figure 7: TCL-Alcatel the seventh best-selling mobile brand

4Q10 rank	Brand	3Q10		4Q10		Change QoQ (%)
		Shipments (mn units)	Share (%)	Shipments (mn units)	Share (%)	
1	Nokia	110	33.6	124	33.2	12.0
2	Samsung	71	21.8	81	21.7	13.0
3	LG	28	8.7	31	8.2	7.7
4	ZTE	15	4.6	22	6.0	47.0
5	Apple	14	4.3	16	4.4	14.9
6	RIM	12	3.7	14	3.8	17.4
7	TCL (Alcatel brand)	9	2.7	12	3.2	34.1
8	Motorola	9	2.8	11	3.0	24.2
9	Sony Ericsson	10	3.2	11	3.0	7.7
10	Huawei	7	2.1	11	3.0	62.3
	Others	41	12.6	39	10.5	(5.3)
	Total	328	100.0	372	100.0	

Source: iSuppli; KGI Asia Limited

Capacity to expand to 130mn units in 2H12

The Huizhou plant was set up in 2002, and currently with annual capacity of 50mn handset units. TCL will expand capacity to 65mn units in 2011 to achieve maximum capacity. A new plant with an area of over 300k sqm in Huizhou will go into operation in 2H12, ramping up capacity to 130mn units per year.

Enhanced R&D capability

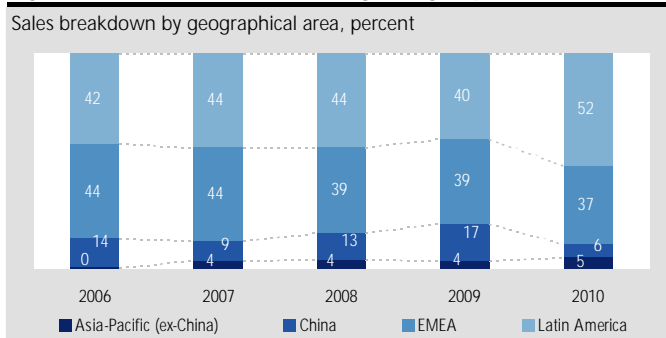
TCL has research centers in Shenzhen, Shanghai and Huizhou with about 1,500 R&D personnel focused on development of feature phones. To cope with the technology needs of increasing Android-based smartphone models, TCL has enhanced its R&D capability by acquiring Sagem Mobile's research unit in Ningbo. After the acquisition, TCL will have expanded its R&D team by 500, with expertise including 3G Android solutions. We believe the acquisition will significantly boost TCL's in-house R&D capability in the smartphone segment and help support growth.

Geographical breakdown

Over 90% of sales are from overseas markets, with the remainder from China. The company operates under the TCL brand in China, with sales channeled through the big three telcos. In the

international market, TCL leverages the solid relations between Alcatel and major global operators including Vodafone (UK), Orange (UK), Wind (Italy) and Telefonica (Spain) to sell Alcatel brand handsets. TCL is currently conducting a re-branding campaign, switching from Alcatel to Alcatel Onetouch.

Figure 8: Latin America market is gaining importance



Source: Company data; KGI Asia Limited estimates

ODM business

TCL has been engaged in the ODM business since 4Q09. Besides two existing clients, the company has just signed a contract with two European clients to supply data card. Management says it is still negotiating with two more clients to produce smartphones for them. A major European telecom operator is the largest ODM client, and it is expected to account for more than one-third of ODM segment revenue in 2011. In 2010, the ODM segment accounted for 25% of revenue. The ODM business will be limited to less than 30% of revenue in 2011 since its ASP and margin are significantly lower than those of the TCL and Alcatel brand business.

TDR issue

Pending approval, TCL plans to issue new shares via TDR. Proceeds will go toward land acquisition and plant construction in Huizhou in the next 1-2 years, as well as investment in R&D. We estimate net proceeds at around HK\$900mn, equating to a 10% share dilution.

