Small Cap Charm

Thesis and Ideas for 2Q 12

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Our research portfolio in 1Q

Company	Ticker						
Core coverage		Target (HK$)	Latest update	Initiation	Abs. QoQ price return (%)	MSCI QoQ return (%)	Abs. up-to-date price return (%)
Comtec Solar	0712 HK	2.02	13 Apr 2012	08 Jun 2010	-40.9%	-12.4%	-34.7%
Leoch International	0842 HK	3.41	03 Apr 2012	19 Jul 2011	-22.2%	-12.4%	-4.3%
Tongda Group	0698 HK	0.565	15 Mar 2012	29 Feb 2012	-8.8%	-12.4%	-8.8%
Watch list							
IRC	1029 HK	-	-	-	-32.1%	-12.4%	-
Sino Oil and Gas	0702 HK	-	-	-	-33.3%	-12.4%	-
Sinoref Holdings	1020 HK	-	-	-	-35.3%	-12.4%	-
Boer Power	1685 HK	-	-	-	-16.4%	-12.4%	-
Man Yue Tech	0894 HK	-	-	-	-15.8%	-12.4%	-
Tao Heung	573 HK	-	-	-	-15.8%	-12.4%	-
OTO Holdings	6880 HK	-	-	-	-56.9%	-12.4%	-
Tianyi Fruit	756 HK	-	-	-	-22.5%	-12.4%	-
Sitoy Group	1023 HK	-	-	-	18.2%	-12.4%	-
Tenfu Holding	6868 HK	-	-	-	-6.9%	-12.4%	-
China Liansu	2128 HK	-	-	-	-25.8%	-12.4%	-

*Note: * QoQ return calculated based on closing price on 29 Feb and 25 May, non-annualized   ** MSCI Hong Kong Small Cap Index*

Updated portfolio in 2Q

Company	Ticker	Target (HK$)	Latest update	Initiation	Analyst
Core coverage					
Comtec Solar	0712 HK	2.02	13 Apr 2012	08 Jun 2010	Kevin Mak
Leoch International	0842 HK	3.41	03 Apr 2012	19 Jul 2011	Kevin Mak
Tongda Group	0698 HK	0.565	15 Mar 2012	29 Feb 2012	Kevin Mak
Watch list					
IRC	1029 HK	-	-	-	Isaac Lau
Hanking	3788 HK	-	-	-	Isaac Lau
Sino Oil and Gas	0702 HK	-	-	-	Isaac Lau
Sinoref Holdings	1020 HK	-	-	-	Kevin Mak
China Fiber Optic	3777 HK	-	-	-	Kevin Mak
Tao Heung	573 HK	-	-	-	Baron Sun
Tianyi Fruit	756 HK	-	-	-	Baron Sun
Tenfu Holding	6868 HK	-	-	-	Baron Sun
OTO Holdings	6880 HK	-	-	-	Baron Sun
China Liansu	2128 HK	-	-	-	Research Team

Comtec Solar (0712 HK) (click here…)

