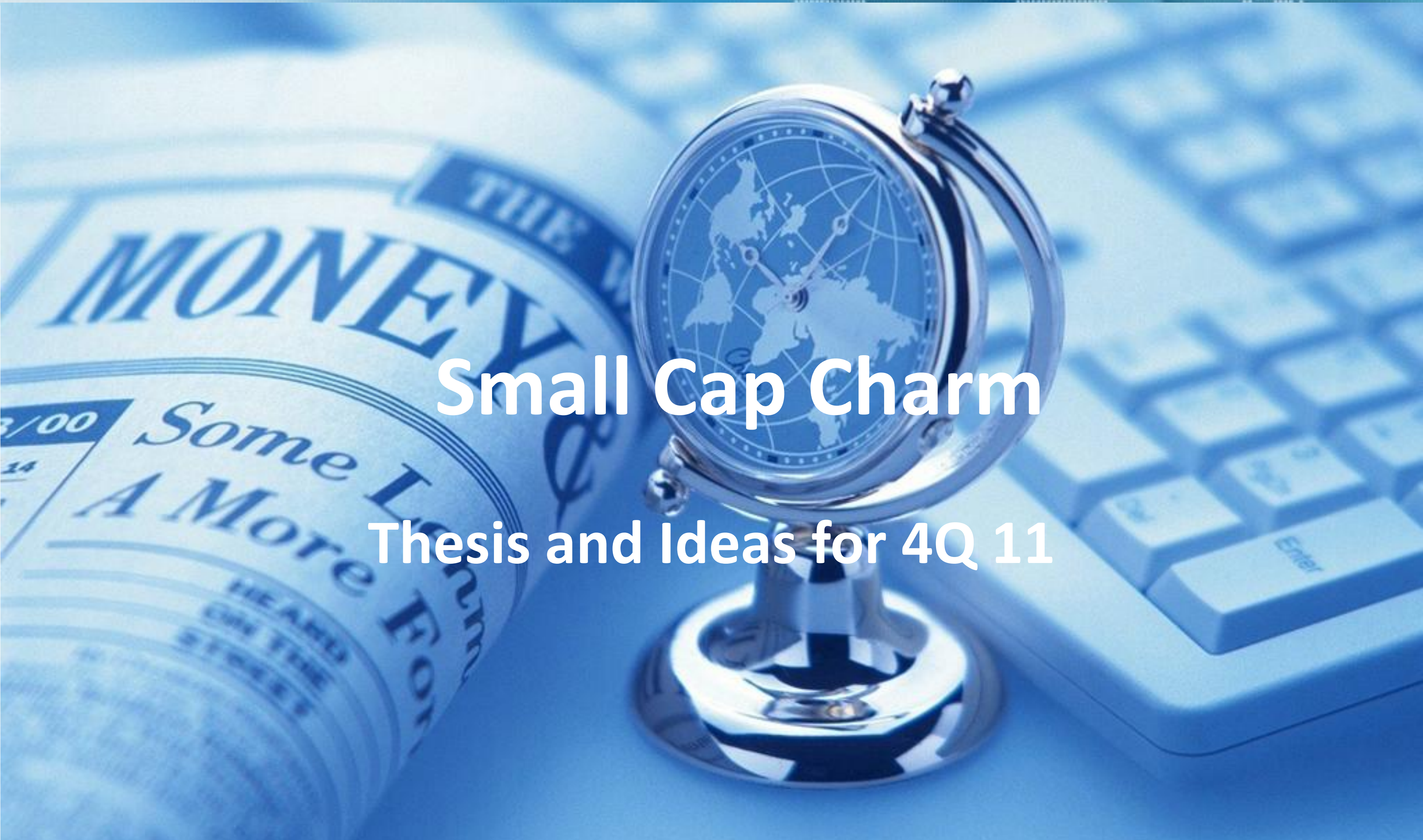

Small Cap Charm

Thesis and Ideas for 4Q 11

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Disclosure of Interests

SBI E2-Capital Securities Limited, a parent company of SBI E2-Capital Financial Services Limited, acted as sub placing agent for Comtec Solar Systems Group Limited (stock code: 712) in September 2010.

