

Investment Advisory Team

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Daily commentary

- **Suggest trade of the day:**
 - L&M Handbags (1488)
- **Companies with positive newsflow today:**
 - SMI Corp (198), Rosedale Hotel (1189), China All Access (633), Linmark (915), Travel Expert (1235) and Winfair Investment (287), Truly (732) and Sands (1928)
- **Companies with negative newsflow today:**
 - Win Hanverky (3322), Café De Coral (341) and Chalco (2600)
- **Daily market outlook commentary:**
 - From an analyst point of view, glad to see that Dow “normalized” and in fact reacting in the right direction when poor macro readings were released. QE tapering is a matter of when and not why and it’s a hot topic of re-positioning post QE. I was being asked yesterday of which sector(s) will be benefiting from the QE exit and without too much to talk about apart from QE tapering, let’s share my thoughts here: “I think one needs to look into dynamics of the Commodity and Forex markets too before drawing a conclusion of which sectors will be beneficiaries. Global banks should be the obvious winners with NIM likely widen. Story can be completely different for the mainland banks though, due to structural differences. Won’t dare touching property and Reits with the reverse of interest rate cycle, which is easy to understand. Ironically, mainland properties and Rmb Reits may have their noses ahead. Some of the defensive stocks like utilities also hammered lately simply the yielding is not that attractive. Some of the star performers like those related to the US market, e.g. Techtronic (669) and Man Wah (1999) can be vulnerable on QE tapering. Oil and Gas perhaps a function of the Greenback and not seeing direct impact on sectors like Telecom and Gaming. I think consumer staples will be better than discretionary, assuming a higher interest rate environment will encourage savings rather than spending. Infrastructure and construction material can be positive as I think boosting infrastructure spending should be a more frequent tool to keep the things moving by various governments.”
 - On corporate news, Investors may have doubts on whether COLI (688) has overpaid for the 2 sites under the “Hong Kong property for Hong Kong people” scheme given all the restrictions. Don’t think the market will benchmark the transaction price for indication of property market outlook. Some may even think there can be political reason behind given the mainland background of COLI. Good news for Sands (1928) in gaining the approval from Macau Government in disposing their rights of the hotel property... a treatment that Cheung Kong (1) may love to have for Apex Horizon!
 - Things are not looking good and from the latest distribution of outstanding CBBCs, levels between 21,200 to 21,400 perhaps is where HSI is heading to in short term. Picking L&M handbags (1488) as suggest trade of the day, the 8% yielding may shine in a bad market.

Key Indices

Index	Last	% Change
HSI	22,069	(0.97)
HSCEI	10,473	(0.61)
Light Crude	102.61	(0.44)
BDI	801	(0.50)

Selective headline news

- 1) Dow tumbled 217 points as persistent worries about the slowing economy and when the Federal Reserve will start tapering its bond buying program had investors on edge again Wednesday. Payroll-processor ADP said Wednesday that the private sector added 135,000 jobs in May, less than the 157,000 economists were expecting. While the weak reading gave investors some hope that the Fed won't pare back its bond buying program anytime soon, nerves remain frayed and investors are taking caution. Other economic news was mixed Wednesday. The ISM services sector expanded more than expected, with the index rising to 53.7 in May from 53.1 the previous month. But factory orders rose just 1%, less than the 1.6% forecast. In the Fed's latest Beige Book, it said "Overall economic activity increased at a modest to moderate pace since the previous report". Overall, the 47-page report uses the word "moderate" 56 times and the word "modest" 54 times. It describes hiring as increasing at a "measured pace" and prices rising at a "mild" pace. On corporate side, Apple shares slipped around 1% after the International Trade Commission ruled that several older Apple products violate a Samsung patent and can't be sold within the United States. Shares of Toyota dropped 2.9% after the automaker recalled nearly a quarter million hybrids to fix brakes. Meanwhile, European markets tumbled after a second estimate of first quarter GDP confirmed that the eurozone economy contracted by 0.2%. London's FTSE 100 and the CAC 40 in Paris tanked about 2%, while Frankfurt's DAX fell slightly more than 1%. Trading volume was at 113% of 3 month average. Crude rebounded 0.46% to US 93.74 per barrel and Gold also up 0.09% to US 1,398.5 per ounce. Yield of US 10-Year Treasury down 4 ppt. at 2.1%.
- 2) ADR of China Mobile ended 0.9% lower Vs HK closing, equivalent to HKD79.59 per share. ADR of HSBC ended 1.1% lower Vs HK closing, equivalent to HKD85.07.
- 3) Short sell as a percentage of turnover decreased from 10.6% to 9.8%. Stock alert: Tracker Fund (2800), Minsheng Bank (1988), Value China ETF (3046), China Zhongwang (1333), Parkson (3368), MGM (2282), Baoxin Auto (1293), Franshion Ppt (817), CMS (867) and Silver Base (886)
- 4) From HKEx daily quotation on 5 June trading, stock advanced = 1,383 stock declined = 3,646 stock unchanged = 2,075. (Advance Vs Decline ratio 1: 2.64).
- 5) Selective share buyback transactions on 5 June 2013 :
 - i) O-Net Communications (877) – 2.8m shares at HKD1.27 to HKD1.36.
 - ii) SOHO China (410) – 1.2m shares at HKD6.54 to HKD6.61.
 - iii) Lee & Man Paper (2314) – 2.682m shares at HKD4.82 to HKD4.89.
 - iv) Lifestyle (1212) – 843K shares at HKD17.42 to HKD17.5.
 - v) Century Ginwa (162) – 1.882m shares at HKD1.91.
- 6) Positive profit alert from Linmark (915) (FY 4/13 due to growth in shipment and improvement in gross margin as well as Indian Tax refund). Positive profit alert from Travel Expert (1235) (FY 3/13 due to an increase in fair value of an investment property) Positive profit alert from Winfair Investment (287) (FY3/13, revaluation gain and disposal