Industry outlook

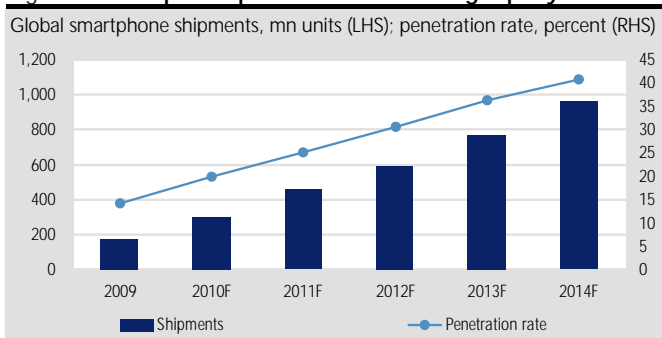
Smartphone continue to outgrow feature phone

Despite the star product status of smartphone, we don't expect feature phone to be much affected by competition. We expect feature phone will account for about 30% of global handset shipments in 2011, down slightly from 32% in 2010. Rising smartphone penetration is more likely to hit the share of basic phone, which we estimate to decline to 40% this year from 50% in 2010. Strong smartphone sales lifted the rankings of Apple and RIM (US)

in 2010 at the expense of feature phone vendors such as Sony Ericsson, Motorola, Nokia and LG. Gartner estimates global handset sales of 452mn units in 4Q10, up 8.4% QoQ. Smartphone accounted for 22.2% of this figure with 100mn units sold, up from 19% in 3Q10.

We believe smartphone will remain a bright spot of the tech sector in 2011, with global shipments CAGR forecast at 35% in 2010-14, driven by replacement demand and new buyers in both mature and emerging markets. Due to operator subsidies, fast-improving OS and ecosystem and better overall mobile internet functionality, smartphone will continue to cannibalize feature phone and basic phone. Consumers of high-end products will embrace premium communications devices that are equipped with the latest multi-core processors, high connection speeds, crystal-clear displays and camera functions. Moreover, within the mainstream, new smartphone users will be able to find affordable yet powerful communications devices with mainstream hardware specs that offer enriched user experience including mobile internet, multimedia, navigation and social network services.

Figure 9: Smartphone penetration rate rising rapidly



Source: Gartner, KGI Asia Limited estimates

While the market is concerned about intensifying competition and falling ASP, smartphone leaders like Apple and HTC gained market share and saw ASP rise in 2010. We are positive on the smartphone industry in 2011 for two reasons: (1) leading hardware vendors are gaining market share as the smartphone market increases in size; and (2) the business outlook is also good for related components manufacturers. We forecast global smartphone sales of 297mn units and 460mn units in 2010 and 2011, respectively, up 72% and 50%. Going forward, we expect smartphone industry growth to decelerate from over 40% in 2011 to 20-30% annually in 2012-14. As for smartphone penetration of the global handset market, we estimate it will rise from 20% in 2010 to over 25% this year, and to near 40% in 2013.

Smartphone makes huge strides in handset market

We expect smartphone revenue will exceed that of feature phone in 2011 and account for over 60% of total handset market revenue in 2014, up from estimated 50% this year. Such stellar growth will

attract hardware vendors, software developers and semiconductor suppliers to invest significant sums in the business. Smartphone gains will come at the expense of basic phones and, to a lesser extent, feature phones. We don't think consumers looking for entry-level smartphones with mainstream features will pay more than US\$200 in 2011.

Figure 10: **Smartphone coming to dominate handset market**

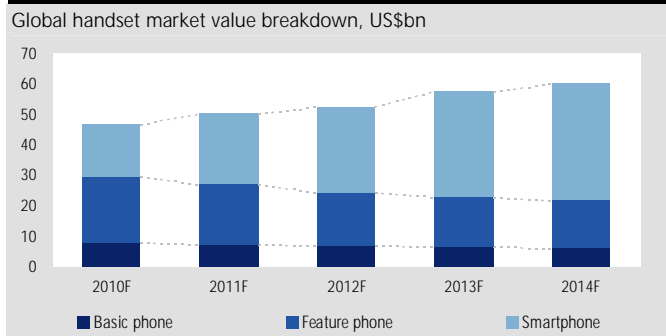
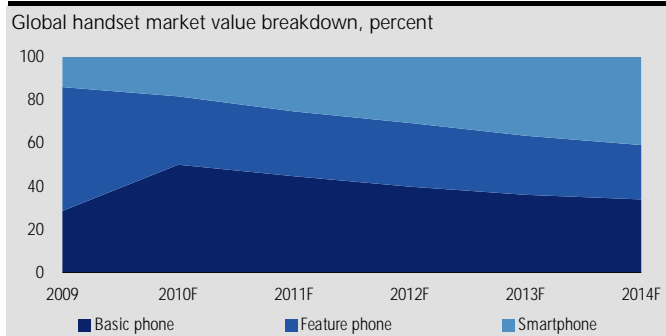


