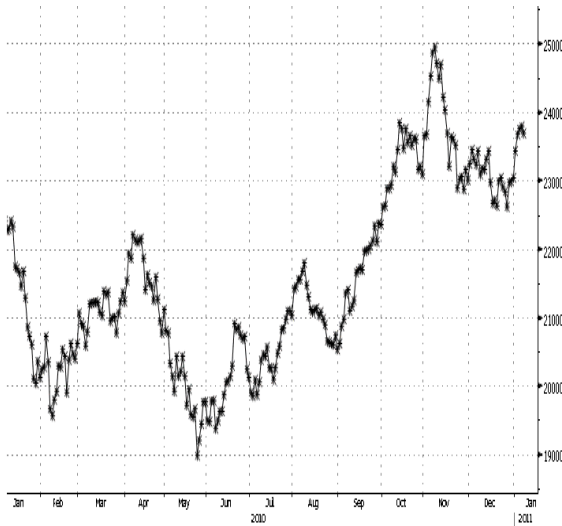


Hang Seng Index Performance



Source: Bloomberg

Index Performance

	Close	Abs Chg		% Change		
		1-Day	1-Day	1-Mth	3-Mth	
Hong Kong						
Hang Seng Index	23,686.63	-99.67	-0.42	2.26	3.24	
HSCI	3,352.59	-11.29	-0.34	2.61	3.21	
HSCCI (Red Chips)	4,275.38	-0.19	0.00	1.93	-0.13	
HSCEI (H-Shares)	12,925.71	-57.58	-0.44	2.09	1.31	
Mkt T/O (\$ Mn)	79,447.92	2,335.71	3.03	9.31	-1.01	
Overseas						
DJIA	11,674.76	-22.55	-0.19	2.32	6.07	
NASDAQ	2,703.17	-6.72	-0.25	2.49	12.54	
Shanghai SE Composite	2,838.80	14.60	0.52	-0.08	3.65	
Feb Crude Oil (US\$)	88.03	-0.35	-0.40	-0.74	7.79	
Feb Gold (US\$)	1370.90	2.10	0.15	-1.00	1.91	
USD / Euro	1.2895	-0.0030	-0.23	-2.52	-7.32	
Yen / USD	82.967	-0.1724	-0.21	-1.16	1.29	

	HSCEI	HSI
20-Day MA	12,662.77	23,132.34
50-Day MA	13,029.40	23,448.00
9-Day RSI	59.88	65.47

Market Outlook

Eric Yuen – ericvien@guoco.com (852) 2218 2865

Both Hang Seng Index and HSCEI dropped 0.4% last Friday. Market turnover increased to \$79.4 billion. Heavily weighted **HSBC (5)** was almost unchanged. Most Hong Kong property stocks ended lower due to profit taking. **Cheung Kong (1)**, **SHK Properties (16)** and **Hang Lung Properties (101)** tumbled 1.3%-1.6%. **CNOOC (883)** shrank 2.4% on falling crude price. **China Life (2628)** and **China Pacific Insurance (2601)** advanced 1.6% and 3.7% respectively. **Ping An Insurance (2318)** fell 1.0% although the company denied any fund raising plan in A-share market. Most of the Chinese banks closed lower. Ten largest PRC property developers all increased with an average gain of 2.7% driven by cheap valuation. Automobile, coal and power stocks underperformed the HSCEI. **Dongfeng Motor (489)** and **GAC Group (2238)** cut 2.8%-2.9%. We expect to see a mild correction of the stock market in near term given stronger US dollar.

Corporate News

CVTM (893, \$3.74)

6M Target \$4.60

BUY

Becky Yuen – becky.yuen@guoco.com (852) 2218 2872

Event: Recent share price consolidation creates a buying opportunity for CVTM.

- Share price of CVTM has retreated 14% from recent peak of \$4.33 in early November amid the rebound of US dollar and recent market correction. Nonetheless, trading at 8.9x 2011 PER with a 34% EPS CAGR between 2009 and 2011, the current valuation is cheap in our view. We believe the recent share price consolidation creates a great buying opportunity for long-term investors.
- CVTM announced to acquire two assets from its connected party Chuan Wei in mid-November: 1) to acquire the remaining 7.23% interests of its operating subsidiary Huili Caitong that it does not own at a consideration of RMB 445mn; and 2) to acquire the entire interests of Aba Mining at a consideration of RMB 150mn. The two acquisitions will be satisfied via internal resources.
- Huili Caitong is the major operating subsidiary of CVTM, and contributed more than 90% of revenue and net profit to the company over the past three years. Upon completion of the acquisition, Huili Caitong will become a wholly-owned subsidiary of CVTM, and its entire profit will be consolidated into the group's income statement. We think the transaction, which is priced at around 13.7x 2010 PER, is fair.
- Aba Mining was one of the acquisition targets mentioned in CVTM's listing prospectus. It currently consists of two mining assets (Maoling and Yanglongshan in Sichuan) with total iron ore resources of 78.2mnt (or 40% of existing resources if excluding the 81.6mnt potential resources in the neighboring

area of Yangqueqing Mine), implying that the acquisition costs was only around RMB 2/t of reserves which is relatively cheap in our view. Production of Maoling mine is expected to recommence in 1Q11 whilst production capacity will reach 150kt by 2012, which is equivalent to around 8% of its 2010 output. Meanwhile, production of Yanglongshan Mine is expected to commence production in 2013 with a production capacity target of 250kt per year.