Stock statistics	Market cap: US$132.3m (closing price: HK$0.91); daily turnover: US$0.5m
Summary / review	• Comtec Solar is a pure-play monocrystalline solar ingot and wafer manufacturer based in China. Its wafer has higher conversion efficiency of ~18%, compared to ~17% industry average. The company has passed SunPower (SPWRA US) qualification on n-type ingot and wafers. N-type wafers has conversion efficiency as high as 22%-23% is expected to contribute 50% sales for 2012. Sanyo (6764 JP) and SunPower are major n-type cells producers. • For Q1 2012, revenue came at RMB218.5m with 13.9% gross margin which generally outperformed peers. While the company incurs other losses of RMB170.1m in relation to repurchase of CB and new warrants, reported net loss was RMB159.7m. That said, adjusted net profit for the quarter was RMB10.4m for Q1.
Drivers / catalysts	• In the middle of market consolidation, competitions among manufacturers of modules, cells, wafers and even polysilicon are intense in their own fields. Since Q2 2011, there was continuous pressure on pricing as well as shipment volume. ASP of wafers was as low as US$0.30+ per W during 2H last year and has flatted out stayed between US$0.30 to US$0.40 since then. • The management indicated that though they placed higher priority on counter-party risk control over sales target, strong demand from healthy customers especially for its n-type wafers contributed to relatively good ASP and volume for the last quarter. While there is a reduction in shipment growth, we are still look forward to shipment increase from 222MW in 2011A to 416MW in 2012F and 480MW in 2013F.
Our opinions	• In Q1 Comtec demonstrated its competitiveness on relative stronger-than-expected ASP and margin. While by the end of 2011A, Comtec had RMB746.1m cash, which would be reduced to RMB347.2m upon CB repurchase and thus RMB122.1m net debt. At RMB1,653.8m net equity by end of 2011, net debt to equity ratio was 7.4% . Its balance sheet is not stretch and should survive the prolonged consolidation. • The counter is currently trading at 15.6x and 4.6x P/E based on our profit forecast for FY12/12F and FY12/13F based on core earnings. Remain BUY with target price at HK$2.02.

Leoch Int'l (0842 HK) (click here…)

Stock statistics	Market cap: US$311.1m (closing price: HK$1.82); daily turnover: US$0.6m
Summary / review	• Leoch is principally engaged in the manufacture and development of lead-acid batteries. It has a wide range of products including UPS (Uninterruptible power supply), telecom, consumable products, SLI batteries, renewable energy and motive batteries. Leoch developed moulds for wide range of 1,600+ customized products. • Customers of Leoch include Emerson Electric (EMR US), Eaton Corp (ETN US), BMW, Juguar, US batteries, Black & Decker (SWK US), to name a few. In 2008 and 2009, Leoch sales to non-China market were 50% to 60%, while it dropped slightly to 37% due to weaker overseas market.
Drivers / catalysts	• Since 2011, Leoch initiated a new round of expansion. Through 2011 to 2013, effective capacity is expected to increase by 3m kVAh to 7m kVAh each of the 3 years. With recent suspension issues, 2011A shipment at 145,400 tonnes was lower than estimations. For 2012F and 2013F, while we expect a generally lower gross profit per tonne, we expect shipment to increase 81% YoY to 252,500 tonnes in 2012F and another 53% YoY to 402,500 tonne in 2013F. Of various products available, major growth should be seen in SLI and motive batteries according to management plan.
Our opinions	• As far as we understand, while most of Leoch products are Cadmium-free, which is in compliance with latest draft-regulation, some of its facilities previously constructed utilizes tank formation process instead of container formation. While industry experts point out that immediate compliance is not required as container formation process is commonly used in China, potential need for adjustment would lead to partial suspension. We are currently working with the management to check the level of compliance with respect to specifications in latest draft-regulation 《铅蓄电池行业准入条件-征求意见稿》 • Since we formally initiate coverage on Leoch at HK$1.87, the counter traded up to HK$2.76 in March before sharply retreating on suspension issues and somewhat weaker-than-market expected 2011A annual results. Yet we are positive on short-term growth rate in the coming 2 years. At target price HK$3.41, we value the company trading at 8.4x and 5.2x P/E for FY12/12F and FY12/13F.