SBI E2-Capital Securities Limited, a parent company of SBI E2-Capital Financial Services Limited, acted as sub-placing agent for NewOcean Energy (stock code: 0342 HK) in November 2010.

Our research portfolio in 3Q

Company	Ticker	Target (HK$)	Latest update	First report with price target	Abs. price return * (%)	HSI return (%)	MSCI ** return (%)
Core coverage							
Comtec Solar	0712 HK	3.47	18 Aug 2011	08 Jun 2010	(24.7%)	(1.4%)	(9.9%)
Tracing list							
HL Tech	1087 HK	3.09	18 Aug 2011	14 Jan 2010	(26.2%)		
Solargiga Energy	0757 HK	1.74	07 Sep 2011	15 Apr 2011	(20.5%)		
NewOcean Energy	0342 HK	2.22	21 Jul 2011	11 May 2011	(3.2%)		
Leoch International	0842 HK	4.32	25 Aug 2011	19 Jul 2011	(35.3%)		
Truly	0732 HK	-	15 Aug 2011	-	10.2%		
Watch list				First report			
Ming Fai	3828 HK	-	-	28 Jun 2011	-		
Natural Beauty	0157 HK	-	-	11 Aug 2011	-		
COSTIN New Materials	2228 HK	-	-	-	-		

*Note: * calculated based on closing price on 19 Aug and 11 Nov*
*** MSCI Hong Kong Small Cap Index*

Updated portfolio in 4Q

Company	Ticker	Target (HK$)	Latest update	First report with price target	Analyst
Core coverage					
Comtec Solar	0712 HK	3.47	18 Aug 2011	08 Jun 2010	Kevin Mak
Tracing list					
HL Tech	1087 HK	3.09	18 Aug 2011	14 Jan 2011	Research team
Solargiga Energy	0757 HK	1.74	07 Sep 2011	15 Apr 2011	Kevin Mak
NewOcean Energy	0342 HK	2.22	21 Jul 2011	11 May 2011	Kevin Mak
Leoch International	0842 HK	4.32	25 Aug 2011	19 Jul 2011	Kevin Mak
Ming Fai	3828 HK	To be released	To be released	To be released	Baron Sun
Watch list				First report	
Truly	0732 HK	-	15 Aug 2011	15 Aug 2011	Research team
COSTIN New Materials	2228 HK	-	-	-	Kevin Mak
Tianyi Fruit	0756 HK	-	-	-	Baron Sun
Man Yue Tech	0874 HK	-	-	-	Kevin Mak
IRC	1029 HK	-	-	-	Isaac Lau

Quarterly summary

- 3Q portfolio continued to perform disappointingly, which can be attributed to:
  - Steep correction of the entire renewable energy sector triggered by market slowdown. With stronger-than-expected price retreat and longer-than-expected industry consolidation, most of the leading solar companies merely earned thin gross margin in Q3. Less competitive companies would be driven out of market before deferred rebound possibly in 2012.
  - Consumer electronics industry hit headwind on slower-than-expected recovery in the US and Europe. Thanksgiving and Christmas' orders are to be confirmed that would largely affect Q4 and full year financial performance.
  - We placed Leoch Int'l (0842 HK) into our tracing list at HK$3.32 before the counter rose to HK$4.22 in Aug. Nevertheless, the counter fell sharply afterwards which eliminated earlier rise.

- Nevertheless, we are adding more new elements into our portfolio to prepare for the next up-cycle:
  - We upgrade Ming Fai (3828 HK) to our core coverage as its retail business is taking shape in late 2011
  - For the watch list, we newly add Tianyi Fruit (0756 HK), Man Yue Tech (0874 HK) and IRC (1029 HK), which provides extra exposure to consumption, industrial as well as mining sectors respectively.

- Certain further adjustment is made in accordance to our personnel change.

