

Asia ex-Japan

DISCOVER

Asian Small Caps Weekly

Small caps

IDEA OF THE WEEK

China Rare Earth (769 HK, HK\$1.11, BUY, Target price: HK\$1.67) – A recovery of rare earth prices by 30% in 1Q04 should lead to a 97% profit increase in 2004. We expect the stock to re-rate to HK\$1.67 on higher earnings. See page 2.

Upgrades & Downgrades

- Aapico Hitech (AH TB, Bt150.00, Buy from Hold, Target price: Bt186.89) – Raising 2004 sales forecast.
- Digital China (861 HK, HK\$2.55, Buy from Hold, Target price: HK\$3.24) – Big jump in profit in 2004.
- Guangdong Kelon^[a] (921 HK, HK\$3.45, Buy, Target price: HK\$5.01) – Forecast adjusted after FY03 results.
- Pihsiang (1729 TT, NT\$96.00, Sell from Hold, Target price: NT\$69.22) – 1Q sales below target.
- TYC Brother (1522 TT, NT\$45.20, Sell from Buy, Target price: NT\$40.66) – Margin erosion risk in 2004.
- Varitronix (710 HK, HK\$8.25, Buy, Target price: HK\$10.10) – Strong FY03 results.
- Ratings changed to HOLD as share prices move close to target prices: Baoye Group, Dream International, Kaulin, Taiwan Hon Chuan.
- Change in Top BUYs: **In:** China Rare Earth.

Top BUY recommendations

Company	B'berg	Lcy	Price	Target	Market cap (US\$m)	Fwd PER (x)	2-yr EPS CAGR (%)	Fwd yield (%)
China Rare Earth	769 HK	HK\$	1.11	1.67	140.5	8.0	47.1	3.6
Guangdong Kelon ^[a]	921 HK	HK\$	3.45	5.01	438.8	9.0	65.4	-
Jaya Jusco Stores	JUSCO MK	RM	11.20	14.07	258.6	11.9	29.2	2.1
People's Food	PFH SP	S\$	1.43	1.91	953.3	8.9	41.3	3.9
Proview	334 HK	HK\$	1.96	2.90	159.7	5.4	41.3	3.7
Test Rite	2908 TT	NT\$	21.00	29.41	233.8	9.3	129.5	5.4
Thoresen Thai ^[b,c]	TTA TB	Bt	37.50	68.59	609.5	5.5	101.1	7.2
Tong Tai	4526 TT	NT\$	61.50	81.56	133.3	10.6	27.4	4.5
Tong Yang	1319 TT	NT\$	56.50	74.57	647.6	15.2	29.3	4.0
TPV Technology ^[d]	903 HK	HK\$	5.45	7.00	942.9	11.5	13.7	1.7
Zhejiang Glass ^[g]	739 HK	HK\$	2.80	4.48	207.7	6.3	43.9	4.8

Source: ING estimates

research.ing.com

PLEASE SEE THE IMPORTANT DISCLAIMER, COMPANY DISCLOSURES AND ANALYST CERTIFICATION ON THE LAST PAGE OF THIS REPORT

Andrew Kuet, CFA

Head of Small Cap Research, Asia
 Hong Kong (852) 2913 8576
 andrew.kuet@asia.ing.com

Mark Chang, CFA

Taiwan (8862) 2734 7521
 mark.chang@asia.ing.com

Paul Snelgrove

Hong Kong (852) 2913 8030
 paul.snelgrove@asia.ing.com

Woochang Chung

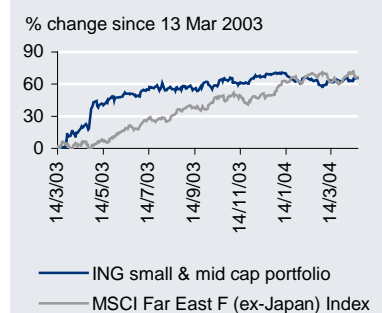
Korea (822) 317 1566
 woochang.chung@asia.ing.com

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Contributing analysts

Andy Chan
 Belinda Chan
 Herman Woo
 Lilian Leung
 Marc Lavoie
 Paworamon Suvarnatemee, CFA
 Patrick Yau, CFA
 Dr. Peter So
 Philip Wickham
 Scot Weaver

ING small & mid caps vs MSCI



Share price changes of ING recommended small & mid caps since the launch date on 13 March 2003, relative to the return on the MSCI index.

Source: Datastream, ING

The week ahead

Zhejiang Glass-Conference call	21 Apr
Tong Yang-company visit	21 Apr
Varitronix-company visit	26 Apr

Results announcements

BALtrans	23 Apr
Baoye Group	27 Apr
Zhejiang Glass	26 Apr

Idea of the week

China Rare Earth Bottoming out

Basic materials

20/4/04

HK\$1.11

China Rare Earth (CRE) is the largest rare earth producer in China. As product selling prices started to move up in 1Q04, we expect 2004 net profit to jump by 97% YoY and expect a re-rating to HK\$1.67, ie 13x FY04F EPS, or 0.3x PE/growth.

Bottoming out. Rare earth selling prices are up about 30% YoY in 1Q04 after over two years of decline, driven by the rising demand from the electronic sector and other industrial applications. CRE's products are mainly used for producing lighting products, electronics, medical equipment and special alloys.

2004 outlook favourable. We expect CRE to achieve a 97% net profit increase in 2004 on the back of better selling prices for both rare earth products and refractory products, along with expanding profit margins, with EBIT rising from 15.7% in 2003 to 16% in 2004 and further to 17.6% in 2005.

Due for a re-rating. Given the major profit jump in 2004, we expect the stock to re-rate to a higher PER. We set our target price at HK\$1.67, based on 13x FY04F EPS, ie 0.3x target PER/growth.

Forecasts and ratings

Yr to Dec	2002	2003	2004F	2005F	2006F
Sales (HK\$m)	468.0	457.1	930.4	1,137.6	1,377.2
EBITDA (HK\$m)	105.7	109.9	203.3	261.4	349.0
Net profit (HK\$m)	41.0	66.6	131.8	174.6	242.5
EPS (HK\$)	0.050	0.082	0.140	0.177	0.246
Ch to previous EPS (%)			NA	NA	
Consensus EPS (HK\$)			0.123	0.170	
EPS growth (%)		62.3	70.7	26.7	38.9
PER (x)	22.0	13.6	8.0	6.3	4.5
EV/EBITDA (x)	7.8	7.5	4.0	3.1	2.4
Yield (%)	1.8	2.0	3.6	4.8	6.6

Source: Company data, ING estimates

Andrew Kuet, CFA

Hong Kong (852) 2913 8576
andrew.kuet@asia.ing.com

Re-initiating coverage

Buy

21 April 2004

Target price: 12 months

HK\$1.67 (+50.8%)

Bloomberg

769 HK

Share data

Market cap (US\$m)	141
Number of shares (m)	987
Daily turnover (US\$m)	0.4
Free float (%)	38.5
52-week hi/lo	1.79 - 0.42

Results due

Interim results	September
Final results	April

Major shareholders (%)

YY Holdings Ltd	50.95
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Performance (%)

	Absolute	Relative to HSI
1m	-19.6	-17.0
3m	-14.6	-6.5
12m	33.7	-7.4

1-year forward PER band chart



Source: Company data, ING estimates

China Rare Earth

Growth path

Past

China Rare Earth was founded by Mr and Mrs Jiang in 1987, and restructured into a limited company in 1994.

The company was ISO 9002 certified in January 1999. It was listed in Hong Kong in 1999.

The company underwent a period of rapid expansion after the listing. However, the sector slowdown from 2001 has affected the company's factory utilisation and profit in 2002 and 2003.

Present

China Rare Earth is now the largest rare earth processor in China.

The company has two major product lines:

Rare-earth products: 31 different types. The company has an annual capacity of 6,500 tonnes in Yixing, Jiangsu province.

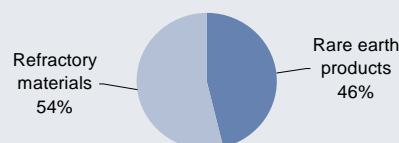
Refractory materials: The company has an annual capacity of 80,000 tonnes, also in Yixing.