Tongda Group (0698 HK) (click here…)

Stock statistics	Market cap: US$162.1m (closing price: HK$0.27); daily turnover: US$0.3m
Summary / review	• TDG is the world largest manufacturer for in-mould lamination (IML) plastic casings with patented technology. Its products are applied in consumer electronics such as handset, notebook and electrical appliances. Major customers include fast-growing domestic brands such as ZTE (0763 HK), Huawei, Lenovo (0992 HK), Haier (1169 HK) and Midea (000527 CH). • Different from in-mould decoration (IMD) technology, which simply prints designs onto a certain surface, IML covers the patterns with a protective layer so that the finished product is much more scratch proof. Although IMD has currently larger market share and it is within 10% cheaper than IML-made products, IML is observed to be increasingly adopted.
Drivers / catalysts	• For handset segment, Tongda major customers, ZTE (0763 HK) and Huawei, were performing especially well in 2011 with accelerated pace in 2H. For top 10 global vendors, the 2 domestic brands largest growth rate at 104% and 88% YoY respectively for 2011A, according to ABI Research on “sell-in” shipment. For 2012F, the 2 brands has similarly aggressive growth targets. • Tongda partners with Matsushita Shokai back in 2009 and realized the ability to mass produce the product in Q1 2011. However, LED manufacturers remained conservative after the Earthquake in Japan. It is currently working more closely with domestic players and supplying TCL with 300k light guide plates a month, which is a potential upside for 2012F onwards.
Our opinions	• In the past four years, Tongda recorded increase in top-line as well as profit margin despite global economic headwind. With strong sales growth of its major domestic customers, we expect Tongda to capture net earnings of HK$300m+ for 2012F and achieve bottom-line growth of 20% in short-term. • Based on the new forecast, our target price at HK$0.565 represents 10.9x FY12/11F P/E. We would seeking further discussion with management after annual results announcement and initiate major review on its business as well as target price.

IRC (1029 HK)

Stock statistics	Market cap: US$379.3m (closing price: HK$0.88); daily turnover: US$0.4m
Summary / review	• IRC (1029 HK) is an iron ore producer. Its key assets are located in Far East of Russia at regions namely Amur and EAO. These mines sites situated relatively close to the North-eastern Chinese border. • Currently developing iron mine assets are namely Kuranakh, K&S and Garinskoye. They are all open-pit mines along with access to national railway networks. Three prospective mining projects sustains long term development, they are namely Garinskoye Flanks, Kostenginskoye and Bolshoi Seym. • Total Measured, Indicated and Inferred Resources are 1,514m tons, of which 1,051m tons are Measured and Indicated Resources. **Update** • Financial result for YE FY12/11A, IRC reported a net profit of US$1m, and turnover increased by 3.7x YoY to US$122.2m. • The increase in turnover was largely due to ramp up production in Kuranakh as well as increase in ASP period the reporting period. • Despite, higher than targeted production amount, IRC generated net operating loss for a consideration of US$9.6m. The net operating loss was largely due to central administration expenses of US$26.6m. • In term of operation result, IRC produced 820k tons of iron ore and 125k tons of ilmenite for FY12/11A. • K&S project's targeted completion date was postponed to Mid of 2014F from the end of 2013F **Market Outlook** • Iron is price sensitive to economic outlook, as it often considers as an integrated part of economic development. Given the current market condition, the Short-term iron ore price can be quite fluctuated. • We expect the floor price for 64% Fe seaborne iron price will be around US$100/t, while strong resistance at price US$150/t in the short to mid term. • Despite worries of global economic growth and reduction in fixed asset investment of the government, we believe the foundational is still solid. It is because the inelastic in demand is very low coupled with potential shortfall in supply in 12F and 13F as a result of reduced supply from India and other emerging countries and lack of new supply.

Hanking (3788 HK)