- As the second largest iron ore producer in Sichuan area and the only major listed PRC iron ore player in Hong Kong, CVTM is the beneficiary of the 'Great Western Development Plan' and robust demand from steel mills in Sichuan. Post-earthquake reconstruction and urbanization in Sichuan have been the driving force of steel demand in the region. According to company guidance, there will be approximately 10.1mnt of new crude steel production capacity in Sichuan area by 2012, up 66% from 2009 level. This in turn will drive demand of iron ore and support iron ore price in the area as it is costly to transport iron ore from coastal areas to inland. At the same time, CVTM's net cash position (RMB 900mn net cash in hand as at 1H10) allows the company to further boost its reserve base via M&A.
- Assuming that CVTM will sell its products at contract floor price in 2H10 and achieving its full-year production target, we expect the company to earn RMB 501mn (EPS RMB 0.24) in 2010. Meanwhile, we maintained our 2011 earnings forecast of RMB 743mn (EPS RMB 0.36) on the back of a 23% volume growth. This implies a strong EPS CAGR of 34% between 2009 and 2011.
- CVTM is trading at 13.4x 2010 PER and 8.9x 2011 PER that we think is undervalued given its high earnings momentum, strong organic growth and potential acquisition pipeline.
- Reiterate BUY with unchanged 6-month target price of \$4.60, implying an 11x 2011 PER. Key downside risks are production disruption due to natural disasters or dispute with its mining contractor and lower than expected steel demand in Sichuan region.

Warrant of the day

KC China Life Call (26933, \$0.212)

Underlying asset	China Life Insurance
Exercise price	30.88
Gearing	15.4
Premium	11.6%
Implied volatility	31.6%
Expiry date	8 June 2011

DB China Life Put (25550, \$0.098)

Underlying asset	China Life Insurance
Exercise price	35.68
Gearing	33.2
Premium	12.6%
Implied volatility	29.5%
Expiry date	26 April 2011

RSI Indicator

Overbought (9-day RSI > 80)	8, 15, 27, 34, 81, 94, 121, 160, 174, 226, 279, 298, 337, 338, 382, 404, 435, 480, 482, 570, 684, 687, 723, 809, 813, 826, 878, 933, 975, 976, 11258, 1638, 1838, 1881, 2678, 2778, 3323, 3333, 3337, 3900
Oversold (9-day RSI <20)	889

Exceptional Turnover & Price Movements

Sino-Tech International (724)	Share price up 47.8%, turnover =	14.6x 3-month average
Brightoil Petroleum (933)	Share price up 8.3%, turnover =	5.0x 3-month average
Hong Kong Resources (2882)	Share price up 7.6%, turnover =	4.2x 3-month average
Sustainable Forest (723)	Share price up 7.1%, turnover =	3.4x 3-month average
PCCW (8)	Share price up 6.5%, turnover =	2.6x 3-month average
Agile Property (3383)	Share price up 6.2%, turnover =	2.4x 3-month average
Anxin-China (1149)	Share price up 6.0%, turnover =	8.4x 3-month average
C C Land (1224)	Share price up 6.0%, turnover =	3.5x 3-month average
China Agri-Products Exchange (149)	Share price up 5.8%, turnover =	9.0x 3-month average
Evergrande Real Estate (3333)	Share price up 5.3%, turnover =	2.1x 3-month average
Kingdee International (268)	Share price up 4.9%, turnover =	3.9x 3-month average
Asia Cement China (743)	Share price up 4.0%, turnover =	3.2x 3-month average
Tongda Group (698)	Share price up 3.3%, turnover =	2.5x 3-month average
Poly Hong Kong (119)	Share price up 3.2%, turnover =	2.1x 3-month average
Guangzhou R&F Properties (2777)	Share price up 3.0%, turnover =	2.7x 3-month average