Future

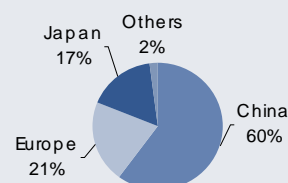
China Rare Earth has a maximum production capacity of 8,000 tonnes of rare earth pa. The company does not plan to add more capacity over the next 12 months as the sector is still in the early stage of recovery.

In refractory products, the company recently expanded its production capacity to 80,000 tonnes pa as this business segment has become the key revenue and profit contributor. The company plans to expand capacity further to tap the rising demand over the next two years.

Sales by product (FY03)



Sales by market (FY03)



Sensitivity analysis (%)

HK\$m	2004F Base case	% of sales	Rare earth up 10%	Chem up 10%
Sales	930	100.0	100.0	100.0
Rare earth ore	158	17.0	18.7	17.0
Refractory ore	223	24.0	24.0	24.0
Chemicals	195	21.0	21.0	23.1
Labour	74	8.0	8.0	8.0
Overhead	75	8.1	8.1	8.1
EBITDA	204	21.9	20.2	19.8
Depreciation	41	4.4	4.4	4.4
EBIT	163	17.5	15.8	15.4

Competitive analysis

Substitutes

Limited substitutes. China has around 80% of the world's rare earth reserves, amounting to 36m tonnes, while the US has 12%.

New entrants

Limited new entrants due to licensing controls by the government. Also, there are few foreign competitors as other countries have limited reserves. Foreign companies are not allowed to operate in the upstream businesses (eg, mining, refining, separation, etc).

Customers

40% of rare earth products are exported, while the remaining are sold domestically. However, a large part of domestic sales are to MNCs operating in China.

For refractory products, over 80% are sold to domestic steel mills, and glass and cement makers. The remaining goes to New Japan Steel.

Suppliers

The company relies on several major suppliers. The top five suppliers account for 32% of total purchases. China Rare Earth is at a disadvantage in that it can be affected by any disruption in supply. The company is considering acquiring mines.

Competitive threats

Entry barriers are high in terms of regulatory control. Rare earth production in China is highly regulated and is classified as a "restricted business", whereby the manufacturing and distribution of rare earth materials are restricted to domestic companies. Exports are regulated by quota.

The company does not have much bargaining power over the prices of rare earth products given the oversupply situation, especially in the low-end products.

Management

	ING rating	
Vision	2	Low ROE reflects inefficiency in the operations. This is mainly due to the long working capital cycle.
Growth strategy	2	Management has ambition to become the dominant player in China's rare earth sector. However, premature regulation in the sector is affecting its progress.
Financial prudence	2	
ROE vs cost of capital	1	
Transparency	2	Low transparency in the selling price of rare earth products is a concern given that there is no open market quote for rare earth products.
Alignment with minority shareholders' interest	2	
Rating: 1 lowest, 3 highest	61.1%	11

China Rare Earth

Profit and loss (HK\$m)

Yr to Dec	02	03	04F	05F	06F
Turnover	468	457	930	1,138	1,377
EBITDA (ex-assoc)	106	110	203	261	349
Depreciation	(33)	(38)	(41)	(46)	(50)
EBIT (ex-assoc)	73	72	162	215	299
Net interest inc/(exp)	4	3	3	3	4
Associates' profits	-	-	-	-	-
Exceptional items/others	(28)	1	-	-	-
Pre-tax profit	49	76	165	218	303
Tax	(9)	(9)	(28)	(37)	(52)
Minority interest	1	(0)	(5)	(7)	(9)
Preference dividends	-	-	-	-	-
Net profit	41	67	132	175	242
Others	-	-	-	-	-
Dividends	(16)	(18)	(40)	(52)	(73)
Retained earnings	25	49	92	122	170

Cash flow (HK\$m)

Yr to Dec	02	03	04F	05F	06F
Pre-tax profit	49	76	165	218	303
Taxes paid	(9)	(0)	(9)	(28)	(37)
Depreciation/amort'n	33	38	41	46	50
Associates' adj.	-	-	-	-	-
Exceptional items	28	(1)	-	-	-
Gross cash flow	101	113	197	236	316
Capex	(114)	(100)	(100)	(100)	(100)
Change in working cap	(21)	14	(144)	(83)	(96)
Free cash flow	(35)	27	(47)	53	120
Dividends	(24)	(8)	(28)	(45)	(62)
Investments	-	-	(207)	-	-
Disposals	120	-	-	-	-
Share issues	-	-	208	-	-
Others	34	1	(1)	-	-
Net cash flow	95	21	(74)	8	59
Net cash (debt) start	233	329	349	275	283
Adj. for FX valuation	-	-	-	-	-
Net cash (debt) at Y/E	329	349	275	283	342
S'holders' funds + MI	954	1,003	1,100	1,229	1,408
Net gearing (%)	Cash	Cash	Cash	Cash	Cash

Balance sheet (HK\$m)

As at Dec (HK\$m)	02	03	04F	05F	06F
Cash & deposits	333	353	279	287	346
ST marketable sec's	-	-	-	-	-
Trade debtors	127	137	233	284	344
Other debtors	-	-	-	-	-
Inventories	187	160	279	341	413
Other current assets	29	29	29	29	29
Intangible assets	-	-	-	-	-
Other LT assets	-	-	-	-	-
Fixed assets	353	415	474	528	578
Total assets	1,029	1,095	1,294	1,470	1,710
Trade creditors	(71)	(69)	(140)	(171)	(207)
Other creditors	-	-	-	-	-
ST debt	(4)	(4)	(4)	(4)	(4)
Other current liabs	(0)	(19)	(50)	(66)	(92)
LT borrowings	-	-	-	-	-
Deferred taxation	-	-	-	-	-
Other LT liabilities	-	-	-	-	-
Total liabilities	(75)	(92)	(194)	(241)	(302)
Share capital	81	81	81	81	81
Reserves	857	906	998	1,120	1,290
S'holders' funds	938	987	1,080	1,202	1,371
Minorities	15	16	21	27	36
Total	1,029	1,095	1,294	1,470	1,710
Net cash (debt)	329	349	275	283	342
Total cap employed	954	1,003	1,100	1,229	1,408

Key assumptions

	02	03	04F	05F	06F
Sales volume (ton)					
Rare earth products	3,600	4,000	6,000	6,900	8,000
YoY change (%)	-39	11	50	15	16
Refractory products	55,000	47,000	56,400	65,000	75,000
YoY change	22	(15)	20	15	15
Average realized prices (HKD/ton)					
Rare earth products	57,270	52,040	68,000	75,000	80,000
YoY change (%)	-10	(9)	31	10	7
Refractory products	4,755	5,293	5,716	6,002	6,302
YoY change (%)	(11)	11	8	5	5

Statistics and ratios

Yr to Dec	02	03	04F	05F	06F
Growth (%)					
Turnover	(24)	(2)	104	22	21
EBITDA (ex-assoc)	(36)	4	85	29	34
EBIT (ex-assoc)	(49)	(1)	126	33	39
Net profit	(71)	62	98	32	39
Fully diluted EPS	(74)	62	71	27	39
Margins (%)					
EBITDA (ex-assoc)	23	24	22	23	25
EBIT (ex-assoc)	16	16	17	19	22
Others (%)					
Effective tax rate	11	12	17	17	17
Payout ratio	40	27	30	30	30
EBIT ROCE	8	8	16	19	23
Net ROE	4	7	13	15	19
Net gearing	Cash	Cash	Cash	Cash	Cash
ROA	4	6	11	13	16
Interest cover (x)	NA	NA	NA	NA	NA
Debtors (days)	96	105	73	83	83
Creditors (days)	66	73	52	65	67
Stock (days)	178	182	110	129	134

ROE decomposition

	02	03	04F	05F	06F
EBIT margin (%)	15.5	15.7	17.4	18.9	21.7
Asset turnover (x)	0.46	0.43	0.78	0.82	0.87
Asset/equity (x)	1.10	1.10	1.16	1.21	1.24
Pre-tax/EBIT (x)	0.67	1.06	1.02	1.01	1.01
Net profit/pre-tax (x)	0.84	0.87	0.80	0.80	0.80
ROE (%)	4.4	6.9	12.8	15.3	18.8