Stock statistics	Market cap: US$574.8m (closing price: HK$2.45); daily turnover: US$0.003m
Summary / review	**Overview** • China Hanking is the largest private iron ore mining company in Northeastern China. • Key assets are located in Liaoning, which is the second largest province in terms of iron ore consumption. • The company has 15 years of operation history and produced 1.4m tones 66% iron ore concentrate for FY12/11A. • The company is considered to be one of the cost leading iron ore producer in China, of which the mining cash cost was only RMB252/t for FY12/11A • Hanking is a middle size iron ore miner with total reserves and resources 166.9m tones and 200.9m tones respectively. **Financial** • Turnover increased by 23% YoY to RMB1,026.0m for FY12/11A, while EBITDA increased by 12% YoY to RMB966.8m. • The Gross profit margin were 54.2%, 72.5% and 73.8% for 2009, 2010, 2011 respectively, whereas Net profit margin excluding listing fee and pre-IPO financing costs were 18.1%, 38.6% and 46.2% respectively. **Our view** • Hanking is a cost leading iron ore mining company at production stage. Such low operating cash induces less sensitive on changes on iron ore price, as well as generating handsome amount of cash profit. • The negative sentiment in overall community market and price fluctuation, we believe Hanking will be the best performer among the peers.

Sino Oil and Gas(0702 HK)

Stock statistics	Market cap: US$286.8m (closing price: HK$0.19); daily turnover: US$0.4m
Summary / review	**Overview** • Sino Oil and Gas (SOG) is a resources investment company that focuses on upstream business of oil and gas as well as CBM exploration and development. • SOG's key asset is Sanjiao CBM project in Shaanxi which acquired in Nov 10 for consideration of HK$2.3b. • The Sanjiao CBM project is located in Shanxi and Shaanxi, with area of 382km2(previously 462km2) that operates via 70% PSC with PetroChina (857 HK). The net gas 2P and 3P reserves are 7.7b cubic meters and 15.9b cubic meters. • We estimate that taking into account of other major costs include other essential infrastructures, the aggregate capital investment will be RMB685m and RMB670m in 12 and 13, in which 30% investment cost will be undertaken by PetroChina as a result of PSC agreement. Therefore, total net capital investment for SOC in 2012 and 13 will be RMB1,154m. • Company secured RMB1b loan facility from CDB, to be drawn down over two years and with a term of five years for the development the CBM project. **Update** • Company has submitted a plant for the development of coal bed methane (ODP) of the production sharing contract for the Sanjiao PSC and the PRC party, Petro China, has approved the ODP. • PetroChina confirmed they are process of completing the formalities for the submission of the ODP to the NDRC to the NDRC by middle of May 2012. • Company is confident the ODP will be approved before 30 June 2012, and hence about to make use of the remaining loan facility of RMB800m. • Company's auditor, BDO, has raise an attention that company incurred a net loss of HK$96.2m for FY12/11A, and the exceed current liabilities of HK$201.4m. Despite there are remaining loan faculty of RMB800m, the drawdown of the loan facility is conditional. As a result, BDO casted a doubt about the company's ability to continuous as a going concern.

Sinoref (1020 HK)

Stock statistics	Market cap: US$66.2m (closing price: HK$0.43); daily turnover: US$0.3m
Summary / review	• **Focus on high-end steel flow control products.** Products of Sinoref are consumables designed for use during steel casting with focus on steel oxidation protection and control of steel flow. In steel casting, molten steel at high temperature (1,600^{o}C) must be injected into specific mould. Sinoref provides consumable aluminium alloy devices as ledle shroud, stopper, tundish nozzle and subentry nozzle to facilitate the casting process, each of which is to be replaced every 10 hours. In China, over 95% steel casting uses continuous molding method that need constant supply of aforesaid products, of which 40% are considered high-end segment by Association of China Refractories Industry (ACRI) with improved life cycle, erosion resistance, size, shape and steel flow rate. • **High entry barrier due to technique know-how and equipment specifications.** The entry barrier is especially high for the high-end segment. Producers must develop composition formula and the products are mostly tailored-made in order to cast steel at specific rate, size and shapes. Between 1998 and 2006, high-end steel flow products market was largely dominated by a UK company Vesuvius (China). Co-founders of Sinoref, Mr Xu Yejun and Dr Zhang Lanyin, have extensive experience in advanced steel flow products for over 25 years. Dr Zhang, who is the chief technical officer of Sinoref, worked in Vesuvius from 1994 to 2002 and left as Deputy General Manger of China subsidiary. Sinoref gained market share to 19% in 2009 and possibly 30% in 2010. • **Our view.** Volume and ASP was largely stable in 2011 compared to 2010. What surprises us was a low gross margin of 52.2% for 2H last year that yielded a full year gross margin of 55.9%. The management indicated that gross margin for 2012 may turns out to be similar to 2H 2011. As such, there may be 33% per annum top-line growth between 2012 and 2014 on doubled capacity at end of 2011; nevertheless, further slight squeeze of gross margin of a few pcp in 2012 would partly limit bottom-line growth in short-term. On RMB92.0m net profit, historical P/E for FY12/11A was 5.9x after the counter fell 9.7% yesterday. Considering RMB544.8m net equity by end of 2011, P/B was 1.0x with its net cash position.