Comtec Solar (0712 HK) (click here…)

Stock statistics	Market cap: US$186.1m (closing price: HK$1.28); daily turnover: US$1.1m
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 according to Solarbuzz. 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%. Sanyo (6764 JP) and SunPower are major n-type cells producers (potential customers). Management targets to achieve 50% sales from n-type wafers in 2012. • With lower electricity cost, energy usage, specific input arrangement and improving scale, Comtec targets to lower non-silicon production cost to US$0.20 by the end of 2011, without considering any potential introduction of n-type wafers.
Drivers / catalysts	• Due to change in macro environment, demand for solar is not as strong as earlier expected. ASP declined for modules & cells in Q1 and the effect was partly passed to wafer in Q2. Q3 margin of Comtec Solar lowered to around 10% and Q4 environment remains difficult. 2011 is a year of consolidation for solar industry. Nevertheless, we believe a consolidation of longer than 12 months is essential to eliminate less competitive players. • Texas Pacific Group (TPG) agreed to invest RMB654.5m zero-coupon 5-year CB at HK$3.90 conversion price convertible to 200m common shares and 95.1m warrants at HK$4.10 per share subscription price. TPG would also put representative on the board. Upon full conversion of both CB and warrants, TPG would hold 20.7% enlarged shares. TPG has previously significant investment on MEMC (WFR US).
Our opinions	• Although 2011 is especially difficult, with healthy net cash position, we believe Comtec could survive industry consolidation and benefits from recovery as it did between 2008 and 2009. We expect 2012 would be another year seeing volume expansion as well as margin improvement as 2010. • The counter fell to as low as HK$0.94 per share and currently stayed below HK$1.60. Our latest TP was HK$3.47 with current valuation at 7.0x and 2.8x P/E on fully diluted basis for the mentioned period.

HL Technology (1087 HK) (click here…)

Stock statistics	Market cap: US$118.2m (closing price: HK$1.28); daily turnover: US$0.2m
Summary / review	• Headquartered in Weihai, Shandong province, HL Tech is a "one-stop" provider of cable assembly and connectors, which are mainly used in consumer electronics such as laptop PCs (~30% of sales), desktop PCs (~25% of sales), digital cameras (~20% of sales), mobile handsets, TVs and etc. • Entry barrier to low-end cables such as power cords is low. On the contrary, transmission cables and connectors partly determine signal transmission speed. As such, known-how and experience are essential to high quality signal cables. For instance, with strong R&D capability, HL Tech is the only provider of Thunderbolt I/O for Apple. HL Tech has a transmission cables portfolio that made up 70%+ total sales. • HL Tech stepped into automobile wire & harness area through acquisition of TJRT in Feb this year. The other two new products, solar connector and special power cable, is expected to launch in 4Q. At client acquisition side, the company was qualified by Dell and Apple in 2Q.
Drivers / catalysts	• HL Tech was qualified by Apple and Dell in 2Q as the latter two's supplier. For the most eye-catching cooperation with Apple, on request of Apple, HL Tech developed Thunderbolt I/O port that replaces conventional USB port in Apple's new generation iMac and MacPro. • The management originally provides a profit guidance of RMB200m. According to our channel checks, Q4 orders may not be as strong as some previously expected due to weak macro environment in US and EU. Order size and profit margin may be affected. We would monitor the latest development. We suggest investors to pay attention to information on Q4 orders in the market especially around mid of Nov.
Our opinions	• While fundamental of HL Tech is solid, macro environment still have impact on consumer electronics industry and indirectly affect the company. There is uncertainty about Q4 orders and margin pressure. Besides, M&A completed earlier this year may not realizes profits until 2013. We believe 2011 may not be an excellent year but the company may be able to grow especially fast in 2012 and beyond. • We continue to review HL Tech after key personnel change. Upon clearance of Q4 uncertainty, we would provide another update on the company.

Solargiga (0757 HK) (click here…)