Dividend data

Net dividend (HK\$)	Amount	Ex-date	Record	Payment
Interim 03	nil	-	-	-
Final 03	0.020	28 May 04	31 May 04	16 Jun 04

Per share data

Yr to Dec	02	03	04F	05F	06F
EPS (HK\$, adj)	0.05	0.08	0.14	0.18	0.25
FD EPS (HK\$, adj)	0.05	0.08	0.14	0.18	0.25
CFPS (HK\$, adj)	0.12	0.14	0.21	0.24	0.32
FD CFPS (HK\$, adj)	0.12	0.14	0.21	0.24	0.32
Net DPS (HK\$, adj)	0.02	0.02	0.04	0.05	0.07
NBVPs (HK\$, adj)	1.15	1.21	1.09	1.22	1.39
Y/E shares adj (m)	814	814	987	987	987
Adj av shares (m)	814	814	944	987	987
Enlarged shares (m)	814	814	944	987	987

Bottoming out

**2003 net profit
up 64% YoY**

China Rare Earth reported 2003 net profit of HK\$66.6m, up 64% YoY. Excluding the exceptional loss of HK\$28m last year, recurrent profit was actually down 3.4% YoY, on the back of a 2% YoY decrease in sales. The exceptional loss last year was a write-off of some old production facilities and slow moving inventory. There was no such item in the 2003 profit and loss as CRE cleaned up its balance sheet in 2002.

**Selling price up 30%
in 1Q04...the sign of
an up cycle**

We see signs of bottoming out for CRE. Our follow-up discussion with management indicated that rare earth selling prices have started to pick up from December 2003 and are now up about 30% YoY in 1Q04. The upward trend, after more than two years of decline, is due to the restructuring of the rare earth suppliers, the rising demand from the electronics sector and steady demand from other industrial applications. The rising prices of other commodities have also contributed to the increase in rare earth prices. CRE's products are mainly used for producing lighting products, electronics, medical equipment and special alloys.

CRE has two major products: rare earth products and refractory products. 1) CRE produced around 4,000 tonnes of rare earth products in 2003, up 10% YoY and exports 40% of its output to Japan, Europe and the US. 2) During 2003, it produced about 47,000 tonnes of refractory products, down 15% YoY, selling mainly to steel mills in China.

2004 outlook becoming more favourable

**Rising selling
prices in 2004 lead
to margin
expansion**

We expect CRE to achieve a 97% net profit increase in 2004, on the back of better selling prices and expanding profit margins. The growth drivers are: 1) For rare earth products, 1Q average selling prices have increased by 30% YoY. Management expects a firmly upward pricing trend for the rest of 2004. The company expects the selling volume of rare earth products to increase from 4,000 tonnes to 6,000 tonnes, ie back to its 2001 level due to the strong demand from the lighting products and electronics sectors. 2) For refractory products, CRE expects to see a 20% volume growth plus an 8-10% price increase due to the good order flow from the steel mills and glass factories in China.

Allowing for higher costs due to the reduction in the VAT rebate, we believe the higher selling prices of rare earth and refractory products should result in higher margins. We expect the EBIT margin to rise from 15.7% in 2003 to 16% in 2004 and further expand to 17.6% in 2005.

The newly acquired high temperature ceramic factory is expected to produce around 10,000 tonnes of output and should contribute extra operating profit of HK\$23m to the group in 2004. CRE acquired the high temperature ceramic factory by issuing 173m new shares at HK\$1.20 in March 2004.

Due for re-rating

Given the major profit jump in 2004, we expect the stock to re-rate to a higher PER. We set our target price at HK\$1.67, based on 13x FY04F EPS, ie 0.3x target PER/growth.

Andrew Kuet, CFA (852) 2913 8576

Upgrades & downgrades

Fig 1 Recommendation and forecast changes

Company	B'berg code	Date changed	FY04F EPS (New)	Change (%)	FY05F EPS (New)	Change (%)	Current rating	Previous rating
Aapico Hitech	AH TB	21 Apr	12.46	8.0	16.41	0.9	BUY	HOLD
Baoye Group	2355 HK	21 Apr	0.405	-	0.516	-	HOLD	BUY
Digital China	861 HK	21 Apr	0.031	1369.6	0.270	4.1	BUY	HOLD
Dream International	1126 HK	21 Apr	0.221	-	0.253	-	HOLD	BUY
Guangdong Kelon ^[a]	921 HK	21 Apr	0.409	-3.9	0.527	-8.2	BUY	BUY
Kaulin	1531 TT	21 Apr	4.512	2.1	4.783	1.9	HOLD	SELL
Pihsiang	1729 TT	21 Apr	5.325	-37.2	6.791	-35.4	SELL	HOLD
Taiwan Hon Chuan	9939 TT	21 Apr	3.091	-20.8	3.465	-17.5	HOLD	BUY
TYC Brother	1522 TT	21 Apr	3.388	-25.4	4.222	-24.1	SELL	BUY
Varitronix	710 HK	21 Apr	0.611	-4.9	0.735	-5.1	BUY	BUY

Source: ING estimates

Aapico Hitech (AH TB, Bt150.00, Buy from Hold, Target price: Bt186.89)

We upgrade AAPICO from HOLD to BUY and raise our FY04 profit forecast by 12% and FY05 forecast by 5%, reflecting better sales and new orders. With an EPS CAGR of 48% over the next three years, the stock is trading at a 0.24x PE/growth, which is much more attractive than the Thai market average PEG of 0.8x. We hence expect the stock to re-rate to 15x PER, ie a PEG of 0.3x, and thus our 12-month target price is Bt186.9/share. We see this a good BUYing opportunity as its share price has corrected from its 12-month high of Bt184/share and over the last three months, moved down together with the Thai market.

Our discussion with management indicated that sales in 2004 remain very strong, confirming our growth target of 30% YoY organic growth for jigs and other auto parts. With the additional contribution from Parish Structural Products, acquired in May 2003, we expect auto part sales to increase 90% YoY in 2004. Dies and other accessories are expected to grow by 15% YoY.

A positive surprise was the new jig order of US\$9m from Volvo China, which the company secured recently. To reflect the higher sales, we upgrade our FY04 profit forecast by 7% from Bt560m to Bt598m.

Combining the production of the newly acquired Parish Structural Products, AAPICO has been able to enjoy benefits of scale, leading to a better profit margin. We expect EBITDA margin to improve from 13.1% last year to 14.2% in 2004 while EBIT margin should improve from 8.1% last year to 10.7%. In addition to the scale effect, the increasing contribution from higher margin jig sales is another factor. Jigs generate an average gross margin of 30% plus vs 17% for other auto parts.

Andrew Kuet, CFA (852) 2913 8576

Baoye Group (2355 HK, HK\$3.73, Hold from Buy, Target price: HK\$3.82)

We downgrade the stock to HOLD from BUY as the share price is now close to our target price. The share price has gained about 40% over the last six months. Our target price is based on 10x FY04F earnings.

Andrew Kuet, CFA (852) 2913 8576

ING forecasts	FY03	FY04	FY05
Net profit (Btm)	309	598	788
EPS (Bt)	7.20	12.46	16.41
DPS (Bt)	1.30	2.49	3.28

Recent share price correction is a good BUYing opportunity

Sales growth momentum remains strong

Margin trending up on increasing economies and changing product mix

ING forecasts	FY03	FY04	FY05
Net profit (Rmb m)	161	215	274
EPS (Rmb)	0.36	0.41	0.52
DPS (Rmb)	0.06	0.08	0.10

ING forecasts	FY03	FY04	FY05
Net profit (HK\$m)	121	143	164
EPS (HK\$)	0.19	0.22	0.25
DPS (HK\$)	0.09	0.11	0.13

2003 results point to slower growth outlook

Higher risk of margin erosion

Not likely to re-rate due to modest growth and margin risk

ING forecasts	FY03	FY04	FY05
Net profit (HK\$m)	181	26	232
EPS (HK\$)	0.21	0.03	0.27
DPS (HK\$)	0.07	0.01	0.08

Underperformance presents buying opportunity

Dream International (1126 HK, HK\$2.15, Hold from Buy, Target price: HK\$2.21)

We downgrade Dream International to HOLD from BUY, seeing a modest growth outlook for 2004 and 2005 and a higher risk of margin erosion due to the increased input cost for the fibre used in stuffed toys.