Figure 11: **Smartphone shipments share increasing**



Smartphones more affordable, but still powerful

With North America having led in smartphone sales, we are now seeing strong demand from Europe and Asia. We expect this trend to accelerate in 2011 and beyond. We therefore expect high-end smartphones based on Apple iOS and Android platform to gain share at the expense of Symbian this year. Thereafter, midrange to low-price models (below US\$150 before subsidies) will ignite a second round of industry growth. Early in 2010, HTC launched a smartphone priced below US\$250, one of the first vendors globally to introduce an entry level smartphone. Then, in September, Huawei released its IDEOS smartphone, the first sub-US\$200 model, packed with the latest iteration of Android (Froyo) and mainstream features. Gartner estimates shipments of mid-priced communications mobile devices priced under US\$300 will increase 140% between 2010 and 2014. With shipments of high-end communications devices priced over US\$300 forecast at 78% in this period, there is clearly huge growth potential in the new price category.

Figure 12: **Smartphone ASP decline accelerating**

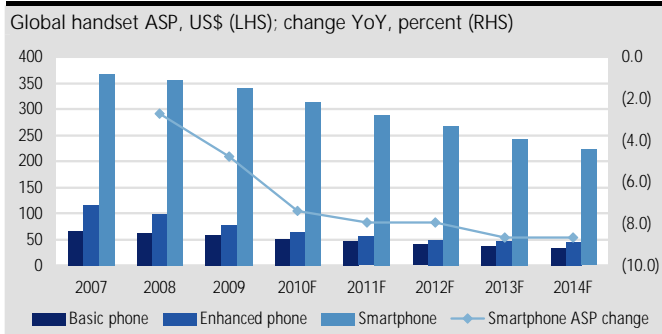


Figure 13: **Comparison – Low-cost smartphone specs**

Vendor	Huawei	Nokia	HTC	HTC
Product	Ideos	X3-02	Smart	Wildfire
MSRP (US\$)	150	200	200	300
CPU	QCOM 528MHz	-	-	QCOM 528MHz
OS	Android 2.2	Symbian S40	BREW MP	Android 2.1
RAM (Mb)	256	-	256	384
ROM (Mb)	512	50	256	512
Camera (MP)	320	500	300	500
Screen size (inch)	2.8	2.4	2.8	3.2
Weight (g)	100	86	108	118
Battery (mAh)	1,200	860	1,100	1,300

Source: KGI Asia Limited estimates

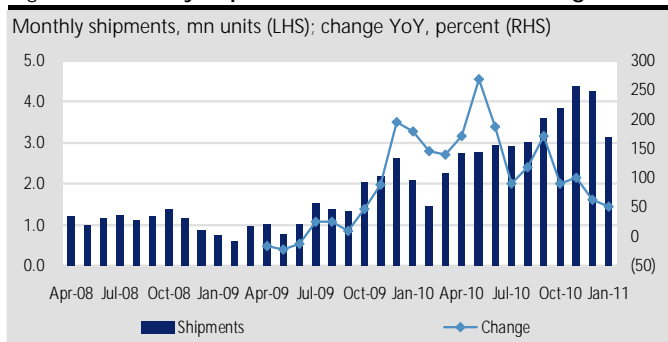
Earnings outlook

Turnaround in 2010

In 2010, TCL's revenue surged 100% to HK\$8.70bn, up from HK\$4.36bn in 2009. Shipments jumped 125% to 36.2mn units (shipments rose 83% YoY to 12.5mn units in 4Q10 alone). According to iSuppli, TCL-Alcatel (including the ODM business) commanded a 3.2% global handset market share in 4Q10, up from 2.7% in 3Q10. On the back of the impressive sales growth and market share gains, earnings were up 30-fold in 2010 to HK\$702mn.