Upcoming Events

Jan 14	626	Public Financial	Final
Feb 28	775	CK Life Sciences	Final

HSI & HSCEI Constituents Performance

		Price Change (%)				Outperform	Cement, Banking (HK), Airlines, Property (PRC)				
Index		5 D	1 M	3 M	vs 3M High	Underperform	Banking (PRC), Gold, Power, Utility (HK)				
Hang Seng Index		3	1	4	-5	Mixed	Automobile, Property (HK), Shipping				
Hana Sena China Ent Index		2	0	1	-9						
		Price Change (%)						Price Change (%)			
Stock Code	Company Name	5 D	1 M	3 M	vs 3M High	Stock Code	Company Name	5 D	1 M	3 M	vs 3M High
3323	CNBM	14	14	10	-3	330	Esprit Hldgs	3	2	-10	-14
2777	R&F Properties	11	13	11	-1	3968	CM Bank	3	-2	-2	-14
13	Hutchison	10	7	18	-1	1088	China Shenhua	3	7	-3	-11
17	New World Dev	9	5	-4	-9	1186	China Rail Cons	3	-1	-6	-14
83	Sino Land	9	0	0	-15	3328	BOCOM	3	-2	-8	-15
914	Anhui Conch	8	13	14	0	2628	China Life	3	-2	-1	-11
1109	China Res Land	8	10	-5	-10	4	Wharf (Hldgs)	2	6	15	-1
1	Cheung Kong	8	13	11	-2	1288	ABC	2	-5	-4	-11
688	China Overseas	8	2	-8	-11	101	Hang Lung Prop	2	3	-1	-8
2038	FIH	6	0	1	-7	291	China Resources	2	-3	-1	-6
12	Henderson Land	6	4	2	-6	267	CITIC Pacific	2	3	12	-9
1880	Belle Int'l	6	-1	-4	-9	144	China Mer Hldgs	2	0	11	-3
1919	China COSCO	6	2	-7	-11	19	Swire Pacific 'A'	2	4	17	-5
1199	COSCO Pacific	6	8	17	-1	2	CLP Hldgs	2	0	4	0
16	SHK Prop	6	4	3	-5	1398	ICBC	1	-2	1	-13
489	Dongfeng Group	6	-4	-7	-22	1138	China Ship Dev	1	-4	-8	-20
753	Air China	5	-9	-13	-19	939	CCB	1	0	6	-12
700	Tencent	5	-1	6	-5	728	China Telecom	1	4	-4	-4
1211	BYD	5	-8	-26	-26	3988	Bank of China	1	-1	2	-15
2388	BOC Hong Kong	5	5	12	-3	902	Huaneng Power	1	-5	-14	-16
390	China Railway	5	8	1	-10	6	HK Electric	1	-1	4	-4
66	MTR Corporation	5	3	0	-5	763	ZTE	1	1	-2	-5
23	Bank of E Asia	5	4	5	-3	762	China Unicom	0	4	-1	-4
1099	Sinopharm	5	5	-12	-12	857	PetroChina	0	1	7	-3
293	Cathay Pac Air	5	-7	2	-7	168	Tsingtao Brew	0	-5	-7	-11
2600	CHALCO	5	2	-2	-10	941	China Mobile	0	-2	-7	-8
388	HKEx	5	1	13	-6	883	CNOOC	0	0	13	-3
11	Hang Seng Bank	4	4	15	0	3	HK & China Gas	-1	-3	-6	-6
1898	China Coal	4	8	-5	-16	358	Jiangxi Copper	-1	1	25	-4
916	Longyuan Power	4	-1	-10	-11	1988	Minsheng Bank	-1	-5	-9	-11
386	Sinopec Corp	4	7	14	-3	2883	China Oilfield	-1	9	31	-6
494	Li & Fung	4	1	13	-4	1800	China Comm Cons	-1	-1	-8	-14
5	HSBC Hldgs	4	1	2	-5	2238	GAC	-1	-1	-14	-23
1171	Yanzhou Coal	4	11	19	-3	2328	PICC P&C	-2	-4	2	-10
998	CITIC Bank	4	-2	1	-16	2899	Zijin Mining	-2	-7	7	-15
2601	China Pacific Insurance	4	9	11	-3	2318	Ping An	-3	-8	11	-11
347	Angang Steel	4	7	-5	-11	836	China Resources Power	-4	1	-16	-18

GuocoCapital Ltd.
12/F, The Center
99 Queen's Road Central
Hong Kong
Tel: (852) 2218 2865
Fax: (852) 2285 3160

<http://www.guococap.com>

This report is for information only and is not to be construed as investment advice or as an offer to buy or sell securities. While the report is compiled using sources believed to be reliable, no assurance or guarantee is given regarding its accuracy or completeness. Neither GuocoCapital nor any other Guoco Group companies, (nor any employees or other persons connected with any of them) accepts any responsibility or liability arising from any use of this report. To the extent permitted under applicable law, the above-mentioned companies or individuals may have used the research materials before publication. However, it is hereby declared that neither GuocoCapital nor the writer, at the time of writing, has interest in any of the securities mentioned in this report.