FY03 net profit was HK\$121m, up 6.5% YoY and below our forecast of HK\$137m, due to lower-than-expected sales. Dream has a capacity of 76m units per year, the largest in the world. Management attributed the poor sales to the SARS outbreak and the war in Iraq in 2003, which affected sales for toys in the US. The US remains the largest market, accounting for 43% (49% in 2002) of total sales. Japan accounts for 40% (33% in 2002) of sales, but the EU represents only 10% (5% in 2002) of total sales, although it was the fastest growing market in 2003.

However, with the rising raw material costs, we see a higher risk of margin pressure and hence expect no further margin expansion in 2004. However, this should be offset by the high factory utilisation (95% in 2003) and the higher margin of its ODM products. We currently expect EBIT margin to remain flat but see higher risk of downward revision on a three-to-six month view. To cushion the rising input costs from the fibre used for stuffed toys, Dream has increased its inventory level for fibres from its typical three months to almost 8 months now. This, however, will severely increase the company's working capital investment and hence lower its return.

Given the lower-than-expected results, we lowered our FY04 and FY05 profit forecasts by 14.0% and 13.6% respectively, due to lower sales. Therefore, our target price is lowered from HK\$2.57 to HK\$2.21 accordingly, based on 10x FY04F PER. We downgrade the stock from BUY to HOLD.

Andrew Kuet, CFA (852) 2913 8576

Digital China (861 HK, HK\$2.55, Buy from Hold, Target price: HK\$3.24)

We see the current share price as an attractive entry level into the leading PRC IT distributor. In June, DC will likely report a return to profit for FY04, and FY05 should see it return to a normal growth path. We look for the stock to re-rate from the current 9.5x FY05F PER to 12x. Upgrade to Buy

DC's share price has come under some pressure over recent weeks. However, with the company returning to profitability in 4QFY04, and a strong earnings recovery in FY05, we believe it is the right time to accumulate the stock.

The company continues to add value. Rather than being a pure hardware distributor like its global peers, DC is continuing to develop its business model to offer its customers value-added IT systems and related services. Growth from other businesses should help at least maintain existing group margins, and justify a higher multiple.

DC is cheap compared to its peers. Now trading at just 9.5x FY05F PER, we see DC as undervalued compared to its peers despite its leading position in China and complete IT solutions business offering. We believe that our 12x FY05F PER target for the stock is conservative.

Paul Snelgrove (852) 2913 8030

ING forecasts	FY03	FY04	FY05
Net profit (Rmb m)	191	405	419
EPS (Rmb)	0.19	0.41	0.53
DPS (Rmb)	0.00	0.00	0.11

**2003 net profit up
126% YoY but
13% lower than
expectations**

**Maintaining 2004 sales
target of Rmb10bn**

**Targeting the rural
areas to achieve higher
growth**

ING forecasts	FY03	FY04	FY05
Net profit (NT\$m)	481	541	574
EPS (NT\$)	4.01	4.51	4.78
DPS (NT\$)	2.81	3.16	3.35

**China momentum
recovered**

Guangdong Kelon (921 HK, HK\$3.45, BUY, Target price: HK\$5.01)

Guangdong Kelon reported 2003 net profit of Rmb191m, up 126% YoY, but 13% below our expectations. Sales amounted to Rmb6,168m up 26.4% YoY. The results confirmed our expectation of a major profit pick-up in 2003. For the core business, sales were 9% below our forecast, but operating profit was better than expected, increasing from 3.7% in 2002 to 5.9% in 2003 vs our earlier forecast of 5.3%. Better margins indicated a positive impact from better factory utilisation, stable selling prices and contribution from the OEM business. The major variance was from the associated company: the 23% JV compressor factory had a worse-than-expected Rmb29m loss vs our forecast of a Rmb5m loss.

Management is confident it will achieve its Rmb10bn sales target for 2004. 1Q04 sales were up 57.5% to Rmb1.6bn. Assuming the same seasonality as in 2003, full-year 2004 sales should be Rmb10bn, meeting management's target. We currently forecast Rmb8.6bn sales for full-year 2004. Management also advised that Kelon recently received an US\$80m new OEM order from a top European home appliance brand and as such now has OEM orders on hand of US\$480m, indicating a more than 100% increase YoY. For the first three months of 2004, OEM sales continued to experience strong growth, achieving an increase of 170.9% YoY.

For domestic sales, Kelon has been successfully using the multi-branding strategy to capture a larger market share. By end-2003, the *Kelon* brand had market share of 17% in China and its *Kombine* brand had another 10% market share. With considerable cost advantages (an estimated 20-30% cheaper than other producers), Kelon targets to gain more market share by leveraging on the *Kombine* refrigerator and air-conditioner series positioned for the low-end and agricultural consumer markets. In addition, Kelon successfully launched the "Digital Shuang Xiao Wang" air conditioners, which achieved a breakthrough in its cooling and heating efficiencies. Both efficiencies achieved a 6.0, which is the highest level in the world. Kelon also expanded the application of its Independent Multi-cycling Refrigeration (IMCR) technology by launching the refrigerators with triple and quadruple cycling technologies.

We have reduced our 2004 profit forecast by 4% allowing for the larger losses at the compressor JV and hence revise our target price to HK\$5/share accordingly, based on 13x FY04F EPS. Compared to Skyworth (751.HK), a similar company with a dominant market position in the China TV market, we believe Kelon should trade at a similar PER and thus consider the 13x PER justifiable. Kelon is achieving similar ROE as Skyworth at 13.9% in 2004.

Andrew Kuet, CFA (852) 2913 8576

Kaulin (1531 TT, NT\$55.00, Hold from Sell, Target price: NT\$54.14)

With a recovery in its China operation in 1Q04, we upgrade our recommendation on Kaulin from Sell to Hold. We believe the sales recovery in China was the result of capex from garment producers in view of China's quota-free status, which starts in January 2005. However, we only see single-digit earnings growth in 2005 at the moment.

Year-to-date China sales reached Rmb80m, up 16% YoY. Management believes the momentum will continue for the next two to three months due to no price cutting from its competitors and strong demand from garment producers building up their capacities in China.

Upgrade from Sell to Hold

A possible catalyst is the increase of its stake in the profitable China operation. Currently, Kaulin owns 70%, but it plans to increase the stake to 80% this year. With better momentum, we move our target PER to 12x, from 10x previously. Our new target price is set at NT\$54.1, up from NT\$44. We upgrade our recommendation from Sell to Hold.

Mark Chang, CFA (8862) 2734 7521

Pihsiang (1729 TT, NT\$96.00, Sell from Hold, Target price: NT\$69.22)

ING forecasts	FY03	FY04	FY05
Net profit (NT\$m)	916	843	1075
EPS (NT\$)	5.79	5.33	6.79
DPS (NT\$)	4.48	4.12	5.26

In view of lower-than-expected sales in 1Q04, we downgrade Pihsiang from HOLD to SELL and cut our 2004 forecast by 37%, reflecting lower sales and margin erosion. We also see further downside from its legal case with its UK agent. With lower growth and uncertainties we downgrade the stock to SELL with a target price of NT\$69.22 (previously NT\$101).

Lower 2004 forecast and target price

We cut Pihsiang's 2004 profit forecast by 37%, reflecting the below-budget sales in 1Q (down 36% YoY) and the margin erosion (EBIT from 39% in 2003 to 34% in 2004) due to lower factory utilisation and rising raw material input costs. The lower sales are due to the weaker demand from the US as affected by the reduction in Medicare reimbursement. We are concerned that this could be a structural change affecting its sales to the US. The legal claim from its UK agent, still 12 months away from actually paying out cash, should affect the share price when finalised. Given the lower profit and the uncertainties, we expect the stock to de-rate to NT\$69.22, based on 13x our lowered FY04 earnings forecast.

1Q04 sales below target, a worrying trend

Sales in 1Q04 were 37% down YoY and much below management's target. Management advised that the weaker-than-expected sales were due to the poor sales in the US market, where, the reduction in the Medicare reimbursement for wheelchairs has affected sales. While it is too early to see this as a permanent structural change for Pihsiang's business, this is a worrying sign. Given the poor 1Q sales, management sees 2004 sales to be flat at best, if not decline YoY. We see risk of downside surprise due to the weaker-than-expected US sales.