Stock statistics	Market cap: US$261.6m (closing price: HK$0.91); daily turnover: US$0.4m
Summary / review	• Solargiga is a China-based solar company with ingot, wafer, cell and module manufacturing capability. In Jan, Solargiga completed acquisition of 300MW cell manufacturing capacity and built vertical integrated model. By end of Jan 2011, capacities of ingot, wafer, cell and module are 800MW, 600MW, 300MW and 26MW. This model may serve to enhance production yield and reduce earnings volatility. • Solargiga has close ties to suppliers and customers. Suppliers Hemlock and Wacker Chemie (WCH EU) signed 8 years and 6 years supply contracts with Solargiga. In addition, there is saying that cell manufacturer Suniva would increase purchase from Solargiga especially after Suniva's plan for a 500MW – 750MW solar cell production plant in Jinzhou, which is close to Solargiga manufacturing base's in the city.
Drivers / catalysts	• Solargiga has TDR in circulation and it did not release Q3 results. While most of its peers lowered margin guidance and recognized single digit to low double digit gross margin, we expect Solargiga to earn a margin at the upper half of the range. As we have mentioned, we believe a consolidation of longer than 12 months is essential to eliminate less competitive players. • By end of 2011, including both mono and multi, attributable capacities of ingot, wafer, cell and module are expected to raise to 1,189MW, 1,085MW, 300MW and 77MW. Shipment-wise, including minority interest, we assume sales volume growth for ingot and wafer would be 55% and 23%, while volume for cell and module are up from almost nil in 2010.
Our opinions	• In additional to segment specialization, we believe formation of vertical model and strategic alliance are keys to success in the increasing competitive solar market. We look forward to its first year to reflect near-full year performance of its vertical integrated model in 2011. • With no sight of recovery in Q3, we keep our reference target price at HK$1.74, representing 12.5x P/E for FY12/11F on a fully diluted basis. While vertical integration model has already cushioned part of the impact of margin squeeze in 2011, in our view, we believe further gradual margin improvement is to be seen in 2012 after industry consolidation.

NewOcean Energy (0342 HK) (click here…)

Stock statistics	Market cap: US$249.5m (closing price: HK$1.49); daily turnover: US$0.8m
Summary / review	• The principal business of the company is sales and distribution of LPG and sales of electronics products. The company initially involved retail sales of bottled LPG to domestic users of China. It subsequently expanded to the import, re-export, wholesale and retail of LPG business since 2004. It further expanded its business towards running 17 LPG refueling stations for LPG vehicles in Guangzhou since 2010. • NewOcean Energy acquired NewOcean Sea Terminal in Zhuhai in 2004, which has a berth that can handle large LGP ships up to 50,000 tonnes capacity. As a LPG importer, exporter and wholesaler, the NewOcean Sea Terminal has ranked number 1 in China since 2008 in terms of through-put volume.
Drivers / catalysts	• There are 35 gas refueling stations in Guangzhou, supplying roughly 400,000 tonnes LPG a year. The 17 acquired refueling stations supplied around 240,000 tonnes to autos, of which 13 are located at bus terminals. With specific transaction arrangement, the company should enjoy the effect of the acquisition in 2011 up to HK$120m and the company gain extra benefit of increased sales to those 17 stations. • NewOcean Energy has applied for “Registered Gas Supply Company” license and it is reaching its final stage. The management expects to complete its LPG terminal at Lung Kwu Tan of Tuen Mun by the end of the year and penetrates Hong Kong market in 2012.
Our opinions	• NewOcean Energy announced interim results earlier in August. Revenue increased 44% YoY to HK$5,467m while gross profit was up 22.5% YoY to HK$212m. Reported net profit was HK$165m, up 160% YoY for the period partly due to non-core one-off gain. Total one-off pre-tax items were up to HK$73m, therefore core earnings were actually below our expectation. While we still believe extra sales to autogas stations in 2H this year, we slightly revise down forecast for FY12/11F and FY12/12F despite strong reported earnings. • Current P/E valuation for FY12/11F and FY12/12F are 4.1x and 2.6x based on our preliminary forecast of HK$479m and HK$753m net profit. Reference TP remains at HK$2.22.

Leoch Int'l (0842 HK) (click here…)

Stock statistics	Market cap: US$415.4m (closing price: HK$2.43); daily turnover: US$0.7m
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 1,500+ 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	• China eventually suspended production of most of lead acid factories since May this year. All lead acid battery facilities located less than 300 meters from residential homes have been required to stop production for inspection. In China as a whole, of 1,800 facilities with production permits, over 1,000 facilities were suspended from production. Industry consolidation effectively reduces market supply. • We have visited company's Zhaoqing, Jiangsu and Anhui production bases this month. All of Leoch's production bases are in industrial zone, where there is no household within a good range. MWH, an independent environmental consulting company, has confirmed there were no major non-compliance issues and generally display adequate measures to treat air emissions and wastewater discharge in 2010.
Our opinions	• Leoch has prudent pricing mechanism. Upon receiving purchase order, the company quote product price on a dollar-plus-cost basis to customers after getting lead price quotes. While revenue largely depends on lead price, we believe gross profit is largely linked to sales volume. Effect of lead price is small on Leoch. • In short-term, due to higher barrier of entrance in the industry, we believe per ton profit may reach high levels for 2H 2011 or even in 2012. At the same time, while peers are on suspension, Leoch is expanding its capacity from 5.9kWh by end of 2010 gradually to 23kWh by end of 2012 to capture the opportunity. • Current P/E valuation for FY12/11F and FY12/12F are 5.6x and 3.5x based on our slightly revised forecast of RMB468m and RMB749m net profit. Reference TP remains at HK$4.32.