We predict further shipments growth in 2011 due to stronger Alcatel brand awareness in emerging markets (Alcatel became the fourth best-selling brand in Latin America and Russia in 2010). We forecast shipments of 9.0mn units and 51.0mn units in 1Q11 and 2011, respectively.

Figure 14: Monthly shipments over 3.0mn units since August 2010

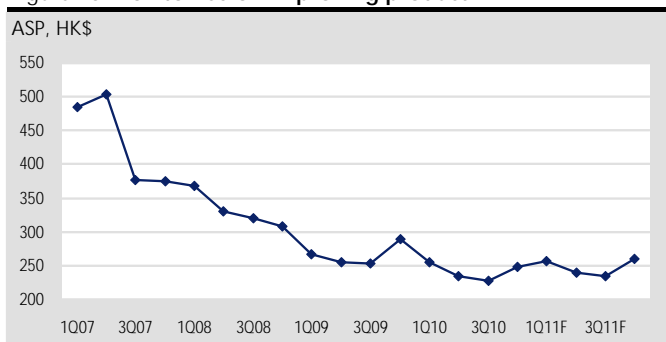


Improved product mix to lift gross margin

In 2010, gross margin improved by 60bps YoY to 22.4% on product mix shift to higher end handsets and well controlled operating expenses. Overall ASP dropped from US\$35 in 2009 to US\$31 in 2010 due to the introduction of low-margin ODM business. Excluding the ODM business, 2010 ASP edged down 3.0% to US\$34 from US\$35. As TCL aims to limit ODM business to 30% of revenue this year, versus 25% in 2010, we expect the ODM segment will grow at the same pace as the overall business and won't have a further negative impact on ASP.

Going forward, we expect the improved product mix will lift ASP. While TCL will still position itself as a mass market feature phone maker, the weighting of entry-level smartphone will gradually rise on the introduction of new models of 3G Android smartphone and tablet PC in 2011. We forecast smartphone shipments of 4.0mn units this year and predict ASP will reverse its downtrend and increase 3.0% in both 2011 and 2012. We project gross margin will improve to a respective 22.7% and 22.6% in 2011 and 2012 on higher ASP and better economies of scale.

Figure 15: ASP to rise on improving product mix



Sound balance sheet

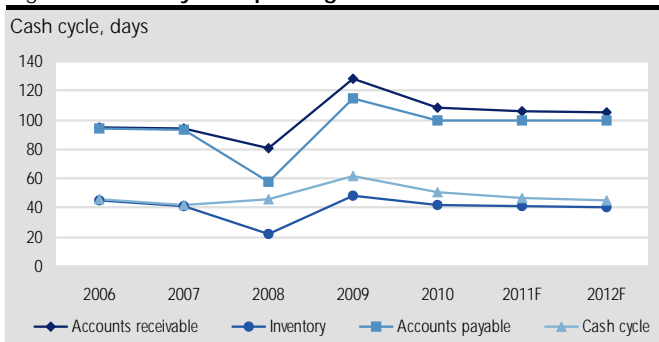
Total cash and interest bearing debt have both climbed to record highs of HK\$7.5bn and HK\$6.5bn, respectively. Of which, HK\$6.2bn of deposits/ debts belongs to the forex (US dollar, euro

and renminbi) program to hedge exchange risk. Net cash position strengthened to HK\$1.06bn at the end of 2010 from HK\$895mn a year before on strong operating cash flow. Gearing ratio reached 53% at end-2010. However, the ratio was lower at 8.0% (11% at end-2009) if the forex program is excluded.

The proposed dividend for 2010 is HK\$16.8 cents, together with HK\$8.0 cents of special dividend declared in September 2010. The total payout ratio for 2010 is 39%. We expect the payout ratio to maintain at 35% in 2011 and 2012.

The cash cycle has improved due to decent inventory control and a shortened accounts receivable collection period. The cash cycle significantly shortened to 50 days in 2010, down from 61 days in 2009. We expect the cash cycle to shorten further to 45 days in 2012 given TCL's growing bargaining power with suppliers.