Margin erosion in 2004

Management also sees lower margins for 2004 due to rising raw material input costs and forex loss. Major raw materials are steel, mechanical components and electronic components. While Pihsiang has been able to keep the input costs low in 2003, management sees a high chance that they will need to pay more for steel and steel-related components in 2004. The dispute in the UK and weaker demand in the US are likely to result in lower factory utilisation in 2004 and this will also affect margins. We expect the EBIT margin for Pihsiang to reduce from 39.1% in 2003 to 34% in 2004.

DMA legal claim will still hurt

Although partly discounted, we still expect the DMA legal claim to affect the share price when it is finalised in 2005 and Pihsiang needs to pay out the cash. DMA (Day Medical Aids Limited), Pihsiang's UK agent, claimed that Pihsiang violated the agency contract and claimed £10.2m. The initial judgement was approved by the UK Court (The High Court of Justice, Commercial Court) in February, in favour of DMA. Although the original contract expired in 2001, DMA claims that it is entitled to the right of renewal and hence claims the potential loss of profit based on the estimated profit to be earned for 2001-2005, assuming the agency contract remains intact.

Pihsiang is unlikely to pay out the money within the next 12 months, even if it fails in all the legal proceedings. Pihsiang filed an appeal to the Court of Appeal in the UK in late March 2004. If the appeal is approved, Pihsiang will have an extra 12-18 months before a court decision is made. Even if Pihsiang is denied the appeal, DMA would still

have to file the enforcement in a Taiwan Court before it can get the money from Pihsiang. The enforcement should take at least another 12 months. Pihsiang's potential loss from the DMA claim, ie NT\$612m (£10.2m), is about 15% of Pihsiang's NBV. We believe Pihsiang should have sufficient internal cash to cover the payment.

Andrew Kuet, CFA (852) 2913 8576

Taiwan Hon Chuan (9939 TT, NT\$44.10, Hold from Buy, Target price: NT\$43.28)

ING forecasts	FY03	FY04	FY05
Net profit (NT\$m)	385	504	565
EPS (NT\$)	2.60	3.09	3.47
DPS (NT\$)	1.68	1.71	1.91

We downgrade Taiwan Hon Chuan from BUY to Hold on the back of rising raw material costs and dilution from the latest round of fundraising. We forecast parent company gross margin will decrease by 2.1 points this year to 29.5%. On the back of a growing China contribution, we expect net profit in 2004 to grow by 30% but EPS only by 19% due to the latest fundraising in 4Q03. Our NT\$43.3 target price is based on 14x fully diluted FY04F earnings.

Margin erosion

We continue to expect Taiwan Hon Chuan to grow its domestic business with its initiation on the in-house model this year; top-line growth should come in at 20% in FY04. On the margin side, Hon Chuan has been able to expand its margin from 28% in 2001 to 31.5% in 2003 due to increasing operation scale. However, on the back of rising raw materials costs, gross margin should contract by 2.1 points to 29.5%. As plastic accounts for 30% of production cost, every 10% increase in the price of plastic will have 3% impact on its margins.

Rights issue dilutes earnings

At end-2003, Hon Chuan raised a total of NT\$54m by issuing a 15m new shares at NT\$36/share to fund its in-house projects for this year. Dilution from the rights issue was 10%. Our fully diluted EPS forecast for 2004 is NT\$3.09, a growth of 19% YoY.

Mark Chang, CFA (8862) 2734 7521

TYC Brother (1522 TT, NT\$45.20, Sell from Buy, Target price: NT\$40.66)

ING forecasts	FY03	FY04	FY05
Net profit (NT\$m)	563	652	812
EPS (NT\$)	2.92	3.39	4.22
DPS (NT\$)	1.46	1.69	2.11

We cut our FY04 profit forecast by 25% after reducing our 2004 sales target by 7% and allowing for a lower margin. We lower our EBIT margin assumption from 15.2% to 12.5%. Given the lower growth outlook and the higher risk of margin squeeze, we downgrade the stock to SELL from BUY with a target price of NT\$40.6/share (previously NT\$54.47), based on 12x FY04F earnings.

Margin erosion in 2004

Our recent discussion with management indicated that TYC is likely to suffer a 5 percentage point drop in its gross profit margin in 2004. We estimate that the EBIT margin will come down from 15.2% in 2003 to 12.5% in 2004, because of the following reasons: 1) TYC has seen increased competition for lamps in the US market, which accounts for 55% of total sales. Management expects average selling prices for the US market to come down by 3-5% YoY. 2) Sales to China have increased from 2% of total sales to 7% in 2003 and is expected to increase further. However, sales to the China market carry a very low margin. 3) Plastic prices, 55% of its raw material costs, have gone up by more than 30% from 4Q03 and will affect TYC's margin in 2004. 4) TYC relocated all its production to a new and larger factory in Tainan in late 2003 and is expected to see a lower factory utilisation in 2004 for its first year of usage there.

2004 sales target lowered

Management also lowered its sales growth target for 2004 from 12% previously to now 8%, citing more competition in the US and slower-than-expected approval of the CAPA certification. It is still waiting for the approval of its CAPA certification after the delay in 2H03. TYC achieved NT\$1.7bn in sales for the first three months of 2004, up 5.4% YoY. This is still below the 8% growth target. We see a risk of downside revision to its full-year target.

Sales to China should be stronger, although they tend to have a low margin. In addition to the Shanghai factory, TYC sees its new Chang Chun factory starting full-scale operations in mid-2004. The existing Shanghai factory is expected to achieve double-digit sales growth.

Andrew Kuet, CFA (852) 2913 8576

Varitronix (710 HK, HK\$8.25, Buy, Target price: HK\$10.10)

ING forecasts	FY03	FY04	FY05
Net profit (HK\$m)	151	187	226
EPS (HK\$)	0.50	0.61	0.74
DPS (HK\$)	0.57	0.43	0.52

Varitronix announced FY03 net profit of HK\$151m, up 36% YoY and only slightly below our forecast. Growth was driven by strong revenue growth in China for handset displays, operating cost controls and improved returns from its securities portfolio. High dividend payout continues, taking yield up to 6.5% for the year.

China sales have been driving growth. Varitronix announced a 17% increase in revenue to HK\$1.28bn, driven by a 49% increase in HK/PRC sales (to 33% of total) as the company shipped an increasing number of display solutions for mobile handsets and several EU and US customers moved production to China. Europe remained the largest market for Varitronix at 46% of sales driven by automotive and industrial displays. Strong growth in the rest of Asia was driven by 2H03 orders from Korean customers.

Fig 2 FY03 results summary (HK\$m)

Yr to Dec	FY02	FY03	YoY %	Comments
Turnover	1,085.60	1,274.80	17.4	Driven by PRC mobile displays
Gross profit	557.6	630.5	13.1	
Gross margin (%)	51.4	49.5	190bp	Competition and tight component supply
Operating profit	140.8	197.3	40.1	Costs under control plus gains on security disposal
Finance cost	-3.1	-2.9	-7	
Associates	-1.7	-11.7		Up from HK\$3.7m loss in 1H03 due to EC mirrors
PBT	136.1	182.7	34.2	
Income tax	-10.9	-14.4	32.9	
Minority interests	-7	-17	142.9	
Net profit	118.2	151.2	27.9	FY02 results restated, 36% growth YoY
Net margin (%)	10.9	11.9	100bp	
DPS	26.4¢	56.0¢	112.1	25th anniversary and cash up 18% YoY to HK\$549m

Source: Company data, ING estimates

Overall profitability was in line as we had expected a significant jump in other income due to the improved equity market. The main discrepancy was the significant increase in associate losses to HK\$12m, driven by the now-divested JV with Donnelly for the production of EC mirrors.

The company continued to reward investors with a high dividend yield. A final dividend of 22 cents plus 6 cents special dividend equates to a 3.3% yield on today's closing price (books close 1 June 2004, dividend payable 15 July). Coupled with the 28 cent interim dividend, the full-year dividend equates to a 6.5% yield, backed by the HK\$819m liquid portfolio (HK\$549m cash, HK\$270m securities).

The company sees a positive outlook for 2004 driven by continued growth for handset displays in China with an increasing demand for colour displays. As the European and US economies improve, Varitronix's automobile and industrial displays should benefit from strong demand. On our existing numbers the stock trades on 13x and 11x FY04F and FY05F PER, respectively. Our target price is based on 15x FY04F PER.