Ming Fai (3828 HK) (click here…)

Stock statistics	Market cap: US$91.0m (closing price: HK$1.06); daily turnover: US$0.2m
Summary / review	• Ming Fai International engages in the supply & manufacture of amenity products to high-end hotel chains and airlines. And now it is expanding into the retail consumption market by acquiring the “7 Magic - 七色花” retail networks that sells cosmetics, skin care, fashion and hair accessories. • Revenue increased 54.1% YoY to HK$706.8m from HK$458.7m in 1H FY06/10A. Gross profit increased 47.6% YoY to HK$184.4m from HK$124.9m. Operating profit increased 53.7% YoY to HK$78.1m from HK$50.8m. Profit for the year increased 39.3% YoY to HK$66.9m from HK$48.1m.
Drivers / catalysts	• The “7 Magic” retail networks targets young female age between 15 to 25 in the PRC. The sales network had 1,512 POS at the end of 1HFY06/2011. • Revenue for 7 Magic amounted to HK$126.50m (18% of turnover) in the 1H of FY06/2011 compare to HK$81.4m (8% of turnover) for the last four months of FY2010. Gross profit amounted to HK$44.7m compare to HK$26.9m for the last four months of FY12/2010. And net profit amounted to HK$27.9m compare to HK$14.9m for the last four months of FY12/2010. The 7 Magic business segment enjoyed a gross profit margin of 35.3% at the end of 1H FY06/2011, a 0.2 ppt increase compare to 35.1% at the end of FY12/2010. And net profit margin of 22.1% at the end of 1H FY06/2011, a 2.6 ppt increase from 19.5%.
Our opinions	• Ming Fai has a good stable existing hotel-related business and an attractive retail business that’s beginning to take shape. We feel that the retail business has a potential of becomes a significant contributor to the group’s earning. With Ming Fai’s existing expertise, we feel that being able to self-design and self-produce will give them a significant advantage over competitors by offering better quality, and at the same time has flexibility to cater to market demand changes. We also foresee that the gross margin of the retail business will improve with more sales of self-produced cosmetics and skincare items.

Candidates at a glance (I)

Truly (0732 HK)	• As a major supplier of small-size display module, Truly serves mainly Chinese domestic mobile handset brands, which accounts for ~65% of the company's total revenue. According to the management, it has 50%+ market share for this specific business in China. Truly shipped 3.5m touch screen display modules (out of total 75m) in 1H, which is expected to increase to 6-10m in 2H. A second TSD production line has been completed constructed, which will bring total design capacity from 1.5m/month to 4.5m. • Other than mobile handset, Truly expects automobile display to become a long term driver. The market currently is dominated by Japanese companies. Due to obvious cost advantage as well as the rising of China into the largest automotive market in the world, the management believes there is a well chance ahead. In fact, it has been qualified by all major auto brands except BMW and Mercedes. Automobile products accounted for ~5% (~HK$380m) of the company's revenue in FY12/10A. Following delivery of orders in coming years, segmental revenue is anticipated to hit HK$800-1,000m this year and maintain 50% growth even in 2012.
COSTIN New Material (2228 HK)	• COSTIN New Materials engaged in research, production and sales of non-woven materials and recycled chemical fibers, representing ~80% and 20% of its RMB650.7m turnover in 1H FY12/11A. A woven is a cloth formed by weaving. Non-woven Fabric is a fabric-like material made from long fibers (such as PPS and PET), bonded together by chemical, mechanical, heat or solvent treatment instead of weaving. • COSTIN is recognized as a Provincial-level Corporate Technology Centre in Fujian Province. Besides, approved by National Development and Reform Commission (NDRC), COSTIN collaborates with 5 other institutions to compile industry guidelines and standard for 3 types of non-woven fabrics. • While it is earlier expected to add 10m sqm filtration material capacity, the management indicated that those equipments may deliver up to 18m sqm products due to their optimization. In 2H this year, small batch sales of 1.8m sqm to 2-3 customers was likely. Based on RMB12 per yards for 75% of 160m yards existing product and RMB40 per sqm for filtration material (20% lower than Du Pont's (DD US)), sales in 2011 could be up to RMB1,500m. Net profit could be RMB300m for FY12/11F at 20% net margin.