China Fiber Optic (3777 HK)

Stock statistics	Market cap: US$171.7m (closing price: HK$1.1); daily turnover: US$1.8m
Summary / review	• **Largest fiber optic patch cord producers in China with 21.4% market share.** China Fiber Optic Network System (CFONS) was listed in HK in Jun last year at HK$1.20 per share. Through processing soft optical cables and ceramic ferrules, the company offers 100+ models of fiber optic patch cords to communication industry since “Network Access License for Telecommunications Equipment” (电信设备进网许可证) was granted in 2001. Fiber optic patch cords are devices consist of soft optical cables with each of their ends connected to one or more connectors for light signal transmission purpose. In terms of sales volume, according to CCID, CFONS market share in 2011 was 21.4% in China, which was larger than sum of its 2 largest competitors Sunsea and Centuryman. By end of 2011 production capacity of fiber optic patch cords was 12m sets a year, which contributed to 12.9m units self-produced in addition to 5m outsourced units in 2011. In 2011A, it recorded RMB1,257m revenue with 31.2% gross margin and 20.1% net margin. • **Evolving fiber optic patch cords market in China; short-term market growth 15% to 20%.** Fiber optic patch cords are broadly used in a variety of applications, including telecom networks, broadcast networks, television networks and specialized communication networks. Its market growth in China between 1998 and 2006 was slower at 14.0% CAGR, while it accelerated to 39.7% CAGR between 2006 and 2010 largely on 3G network expansion in China. In 2000s Chinese producers began to gain exposure and largely benefitted from large-scale procurement by major telecom operators since 2007, most of the foreign manufacturers with higher production cost exit Chinese market. CFONS, a Hebei based domestic producer, achieved 15%+ market share in 2008 and continued to be the largest producer in China. • **Shareholders and valuation.** Currently Chairman Zhao Bing, Individual Ou Shujin and Cathay Capital hold 43.22%, 8.16% and 6.98% shares in the company. Chairman Zhao Bing worked at Gaocheng Post and Telecommunications Bureau, a state-owned enterprise in Hebei Province, now known as the Gaocheng Branch of China Unicom (0762 HK). Ou Shujin is the wife of Song Zhiping, President of China National Building Material Group (3323 HK) and former Chairman of Sinopharm (1099 HK). Based on Bloomberg consensus, the counter is trading at 3.3x and 3.0x P/E for FY12/12F and FY12/13F.

OTO Holding (6880 HK)