Paul Snelgrove (852) 2913 8030

Re-classification notice

We have removed Giordano (709 HK), Glorious Sun (393 HK), Skyworth (751 HK), Pulmuone (017810 KS), Kook Soon Dang (043650 KS), NHN (035420 KS) and Hankook Tire (000240 KS) from our Small-Cap Universe due to re-classification.

The week ahead

Fig 3 Results previews

Company	Results date	ING forecast	Consensus	Comment
BALtrans Ticker: 562 HK Rec: BUY Price: HK\$2.15 Target: HK\$3.15	1H04 23-Apr-04	Full-year net profit HK\$43.2m EPS HK\$0.143	Full-year net profit HK\$59.5m EPS HK\$0.198	<p>We expect Baltrans to report 1H FY04 net profit of HK\$16m down from HK\$24m net profit in 1H FY03. While the core business achieved 10% profit growth, group profit is affected by the newly acquired Jardine Logistics and the additional provision for accounts receivable relating to Jardine Logistics. The total impact of Jardine Logistics, ie operating losses plus the provision in 1H, should be about HK\$20m.</p> <p>We, however, expect a better 2H after Baltrans cleans up the balance sheet of Jardine Logistics and achieves cost savings by fully merging the back offices of its core business with Jardine Logistics.</p>
Baoye Group Ticker: 2355 HK Rec: HOLD Price: HK\$3.73 Target: HK\$3.82	FY03 27-April-04	Full-year net profit Rmb161m EPS Rmb0.364	Full-year net profit Rmb161m EPS Rmb0.360	<p>We expect Baoye Group to report 2003 net profit of Rmb161m, up 14% YoY, on the back of Rmb2.7bn in sales, up 18% YoY. Because of the EPS dilution from the IPO in mid-2003, EPS will decrease by 9.4% to Rmb0.364 in 2003. With cost advantages, we expect Baoye to achieve a stable profit margin. EBIT margin should be 9% in 2003 vs 9.5% in 2002.</p> <p>With its leading position in Zhejiang, Baoye has benefited from the construction boom in the province and has orders on hand worth 1.5 years. It also enjoys cost advantages given that it has in-house production facilities for construction materials.</p>
Zhejiang Glass⁽⁹⁾ Ticker: 739 HK Rec: BUY Price: HK\$2.80 Target: HK\$4.48	FY03 26-April-04	Full-year net profit Rmb151.1m EPS Rmb0.261	Full-year net profit Rmb164.0m EPS Rmb0.283	<p>We expect Zhejiang Glass to report 2003 net profit of Rmb151m, up 75% YoY. The strong recovery in profit should be mainly driven by the sharp rise in glass selling prices, which increased by more than 30% in 2H03.</p> <p>The average selling price should have increased from Rmb56/case in 2002 to Rmb65/case in 2003, which a high of Rmb75/case in 2H.</p> <p>The higher selling price will likely result in a significant improvement in margin for Zhejiang Glass, which should increase from 24% (EBIT) in 2002 to 38% in 2003.</p>

Source: ING estimates

Fig 4 ING events

Company name	Dates	Upcoming events	ING contact	Phone number
Tong Yang	21 Apr; 3:00pm	Company visit	Andrew Kuet	(852) 2913 8576
Varitronix – Dr C.C. Chang	26 Apr; 3:15pm	Company visit	Paul Snelgrove	(852) 2913 8030
Zhejiang Glass – Mr Feng Guang Cheng	21 Apr; 2:00pm	Conference call	Andrew Kuet	(852) 2913 8576

Fig 5 ING small & mid cap universe

Company name	B'berg code	Curr	Price 20 Apr	Target Price	Recom	Market cap (US\$m)	Actual share price movement			2-yr EPS		PER (x)	PER/ growth (x)	Yield (%)	P/BV (x)	Net debt/ equity (%)		EV/ EBITDA (x)
							1 week (%)	3 mth (%)	12 mth (%)	Forward EPS	CAGR (%)					ROE (%)	ROE (%)	
Industrial - Outsourcing																		
Basso	1527 TT	NT\$	72.00	76.04	HOLD	280.6	8.3	3.6	26.3	5.849	11.5	12.3	1.1	5.2	3.7	28.9	20.1	9.6
Dream International	1126 HK	HK\$	2.15	2.21	HOLD	179.2	-4.4	-1.1	50.4	0.221	16.6	9.7	0.6	5.1	2.4	23.2	-21.1	7.3
Grand Hall	8941 TT	NT\$	177.00	150.19	SELL	331.9	-1.7	14.9	13.4	11.553	-0.1	15.3	-168.5	4.6	6.9	42.5	-65.1	10.1
Hung Hing Printing	450 HK	HK\$	6.05	6.92	HOLD	443.7	-4.0	-4.0	26.0	0.576	12.5	10.5	0.8	6.2	2.0	18.2	-8.7	7.1
Makalot	1477 TT	NT\$	64.50	74.19	BUY	155.8	0.0	1.6	31.2	6.183	22.7	10.4	0.5	4.1	3.2	30.0	-40.1	5.4
Nien Made	9915 TT	NT\$	57.00	72.40	BUY	398.0	-1.7	-5.0	-8.8	5.569	17.6	10.2	0.6	7.3	3.7	34.7	-42.6	6.3
										Average	13.5	11.4	-27.5	5.4	3.7	29.6	-26.3	7.6
Industrial - Exporters																		
China Pharmaceutical	1093 HK	HK\$	2.45	2.30	HOLD	471.8	-4.9	-8.4	4.3	0.329	9.5	7.5	0.8	5.4	1.6	21.3	9.9	4.9
China Rare Earth	769 HK	HK\$	1.11	1.67	BUY	140.5	-18.4	-14.6	33.7	0.140	47.1	8.0	0.2	3.6	0.9	12.8	-34.8	4.0
Fountain Set ^[a]	420 HK	HK\$	6.05	7.77	BUY	609.1	-6.2	3.4	16.3	0.440	25.8	13.7	0.5	3.3	1.8	12.8	43.3	8.4
Giant	9921 TT	NT\$	43.90	46.03	HOLD	368.7	0.7	6.8	9.8	4.185	9.2	10.5	1.1	7.1	2.2	20.0	57.1	9.2
Kaulin	1531 TT	NT\$	55.00	54.14	HOLD	198.1	-2.7	8.9	3.8	4.512	9.2	12.2	1.3	5.7	2.5	19.8	-13.7	7.3
Microlife	4103 TT	NT\$	58.00	69.39	BUY	156.0	5.5	-0.9	10.7	4.626	36.7	12.5	0.3	4.7	3.5	30.7	35.3	7.6
Pihsiang	1729 TT	NT\$	96.00	69.22	SELL	474.0	-1.0	-17.6	9.0	5.325	8.4	18.0	2.2	4.3	5.4	28.3	-32.3	14.9
Texwinca	321 HK	HK\$	6.55	6.71	HOLD	1,111.5	-2.2	12.9	12.9	0.447	29.0	14.7	0.5	4.3	3.8	25.5	-21.1	9.1
Thai Union Frozen	TUF TB	Bt	23.30	29.25	BUY	509.3	-2.5	-14.5	7.9	2.083	-0.7	11.2	-16.9	6.3	2.0	17.8	57.8	9.9
Tong Yang	1319 TT	NT\$	56.50	74.57	BUY	647.6	-1.7	10.8	34.7	3.728	29.3	15.2	0.5	4.0	4.1	25.6	46.2	9.1
TYC Brother	1522 TT	NT\$	45.20	40.66	SELL	261.1	-3.2	-4.4	-27.0	3.388	20.2	13.3	0.7	3.7	2.0	14.4	53.2	6.0
										Average	20.3	12.4	-0.8	4.8	2.7	20.8	18.3	8.2
Industrial - Domestic consumer																		
Aapico Hitech	AH TB	Bt	150.00	186.89	BUY	183.2	4.2	-6.8	347.3	12.460	50.9	12.0	0.2	1.7	4.9	35.2	108.5	10.0
Asia Aluminum	930 HK	HK\$	0.94	1.12	BUY	373.7	-7.8	-42.7	20.5	0.086	47.9	10.9	0.2	3.8	1.3	12.2	-16.8	3.2
Golden Meditech	8180 HK	HK\$	3.00	3.67	HOLD	226.6	-14.3	10.1	147.9	0.282	49.4	10.6	0.2	1.9	2.5	21.8	-45.1	8.5
Guangdong Kelon ^[a]	921 HK	HK\$	3.45	5.01	BUY	438.8	-18.3	-2.1	225.5	0.409	65.4	9.0	0.1	0.0	1.3	13.6	-4.2	2.6
Hong Leong Asia	HLA SP	S\$	1.95	2.50	BUY	407.8	0.0	2.6	48.9	0.208	-12.1	9.4	-0.8	2.1	2.1	20.4	-4.6	2.5
People's Food	PFH SP	S\$	1.43	1.91	BUY	953.3	-10.1	23.3	43.0	0.776	41.3	8.9	0.2	3.9	2.9	29.5	-22.5	6.0
Taiwan Hon Chuan	9939 TT	NT\$	44.10	43.28	HOLD	175.7	0.0	2.8	-6.7	3.091	15.5	14.3	0.9	3.9	2.3	18.7	31.4	8.1
Tong Ren Tang	8069 HK	HK\$	18.05	17.00	HOLD	423.0	-0.8	27.1	43.8	1.202	20.4	15.9	0.8	2.8	5.4	31.0	-36.9	12.1
Zhejiang Glass ^[g]	739 HK	HK\$	2.80	4.48	BUY	207.7	-20.6	9.8	137.3	0.474	43.9	6.3	0.1	4.8	1.5	21.8	35.4	3.8
										Average	35.8	10.8	0.2	2.8	2.7	22.7	5.0	6.3
Industrial - Electronics																		
Comba Telecom ^[abc]	2342 HK	HK\$	4.70	5.50	BUY	500.1	-3.6	17.5	NA	0.327	26.5	14.4	0.5	2.1	4.3	27.3	-54.5	11.0
Digital China	861 HK	HK\$	2.55	3.24	BUY	280.7	-8.9	-12.8	14.6	0.270	219.3	9.5	0.0	3.2	1.6	15.5	1.2	7.0
Elec & Eltek	ELEC SP	US\$	3.18	3.48	BUY	464.6	2.6	18.7	74.7	0.416	4.6	13.0	2.8	3.9	1.9	14.3	14.7	7.3
Huan Hsin ^[cg]	HUAN SP	S\$	1.06	1.58	BUY	208.9	-2.8	-4.5	16.5	0.112	28.0	9.5	0.3	2.1	1.7	17.1	10.3	5.5
Kingboard Chemical ^[a]	148 HK	HK\$	15.55	16.00	HOLD	1,234.0	-1.9	37.0	135.6	0.989	24.8	15.7	0.6	1.0	2.7	16.0	38.7	10.1
Ngai Lik	332 HK	HK\$	3.75	4.41	BUY	380.9	-3.2	11.9	102.7	0.368	16.5	10.2	0.6	4.0	2.6	23.9	-9.7	7.4
Proview	334 HK	HK\$	1.96	2.90	BUY	159.7	-6.7	3.7	127.9	0.364	41.3	5.4	0.1	3.7	1.5	25.2	96.0	5.5
Tong Tai Machine & Tool	4526 TT	NT\$	61.50	81.56	BUY	133.3	-0.8	18.3	124.4	5.826	27.4	10.6	0.4	4.5	3.1	31.1	43.1	8.8
TPV Technology ^[d]	903 HK	HK\$	5.45	7.00	BUY	942.9	0.9	37.1	159.5	6.050	13.7	11.5	0.8	1.7	3.3	25.5	-35.2	7.5
Tripod Technology	3044 TT	NT\$	48.50	53.92	BUY	303.4	-1.8	15.5	84.9	4.148	23.2	11.7	0.5	3.6	2.6	21.8	32.7	6.8
Unisteel Tech	USTL SP	S\$	1.36	1.83	BUY	193.4	-3.5	-6.2	100.0	0.116	19.2	11.7	0.6	5.9	4.5	35.9	-55.0	6.7
Varitronix	710 HK	HK\$	8.25	10.10	BUY	321.6	-4.1	3.1	77.4	0.611	21.6	13.5	0.6	5.2	1.8	13.3	-29.8	7.8
										Average	22.4	11.4	0.7	3.4	2.6	22.2	4.4	7.6