Candidates at a glance (II)

Tianyi Fruit (0756 HK)	• The group reported earnings for FY09/2011A. Revenue decreased 5% to RMB455.2m from RMB479.3m in FY09/2010A. The decrease is largely due to adverse weather resulted in a lower yield and production volume from own farm grown fresh oranges. Gross profit decreased 23% to RMB141.3m from RMB185.5m. Profit for the year decreased 2% to RMB154.1m from RMB156.6m. • The decline in sales was mainly due to decline sales of fresh oranges, a 19.1% drop YoY from RMB184.8m to RMB149.5m accounted for 32.7% of sales compare to 38% in FY09/2010A. The decline was due to decrease in production volume of own farm grown oranges. The sale volume declined 21%, but the average selling price increased 34.9% to RMB2,310 per tonne. • Sales of juice product increased by 6% YoY from RMB289m to RMB306m made up 67% sales compare to 62% from FY09/2010A. Among the juice products, FCOJ made up 29.9% of sales compare to 28% in previous year. ASP increased 44.8% from RMB11,900 to RMB17,234 per tonne. FCOJ fibre made up 33.3% compare to 29% in the previous year. ASPincreased 7.1% from RMB6,867 to RMB7,354 per tonne. Pulp and others made up 4.1% compare to 5% in the previous year.
Man Yue Tech (0874 HK)	• Since 1970s, Man Yue Technology engaged in aluminum electronic component (E-caps) business under SAMXON brand name. Man Yue is now the 5th largest E-caps manufacturer in the world following top 4 Japanese peers. In 2006, Man Yue developed conductive polymer aluminum solid capacitors (polymer caps) and became top 4 worldwide. The management targets a split of revenue from e-caps and polymer caps at 80%/20% in short-term while the former generally has higher margin than the latter. • Man Yue customized production equipments and purchase basic raw materials to produce capacitors for sales. With optimization, Man Yue has high production yield, quick response to product request and competitive cost structure. Man Yue capacitors are selling 20% higher than Chinese and Taiwan peers yet 10% discount to Japanese top producers. Man Yue plans to spend HK$200m CAPEX a year to expand polymer caps, which may be equivalent to 40 production lines with 1.7m pieces output each per month, according to our checks. At HK$0.525 per piece ASP and 12.5% net margin, extra revenue and net profit increment upon full utilization of HK$200m CAPEX would be HK$400m+ revenue and HK$50m+ net profit.

Candidates at a glance (III)

IRC (1029 HK)	• An emerging iron producer in Russia - IRC is a relatively young firm listed on HKEx on June 2010, spun off from UK-listed gold mining company – Petropavlovsk. IRC has three majors iron ore mine at three different stages, namely Kuranakh, K&S and Garinskoye, which located in far-east Russian, with close proximity to Chinese north-eastern border. • The only producing mine is Kuranakh which has total estimated resources of 43.1m tonnes and designate mining capacity of iron ore concentrate 0.9m tonnes per annum and ilmenite concentrate 0.29m tonnes per annum. K&S project, a larger mine than Kuranakh, is the key asset. It is at advance construction stage and targeted commissioning in 2013 with designate capacity of 3.2m tonnes a year iron ore concentrate. • Third Quarter report showed strong iron ore price performance, APS for iron ore and ilmenite concentrate increased 1% and 63% QoQ to US$150/t and US$221/t respectively. However, the currently iron ore spot price was diversely effect by economic downturn and weakening in China demand, was fall by 30% in October 2011. We concern IRC's fourth quarter financial result since IRC's current net profit is low and hence its sensitive in respond to changes in price.

Removals

Truly (0732 HK)	• It was moved to watch list in accordance to our classification

Thank You!

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