Figure 16: Cash cycle improving



Balance Sheet

Year to 31 Dec (HK\$ mn)	2008A	2009A	2010A	2011F	2012F
Total Assets	4,564	6,766	12,254	15,492	17,446
Current Assets	4,037	6,278	11,619	14,214	15,525
Cash & ST Investments	2,355	2,357	7,546	8,392	8,544
Inventories	230	448	780	1,100	1,301
Accounts Receivable	1,007	1,532	2,574	3,676	4,412
Others	444	1,940	719	1,046	1,268
Non-current Assets	528	488	635	1,279	1,921
LT Investments	0	0	0	0	0
Net fixed Assets	262	220	309	805	1,347
Others	266	268	326	474	574
Total Liabilities	3,500	5,671	10,031	11,635	12,724
Current Liabilities	3,349	5,310	10,014	11,618	12,707
Accounts Payable	591	1,074	1,843	2,682	3,253
ST Borrowings	1,867	1,461	6,488	6,488	6,488
Others	892	2,776	1,683	2,448	2,966
Long-term Liabilities	151	361	18	18	18
Long-term Debts	147	1	0	0	0
Others	3	360	18	18	18
Shareholders' Equity	1,065	1,095	2,222	3,857	4,722
Common Stock	715	716	1,098	1,998	1,998
Capital Surplus	2,051	2,057	2,138	2,138	2,138
Retained Earnings	(1,701)	(1,678)	(1,013)	(279)	586
Preferred Stock	0	0	0	0	0

Source: Company data; KGI Asia Limited estimates

Key Ratios

Year to 31 Dec (HK\$ mn)	2008A	2009A	2010A	2011F	2012F
Growth (% YoY)					
Sales	(8.7)	(3.9)	99.5	45.5	21.2
OP	N.A.	N.A.	N.A.	73.0	23.4
EBITDA	N.A.	N.A.	1,909.2	69.5	26.0
NP	(13.8)	(19.3)	2,951.0	43.4	20.9
EPS	518.5	(19.3)	2,476.5	30.2	20.9
Profitability (%)					
Gross Margin	17.9	21.8	22.4	22.7	22.6
Operating Margin	(5.2)	(0.7)	6.1	7.2	7.4
EBITDA Margin	(3.6)	0.7	6.9	8.0	8.3
Net Profit Margin	0.6	0.5	8.1	8.0	7.9
ROAA	0.6	0.4	7.4	7.3	7.4
ROAE	2.7	2.1	42.3	33.1	28.4
Stability					
Gross Debt/Equity (%)	1.9	1.3	2.9	1.7	1.4
Net Debt/Equity (%)	(0.3)	(0.8)	(0.5)	(0.5)	(0.4)
Interest Coverage (x)	(3.4)	(0.7)	8.4	8.9	11.0
Interest & ST Debt Coverage (x)	0.1	0.1	0.1	0.2	0.2
Cash Flow Interest Coverage (x)	0.6	5.2	3.4	8.0	11.2
Cash Flow/Interest & ST Debt (x)	0.0	0.2	0.0	0.1	0.2
Current Ratio (x)	1.2	1.2	1.2	1.2	1.2
Quick Ratio (x)	1.1	1.1	1.1	1.1	1.1
Net Debt (HK\$ mn)	(260)	(341)	(895)	(1,058)	(1,904)
Per Share Data (HK\$)					
EPS	0.03	0.03	0.65	0.84	1.02
CFPS	0.11	0.09	0.71	0.92	1.14
BVPS	1.16	1.19	2.05	3.23	3.95
SPS	4.96	4.76	8.02	10.59	12.84
EBITDA/Share	(0.18)	0.03	0.55	0.85	1.07
DPS	0.00	0.04	0.25	0.29	0.36
Activity					
Asset Turnover (x)	1.0	0.8	0.9	0.9	0.9
Days Receivables	81.0	128.3	108.0	106.0	105.0
Days Inventory	22.5	47.9	42.2	41.0	40.0
Days Payable	57.9	114.9	99.7	100.0	100.0
Cash Cycle	45.7	61.3	50.5	47.0	45.0