Fig 5 ING small & mid cap universe – cont'd

Company name	B'berg code	Curr	Price 20 Apr	Target price	Recom	Market cap (US\$m)	Actual share price movement			2-yr EPS		PER (x)	PER/ growth (x)	Yield (%)	P/BV (x)	Net debt/ equity (%)		EV/ EBITDA (x)
							1 week (%)	3 mth (%)	12 mth (%)	Forward EPS	CAGR (%)					ROE (%)	ROE (%)	
Distribution/retailing																		
Cafe de Coral	341 HK	HK\$	7.50	7.53	HOLD	510.3	-1.3	4.9	63.0	0.502	11.6	14.9	1.3	4.1	2.7	17.9	-43.5	7.5
Jaya Jusco Stores	JUSCO MK	RM	11.20	14.07	BUY	258.6	-5.1	4.7	76.4	0.938	29.2	11.9	0.4	2.1	1.9	14.8	-17.7	5.3
Linmark	915 HK	HK\$	2.80	3.23	BUY	232.3	-5.9	-21.1	60.0	2.765	25.6	13.0	0.5	1.5	4.1	28.2	-59.0	11.7
Royal Garden Resort	RGR BK	Bt	15.60	21.00	Buy	177.0	0.0	-6.0	92.6	1.342	42.1	11.6	0.3	5.1	2.0	17.1	110.6	5.7
Test Rite	2908 TT	NT\$	21.00	29.41	BUY	233.8	0.0	5.5	-12.0	2.262	129.5	9.3	0.1	5.4	1.4	14.9	29.6	8.1
										Average	47.6	12.2	0.5	3.7	2.4	18.6	4.0	7.7
Advertising/media																		
Clear Media ^[9]	100 HK	HK\$	7.35	7.50	HOLD	472.7	-2.0	10.5	104.2	0.250	46.7	29.4	0.6	0.0	2.9	9.3	-25.3	12.4
										Average	46.7	29.4	0.6	0.0	2.9	9.3	-25.3	12.4
Transportation																		
BALtrans	562 HK	HK\$	2.15	3.15	BUY	83.1	-5.5	-36.8	-15.7	0.262	54.5	8.2	0.2	6.7	1.3	15.5	-8.4	5.4
Hainan Meilan Airport ^[9]	357 HK	HK\$	6.25	4.85	SELL	379.2	-13.8	11.6	79.9	0.380	10.4	17.4	1.7	2.7	2.2	12.5	-32.7	13.2
Malaysia Airports	MAHB MK	RM	1.52	2.15	BUY	440.0	-3.8	-9.5	3.4	0.107	60.0	14.2	0.2	3.9	0.7	4.9	-4.6	4.8
Taiwan Navigation	2617 TT	NT\$	27.00	35.20	Buy	238.9	-2.9	0.7	93.1	3.203	4.4	8.4	1.9	7.7	1.9	21.2	37.4	7.8
Thoresen Thai Agencies ^[bc]	TTA TB	Bt	37.50	68.59	BUY	609.5	-6.3	-18.9	810.2	6.859	101.1	5.5	0.1	7.2	12.2	113.3	178.0	4.9
TravelSky	696 HK	HK\$	5.55	6.50	SELL	632.0	-9.8	-35.5	16.8	0.383	20.1	15.4	0.8	2.3	1.8	11.2	-71.3	6.0
										Average	41.8	11.5	0.8	5.1	3.3	29.8	16.4	7.0
Construction																		
Baoye Group	2355 HK	HK\$	3.73	3.82	HOLD	253.8	-5.1	2.8	NA	0.405	19.0	9.8	0.5	2.0	2.7	24.8	-3.5	5.8
CTCI	9933 TT	NT\$	24.40	30.00	Buy	401.5	-2.4	-12.9	14.6	2.494	30.1	9.8	0.3	8.2	1.7	17.1	21.2	11.7
Sansiri	SIRI TB	Bt	8.05	16.00	Buy	177.6	0.6	-16.7	35.0	1.774	63.9	4.5	0.1	8.8	1.8	33.0	-7.7	3.0
Central Pattana	CPN TB	Bt	49.50	58.00	Buy	548.9	-1.0	-1.0	78.4	3.272	15.9	15.1	1.0	2.8	2.8	17.7	77.8	11.0
										Average	32.2	9.8	0.5	5.5	2.3	23.2	21.9	7.9
										Total avg	29.0	11.8	-2.9	4.1	2.8	23.2	6.0	7.6

Anhui Conch, ASM Pacific, Brilliance China, BYD, Denway, Global Bio-chem and Techtronic have been removed from the Universe table as their market cap has exceeded US\$1.5bn. We continue to cover the stocks We have dropped coverage on Zhejiang Yonglong and Shui On Construction.