Stock statistics	Market cap: US$17.6m (closing price: HK$0.43); daily turnover: US$0.07m
Summary / review	• OTO engages in the sale of health and wellness products, such as massage chairs, blood pressure monitor and therapeutic apparatus in Hong Kong, Macau, China and other international location such as UK, France, Saudi Arabia, India, Russia, Thailand, Mauritius, Japan and Hungary.
Last reported Earnings	• The last reported earnings were for six month ended 1H FY09/11A. Revenue increased 18.2% YoY to HK$118.2m. Gross profit increased 11.6% YoY to HK$79.9m. Profit for the period decreased 32.3% YoY to HK$12.6m. Gross profit margin decreased 4 pt to 67.6% and net profit margin decreased 7.9 pt to 10.7%. Excluding the one-time IPO expenses which amounted to HK$8.9m, a growth of 15.6% YoY.
Sales breakdown	• Retail stores sales contributed 41.6% of the revenue, consignment counters contributed 35.2% of revenue, international sales accounted for 10.7% of revenue, corporate sales accounted for 9.6% of revenue and road-show counters contributed 3% of revenue. GP margin for retail stores, consignment counter and road-show counters ranges from 70% to 75%. GP margin for corporate sales ranges from 45% to 55% and GP margin for International sales ranges from 25% to 30%.
Sales network	• Currently there are 44 point of sales in retail outlets, of which 18 are consignment counters in Hong Kong and Macau, 16 are retails stores in Hong Kong and Macau and 10 are consignment counters in China. Going forward the growth in point of sales will be coming from China. There are currently 51 corporate customers and 16 international customers. Retail stores usually ranges from 400 to 1000 square feet, consignment counters typically ranges from 100 to 600 square feet, and road show counters ranges from 100 to 1000 square feet.

Tao Heung Holdings (0573 HK)

Stock statistics	Market cap: US$454.5m (closing price: HK$3.47); daily turnover: US$0.2m
Summary / review	• Tao Heung engages in the business of operating Chinese cuisine restaurants and Chinese bakeries in Hong Kong and the PRC. Its roll includes operations, provision of food catering services, production, sale and distribution of food products related to restaurants. As of September 16th, 2011 the group operates total of 84 restaurants, with 69 located in Hong Kong and 15 located in China.
Last reported Earnings	• Last reported financials for FY12/2011A showed that revenue increased 21.8% to HK$3,576.1m from HK$2,937.2m in FY12/2010A. Gross profit increased 25.5% to HK$559.5m from HK$445.7m. Profit attributable to the owners of the company increased 16.2% to HK$255m from HK$219.4m. Earnings per share attributable to equity holder increased 16.2% to HK$25.1 cents from HK$21.6 cents. Gross profit margin increased 0.4pp to 15.6% from 15.2% and net profit margin decreased 0.4pp to 7.1% from 7.5%.
Operations	• The group operates under multiband platform which allows multiple shops to locate nearby vicinity to operate strategically. This enable shares of common supporting facilities for operational efficiency. The multi-brand platform can access a larger market penetration covering different sector of consumer groups. There are total of 86 at the end of FY2011. For FY2012, the group plans to reach 100 restaurants under operations and another 100 restaurants under operations by 2017.
Processing Centres	• The group operates centralised food processing and logistics centre in Tai Po, Hong Kong and Dongguan, China. The processing centre integrates purchasing, food-processing, preservation, quality checking, packaging, warehousing and the distribution process. This allows them to enable standardisation and control over quality of food ingredients, bulks purchase discount to reduce costs and streamline headcounts in restaurant operations to lowers staff cost. The Tai Po center can support up to 150 restaurants and the Dongguan Centre can support up to 200 shops.

Tianyi Fruit Holdings (0756 HK)