Source: Company data; KGI Asia Limited estimates

Profit & Loss

Year to 31 Dec (HK\$ mn)	2008A	2009A	2010A	2011F	2012F
Sales	4,538	4,361	8,701	12,658	15,339
Cost of Goods Sold	3,727	3,412	6,752	9,789	11,872
Gross Profit	812	949	1,948	2,869	3,467
Operating Expenses	1,047	979	1,418	1,953	2,335
Operating Profit	(235)	(30)	530	917	1,131
Net Interest Income	(45)	(7)	20	30	39
Interest Income	24	39	83	133	141
Interest Expense	68	46	63	103	103
Net Investment Income/(Loss)	0	0	0	0	0
Net other Non-op. Income/(Loss)	316	71	195	165	175
Net Extraordinary	0	0	0	0	0
Pretax Income	36	34	745	1,112	1,345
Income Taxes	8	11	43	106	128
Net Profit After Extraordinary	28	23	702	1,007	1,217
EBITDA	(162)	30	598	1,013	1,276
EPS (HK\$)	0.03	0.03	0.65	0.84	1.02

Source: Company data; KGI Asia Limited estimates

Cash Flow

Year to 31 Dec (HK\$ mn)	2008A	2009A	2010A	2011F	2012F
Operating Cash Flow	40	237	211	824	1,151
Net Profit	28	23	702	1,007	1,217
Depreciation & Amortization	74	60	68	96	145
Change in Working Capital	88	128	(475)	(146)	(70)
Others	(151)	26	(83)	(133)	(141)
Investment Cash Flow	(62)	(37)	(131)	(607)	(646)
Net CAPEX	(83)	(26)	(156)	(592)	(687)
Change in LT Investment	0	0	0	0	0
Change in Other Assets	20	(11)	25	(15)	41
Free Cash Flow	(106)	142	(65)	188	411
Financing Cash Flow	(76)	295	5,371	628	(352)
Change in Share Capital	6	359	382	900	0
Net Change in Debt	799	(601)	5,026	0	0
Change in Other LT Liab.	(881)	537	(38)	(272)	(352)
Net Cash Flow	(99)	495	5,451	845	59

Source: Company data; KGI Asia Limited estimates

Rates of Return on Invested Capital

Year to 31-Dec	1- COGS Revenue	+ Dep./Amortization Revenue	+ SGA Exp. Revenue	= Operating Margin
2008A	80.5%	1.6%	23.1%	(5.2%)
2009A	76.9%	1.4%	22.5%	(0.7%)
2010A	76.8%	0.8%	16.3%	6.1%
2011F	76.6%	0.8%	15.4%	7.2%
2012F	76.5%	0.9%	15.2%	7.4%
Year to 31-Dec	1/ Operating Working capital Revenue	+ Net PPE Revenue	+ Other Assets Revenue	= Capital Turnover
2008A	0.6	0.1	0.1	1.5
2009A	0.6	0.1	0.1	1.5
2010A	0.9	0.0	0.0	1.0
2011F	0.7	0.1	0.0	1.2
2012F	0.6	0.1	0.0	1.4
Year to 31-Dec	Operating Margin	x Capital Turnover	x Cash 1 - Tax Rate	= After-tax Return on Inv. Capital
2008A	(5.2%)	1.5	78.6%	(6.0%)
2009A	(0.7%)	1.5	67.5%	(0.7%)
2010A	6.1%	1.0	94.2%	5.7%
2011F	7.2%	1.2	90.5%	8.0%
2012F	7.4%	1.4	90.5%	9.1%

Source: Company data; KGI Asia Limited estimates

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	Hong Kong	Thailand
	41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong Telephone 852.2878.6888 Facsimile 852.2878.6800	Bangkok 8th - 11th floors, Asia Centre Building 173 South Sathorn Road, Bangkok 10120, Thailand Telephone 66.2658.8888 Facsimile 66.2658.8014

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	Outperform (OP)	The stock's excess return over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).
	Neutral (N)	The stock's excess return over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
	Underperform (U)	The stock's excess return over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
	Not Rated (NR)	The stock is not rated by KGI.
	Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.
		<i>Excess return = 12M target price/current price-1</i>
	Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.

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