Definitions: 1. Forward EPS – For companies with Feb to Jul year-ends we use FY05; for all other year-ends we use FY04

2. 2-yr EPS CAGR – For Feb to Jun year-ends we use growth from FY04-FY06; for all other year-ends we use FY03-05

3. PER – As with forward EPS

4. PER/growth – Forward EPS/2-yr EPS CAGR as defined above

5. Yield – As with forward EPS

6. P/BV and net debt/equity – For balance sheet data we use FY04 for Feb to Jul year-ends, for all other year-ends we use FY03

7. ROE – As with forward EPS, equity is calculated as the average of one-year historic and one-year forward

8. EV/EBITDA – As with forward EPS

Source: ING estimates

Asian Contacts List

REGIONAL RESEARCH

Asia	Adrian Faure	(852) 2848 8559	adrian.faure@asia.ing.com
Bangkok	Andrew Stotz	(662) 694 7722	andrew.stotz@asia.ing.com
China	Peter So	(852) 2848 8547	peter.so@asia.ing.com
Hong Kong/China	Kingston Lee	(852) 2848 8588	kingston.lee@asia.ing.com
Jakarta	Laksono Widodo	(62) 21 515 7334	laksono.widodo@asia.ing.com
Kuala Lumpur	Uday Jayaram	(603) 2165 3221	uday.jayaram@asia.ing.com
Manila	Gilbert Lopez	(632) 840 8937	gilbert.lopez@asia.ing.com
Seoul	Eugene Ha	(822) 317 1517	eugene.ha@asia.ing.com
Singapore	Soong Tuck Yin	(65) 6539 6615	tuck.yin.soong@asia.ing.com
Taipei	James P. Carroll	(886) 2 2734 7526	james.p.carroll@asia.ing.com
Tokyo	Peter Eadon-Clarke	(813) 5210 1525	peter.eadon-clarke@asia.ing.com

Sectors

Automobiles/Auto Parts	Kurt Sanger	(813) 5210 1482	kurt.sanger@asia.ing.com
Banking	Paul Sheehan	(852) 2848 8580	paul.sheehan@asia.ing.com
Basic Materials	Simon Francis	(852) 2848 8586	simon.francis@asia.ing.com
Conglomerates	Cusson Leung	(852) 2848 8544	cusson.leung@asia.ing.com
Consumer	Amelia Mehta	(65) 6539 5519	amelia.mehta@asia.ing.com
Economics	Tim Condon	(852) 2913 8133	tim.condon@asia.ing.com
Small Cap	Andrew Kuet	(852) 2913 8576	andrew.kuet@asia.ing.com
Strategy	Markus Rosgen	(852) 2848 8535	markus.rosgen@asia.ing.com
Technology	Kishore Suratkal	(852) 2913 8516	kishore.suratkal@asia.ing.com
Telecoms	Craig Irvine	(65) 6539 5522	craig.irvine@asia.ing.com
Transport	Philip Wickham	(852) 2848 8053	philip.wickham@asia.ing.com
Utilities	Rohan Dalziell	(852) 2848 8530	rohan.dalziell@asia.ing.com

SALES

Asia	Daren Riley	(852) 2913 8801	daren.riley@asia.ing.com
Bangkok	John Thompson	(662) 694 7705	j.thompson@asia.ing.com
China	Derek Chong	(8621) 6841 1794	derek.chong@asia.ing.com
Frankfurt	Ulrike Pollak-Tsutsumi	(49) 69 718 6818	ulrike.pollak-tsutsumi@uk.ing.com
Geneva	Daniel Fust	(41) 22 818 7777	daniel.fust@ing-barings.com
Geneva (Japan)	Thomas Renz	(41) 22 818 7712	thomas.renz@ing-barings.com
Hong Kong	Jenkin Leung	(852) 2913 8840	jenkin.leung@asia.ing.com
Jakarta	Darwin Sutanto	(62) 21 515 7321	darwin.sutanto@asia.ing.com
London	Carl Strutt	(44) 20 7767 8183	carl.strutt@uk.ing.com
London (N Asia)	Derek Wilson	(44) 20 7767 8130	derek.wilson@uk.ing.com
London (Japan)	Dietrich Hatlapa	(44) 20 7767 8103	dietrich.hatlapa@uk.ing.com
Manila	Louie Bate	(632) 840 8877	louie.bate@asia.ing.com
New York	John T. Sullivan	(1) 646 424 7774	john.t.sullivan@americas.ing.com
New York (Japan)	Noriko Manabe	(1) 646 424 7764	noriko.manabe@americas.ing.com
Paris	Julien Roux	(331) 5568 4583	julien.roux@ing.fr
San Francisco	Sheila Schroeder	(1) 415 925 2281	sheila.schroeder@americas.ing.com
Seoul	Phil Kang	(822) 317 1556	phil.kang@asia.ing.com
Singapore	Giles Heyring	(65) 6539 5555	giles.heyring@asia.ing.com
Taiwan	Mark Duncan	(886) 2 2734 7510	mark.duncan@asia.ing.com
Tokyo	Nick Cant	(813) 5210 1267	nick.cant@asia.ing.com

SALES TRADING

Hong Kong	Mona Lee	(852) 2913 8873	mona.lee@asia.ing.com
Korea	Michael Lee	(822) 317 1567	michael.lee@asia.ing.com
Singapore	Lim Lay Koon	(65) 6539 5555	lim.lay.koon@asia.ing.com
London	Alex Foster	(44) 20 7767 1000	alex.foster@uk.ing.com
New York	Richard Hopkins	(1) 646 424 7715	richard.hopkins@americas.ing.com
Tokyo	Stuart Allan	(813) 5210 1293	stuart.allan@asia.ing.com

HEDGE FUND SALES

Hong Kong	Daren Riley	(852) 2913 8801	daren.riley@asia.ing.com
-----------	-------------	-----------------	--------------------------

HEADS OF EQUITY RESEARCH

Asia	Adrian Faure	(852) 2848 8559	adrian.faure@asia.ing.com
Latin America, Middle East, Emerging Europe, Africa	Stuart Amor	(44) 20 7767 6988	stuart.amor@uk.ing.com
Western Europe	John Donald	(44) 20 7767 6527	john.donald@uk.ing.com

ECONOMICS & STRATEGY RESEARCH

Chief Economist			
Head of Economics & Strategy	Mark Cliffe	(44) 20 7767 6283	mark.cliffe@uk.ing.com
Emerging Europe & Africa	Philip Poole	(44) 20 7767 6970	philip.poole@uk.ing.com
Asia	Tim Condon	(852) 2913 8133	tim.condon@asia.ing.com
Japan	Richard Jerram	(813) 5210 1519	richard.jerram@asia.ing.com

ING Financial Markets

AMSTERDAM Tel: 31 20 563 87 98	LONDON Tel: 44 20 7767 1000	NEW YORK Tel: 1 646 424 6000	HONG KONG Tel: 852 2848 8488	TOKYO Tel: 813 5210 1500
Bangkok Tel: 662 263 2888-9	Jakarta Tel: 62 21 515 1818	Manila Tel: 632 840 8888	San Francisco Tel: 1 415 925 2281	Shanghai Tel: 86 21 6841 3355
Geneva Tel: 41 22 818 77 77	Kuala Lumpur Tel: 603 2166 8803	Paris Tel: 33 1 56 39 31 41	Seoul Tel: 822 317 1500	Singapore Tel: 65 6535 3688
				Taipei Tel: 886 2 2734 7500

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