Stock statistics	Market cap: US$210.7m (closing price: HK$1.36); daily turnover: US$0.8m
Summary / review	• China Tianyi Holdings operating in six segments: Premier fresh oranges for wholesale, which carries on the business of cultivation and selling of premier oranges to third-party customers; Fresh oranges for wholesale, which cultivates and sells fresh oranges to third party customers; Oranges for production of frozen concentrated orange juice (FCOJ) and its related products, which carries on the business of cultivation of oranges for production of FCOJ, FCOJ fiber and orange pulp; FCOJ, which carries on the business of manufacturing and distribution of FCOJ, which is produced through a sequence of processes, including crushing, pressing, pasteurization and concentrating by using oranges as raw material; FCOJ fibre, which manufactures and distributes FCOJ fibre, and Orange pulp, which manufactures and distributes orange pulp.
Last reported Earnings	• Last reported financials for 1H FY12/2012A showed that revenue increased 52.6% to RMB320.3m from RMB210m. Gross profit increased 29.6% to RMB180.6m. Profit attributable to the owners of the company increased 42.1% to RMB99.8m. Earnings per share attributable to equity holder increased 17.3% to HK$17.97 cents.
Juice products	• Sales of juice product accounted for 71% of total sales. Among the juice products, FCOJ made up 39% of sales. The average selling price increased to RMB16,543 per tonne. FCOJ fibre made up 28%. The average selling price increased to RMB7,607 per tonne. Pulp and others made up 3% of sales. Fresh oranges accounted for 29% of sales.
Customers	• Tianyi is Coca-Cola's sole FCOJ supplier in China. Other customers includes Suntory and Wahaha. The top five customers accounted for 71% of Sales.

Tenfu Holding (6868 HK)

Stock statistics	Market cap: US$909.4m (closing price: HK$5.78); daily turnover: US$0.3m
Summary / review	• The Company mainly engaging in the sorting, packaging and sales of tea leaves, manufacture and sales of tea snacks, and sales of tea ware in the People Republic of China. The tea ware products sourced from manufacture. Tea leaves contributed 70% of the revenue, tea snacks contributed 16% of revenue and tea ware contributed 11% of revenue.
Last reported Earnings	• The last reported earnings were for FY12/11A. Revenue increased 40.7% YoY to RMB1,753.3m. Gross profit increased 56.4% YoY to RMB1,079.6m. Operating profit increased 32.8% YoY to RMB426.7m. Profit for the period increased 31.6% YoY to RMB293.5m. Gross profit margin increased 6.3ppt to 61.6% and net profit margin decreased 1.18ppt to 16.7%.
Sales network	• As of June 30, 2011, they have 1,207 retail outlets and retail points across 29 provinces in the PRC. Stores include stand alone shops at street level, shopping malls stores and concession counters in department stores and hypermarkets. These retail outlets and retail points were consisted of 490 self-owned and 717 dedicated third-party owned retail outlets and retail points, all of which bear the Tenfu brand name and logo. Going forward, they're targeting to open 150 self-owned and 150 third-party shops each year.

China Liansu Group (2128HK)

Stock statistics	Market cap: US$1,466m (closing price: HK$3.80); daily turnover: US$4.3m
Summary / review	• China Liansu Group is a leading plastic pipe and pipe fittings producer in the PRC. The company began production in 1996 in Guangdong province and started to expand to other parts of China in 2001. Products for water supply and drainage accounted for the majority of its product sales mix.. • A Lowering of the oil price will enable Liansu to reduce production costs and improve profitability. The main raw materials of plastic pipes are PVC, PE and PP-R, representing the majority of Liansu's total selling costs. Prices of the three raw materials have been on a steady climb due to rising oil prices, thus pressuring Liansu's profit margin. Using its position as the leader in China's plastic pipe industry, Liansu has managed to deal with the increase in oil prices through significant economies of scale and strong bargaining power over raw material supplies. Furthermore the companies ability to pass on costs to downstream customers have contributed to cost optimization. • In the 2011 annual report, management guided for stable profit margins for 2012 and a 20-25% revenue CAGR in the coming years. Liansu is expanding into plastic home-building products (eg, doors, windows and plumbing). New products will drive the growth for Liansu in the coming years. To move up the learning curve for these new products, Liansu invested last year in a home-building product maker in Canada by forming a 65%- owned joint venture at an initial cost of C$4m. • A decrease in the oil prices will help drive down raw material prices for Liansu which will see improvement in profitability • An expected acceleration in affordable housing construction will increase the demand for Plastic pipe • An acceleration in water conservancy construction will increase the demand in the plastic pipe

Thank You!

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