

Stellar interim results**China Banking/Finance****Goldbond (172 HK, HK\$0.65)****STRONG BUY (unchanged)****Target price: HK\$1.85 (+184.6%)**

Stellar interim results. The company's turnover surged 547.0% YoY to HK\$59.3m and net profit 255.7% YoY to HK\$72.8m in 1H FY3/08A. At end-1H, the group had HK\$849.9m in cash in hand, bringing its net cash position to HK\$492.7m. Its basic EPS for the period was HK\$0.085 and fully-diluted EPS HK\$0.070. It booked a gain of HK\$33.1m from the disposal of its 20.0% interest in Goldbond Capital and a HK\$19.6m gain from the disposal of a 25.0% stake in a property development project in Nanjing. Stripping off the lower-than-expected exceptional gains, the group's results were in-line with our estimates. The performance of Rongzhong Group, its financial flagship in China, was stronger than expected.

Increase in operating expenses. During the period under review, the Goldbond's operating expenses increased 80.5% YoY to HK\$45.6m, because of the increased scale of Rongzhong's secured bridge financing and loan guarantee business. We expect the company's operating expenses to stay below HK\$90.0m in FY03/08F. Its non-cash expenses related to convertible bonds will be the wild card of our earnings forecast. The group has a HK\$135.0m zero-coupon convertible note outstanding, which was issued as part of the consideration for an additional 20.0% stake in Rongzhong.

Strong operating performance. Operating earnings of the group's financial service division (including the loan guarantee and secured bridge financing business of Rongzhong) reached HK\$67.1m, against a loss of HK\$9.0m in the year-earlier period. Stripping off the exceptional items such as provision write-backs, the division's core earnings are estimated at about HK\$34.0m, with more than 90.0% coming from the secured bridge financing business. Rongzhong Group's loan guarantee business surged 702.6% YoY to RMB1,961.8m, covering seven cities in China in cooperation with 14 major banks. Its secured bridge loans surged 830.4% YoY to RMB744.3m and loan portfolio reached HK\$194.5, with the average monthly yield exceeding 4.0%. We estimate that its loan book currently exceeds HK\$300.0m. Out of its six outlets, only one, in Wuhan, contributed to Rongzhong in the period under review and should provide full-year contribution to the group. Two of the outlets, launched in June and July, should provide eight-month contributions, the reminder, launched at end-November, should provide four-month contributions. Rongzhong has expanded to Chongqing, Chengdu and Nanjing. It plans to expand to Hangzhou, Guangzhou and Changsha by end-2008.

Credit card business – trial stage. Rongzhong Group has teamed up with China Merchants Bank (CMB) to issue credit cards with installment loan features. The first stage of the trial was launched in August 2006 in three of Rongzhong's operating cities, Chengdu, Wuhan and Hangzhou. In August 2007, Goldbond established Goldbond Shanghai, a wholly owned subsidiary incorporated in Shanghai, to capture opportunities in the financial service segment. The subsidiary will provide project finance, project consultancy, distressed assets management services and direct and property investment services.

Project financing. In September 2007, Famous Apex Limited, the company's wholly owned subsidiary, agreed to extend two three-year loans of RMB100.0m and RMB15.0m to Poly Sanhao and Worldpro, respectively. The loans are expected to deliver returns of more than 35% per annum. The shareholders approved the loan agreements in October 2007. The loans haven't been drawn yet as some of the conditions are yet to be fulfilled. We expect the borrowers to draw down the loan by end-Jan 2008, with first interest income realized in FY03/09F.

Shareholder loan. In May and August 2007, the company agreed to extend two loans (HK\$60.0m and HK\$500.0m) to Rongzhong as general working capital, at an interest rate of 16.0% per annum. As of end-1H FY03/08F, its total outstanding loans amounted to HK\$60.2m. The HK\$240.0m loan was transferred to

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Rongzhong in October. HK\$50.0m will be transferred by end-December.

Valuation and recommendation. The group is trading at P/E of 11.5x for FY03/08F and 6.9x for FY03/09F. Its cash value per share is HK\$0.194. We are in the process of updating our earnings forecasts. We reiterate our STRONG BUY recommendation on the company.

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the Placing Agent for Goldbond Group (350.5m vendor shares at HK\$1.26) on August 6, 2007.