gain of investment properties and fair value change on trading securities) Profit warning from Win Hanverky (3322) (6M ended June 30 2013 due to decrease in turnover, rising production costs and relocation costs)

- 7) Rosedale Hotel (1189) announced that a PRC Investor agreed to make a capital contribution of US\$68.8m in cash to the registered capital of Rosedale Beijing. Upon completion, the Company's equity interest in Rosedale Beijing will be reduced from approximately 88.2% to approximately 17.6% and Rosedale Beijing will cease to be a subsidiary of the Company. The Group expects to recognise a gain on the Deemed Disposal of approximately HKD537.7m.
- 8) Vinda (3331) made a clarification announcement, revealing some update information which have disclosed to analysts during recent management meeting. For details, please refer to the following link:
<http://www.hkexnews.hk/listedco/listconews/sehk/2013/0605/LTN201306051205.PDF>
- 9) Another disposal of Jufei stake by China All Access (633). 6m shares were disposed on 5 June by way of block trade on the ChiNext of the Shenzhen Stock Exchange. The Group is expected to recognise a gain before tax and non-controlling interest of approximately CNY 41.988m as a result of the 5 June Disposal. The company still owns 17.1564m shares of Jufei and will continue to dispose of the remaining Jufei Shares when considers appropriate.
- 10) Café De Coral (341) announced that the Group is likely to make certain impairment provision on the carrying amount of the goodwill for Manchu WOK, the Group's wholly-owned North America operations, for the year ended 31 March 2013. Such provision is expected to be about 50% of the carrying value of the goodwill for Manchu WOK. The carrying value of the goodwill for Manchu WOK was approximately HKD102 million as at 30 September 2012. Despite the fact that such provision is itself material to the goodwill currently being recorded by the Group, such provision should not have a substantial negative impact on the Group for the year ended 31 March 2013.
- 11) China State Construction (3311) announced formation of JV with China Construction Seventh Engineering Division Corp. Ltd. , a subsidiary of its intermediate holding company. The company will hold 20% of the JV and the JV will undertake the Projects in Zhengzhou, Henan Province, the PRC.
- 12) Hopewell (54) made a clarification announcement to some recent press articles, confirming that they currently have not invested and have no intention to invest in "Jetstar HK" or low-fare airline business.
- 13) Chalco (2600) announced that the Company decides to exercise flexible production on part of its aluminum production line which involves a temporary shutdown of production capacity of approximately 380,000 tonnes of aluminum.
- 14) SMI Corp (198) made a voluntary announcement, saying that the aggregated box office earnings and cinema admission of SMI's cinemas reached CNY 235 million and 6.87 million as of the end of May 2013 respectively, representing an increase of 49% and 64% compared with the corresponding period last year. Company also said the latest premium movie they invested, a movie called American Dreams in China (中國合伙人) was overwhelming in terms of box office earnings and public praise. As of 3 June 2013, the Movie' s China box office earnings was estimated to gross CNY 434 million, which is expected to continue to rise.

- 15) Joint announcement by Ming Fung Jewellery (860) and China Haidian (256) that they entered into a MOU in relation to the proposed cooperation between the parties for the joint development of luxury jewellery, timepieces and other luxury consumer goods retail business in the Greater China Region.
- 16) Truly (732) announced that the unaudited net consolidated turnover of the Group was approximately HKD1,862 million for May 2013, representing an increase of approximately 85.1% as compared with that of approximately HKD1,006 million for May 2012. The Group's unaudited net accumulative consolidated turnover for the five months ended 31 May 2013 amounted to approximately HKD6,818 million, representing an increase of approximately 57.6% as compared with that of approximately HKD4,326 million for the five months ended 31 May 2012.
- 17) SCMP reported that Sands China (1928) received approval from Macau Government that they can sell shares that give prospective buyers' rights to an apartment rather than the buyer purchasing the flat outright. This "co-op fashion" is in compliance with local rules as casino companies are not allowed to sell property in Macau.
- 18) SCMP reported that COLI (688) won the two sites in Kai Tak under the "Hong Kong property for Hong Kong people" scheme for a better-than-expected price. The total consideration of HKD4.54 billion, or HKD5,157 per square foot, for the two sites, higher than surveyors' forecasts of up to HKD4.4 billion or HKD5,000 per sq. Meanwhile, Chinachem Group won the tender for a residential site south of Long Ping MTR Station in Yuen Long with a bid of HKD1.3 billion, or HKD2,876 per sq ft, less than the market expectations of more than HKD1.49 billion. This is 11.78% less than the site north of the station sold to the consortium of Sino Land and K Wah International last October.

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