



## CSI Properties (HK\$0.305 - N-R)

### Proactive and creative

**CSI Properties takes a proactive and creative approach to property development – an attractive attribute in a property market with flattish price trend. The company creates value by redeveloping under-appreciated buildings and tailoring luxury products for an increasingly sophisticated pool of high-net-worth not fully catered for by the traditional developers. The track record: a 44% and 28% CAGR in net profit and book value since FY06. The shares are trading at 0.43x FY11A PB, 2.9x FY11A PE and just 20% above the level where Chairman spent HK\$350mn to raise his stake in the company by 16% to 51%.**

#### Proactive

CSI takes a much more proactive development model than the typical Hong Kong developer. The company churns quickly, with an average holding period on each property of just 3 years (vs a minimum of 4-5 years of major developers). And the company generates values with creative product development: of the 112% average return on past investments, 57% came from passive market price appreciation and 55% came from value added by the company.

#### High returns

The proactive and fast churn approach translates into high return for shareholders. In FY11A CSI's underlying ROE of 20.2% was well-above the 3~7% of major HK developers and 0.8~14.9% of peers with similar market cap (\$1.2~3bn). Stripping out effect of leverage, CSI's ROA of 11.2% in FY11 was still way ahead of major peers' 2~5.2% and smaller peers' 0.5~14.0%.

#### Pipeline and cashflow

CSI has a pipeline of 15+ projects totalling GFA of 2.05m+ sqf in HK/Shanghai, an equivalence of 12.5 x of past average annual completion. Given a low gearing of just 25% end-FY11, the company has capacity for growth and recently spent HK\$1.6bn on acquisitions. This growth will largely be funded internally by intended disposal of AXA Centre and Cubus (together expected to fetch some HK\$2bn attributable cash inflows).

#### Undemanding valuation

Stock is trading at 0.43x FY11A PB (vs 0.46x to 0.75x of major HK developers and 0.14x to 0.62x of smaller HK developers), 2.9x FY11A PE (vs 11.0x to 17.5x of major HK developers, 1.2x to 49.4x of smaller peers) on FY11 underlying ROE of 20% and 5-year avg U/L ROE of 13% (vs 4% to 6% of major HK developers and 2% to 9% of smaller HK developers).

#### Financials

Year to 31 March	07A	08A	09A	10A	11A
Revenue (HK\$m)	102	402	669	1,448	2,745
Net profit (HK\$m)	277	325	62	546	858
Net profit growth (% YoY)	587	18	(81)	776	57
PE (x)	9.0	7.7	40.0	4.6	2.9
Dividend yield (%)	1.6	1.6	0.7	1.7	3.4
ROE (%)	13.2	13.1	2.5	16.0	20.2
ROA (%)	7.7	6.3	1.0	7.0	11.2
Net gearing (%)	48	61	88	97	25

Source: CLSA Asia-Pacific Markets

**Jackson Hui (852) 26008723**  
jackson.hui@clsa.com

**Nicole Wong (852) 26008207**  
nicole.wong@clsa.com

Key company data 497 HK	N-R		
Market cap	US\$321m		
Share capital			
12M high/low	HK\$.34/HK\$.16		
3M avg daily vol	5.7 (US\$.7m)		
Major shareholders	Mico Chung 50.9%		
Estimated free float			
Performance (%)	1W	1M	12M
Absolute	5.2	13.0	(4.7)
Relative to index	2.6	10.2	6.4
Absolute (US\$)	5.2	13.1	(4.2)

Source: CLSA Asia-Pacific Markets

#### Share-price performance



Source: Bloomberg, CLSA Asia-Pacific Markets



**Proactive and creative**

- ❑ Most Hong Kong developers are “margin takers”. This margin taker characteristic is caused by first a high market share and hence the impracticality of picking just on the highest paying power segment of the customer spectrum, and second a tendency to be more engrossed with market cycle timing than with product development as most Hong Kong developers are still run by a generation of management who built the business in the 70s and 80s during a period of rapid asset price appreciation with less sophisticated customer base.
- ❑ CSI Properties offers investor an alternative of a proactive margin property development model that focuses on value-enhancement opportunities by upgrading under-appreciated properties through 1) tenant mix revamp, 2) design, layout & fittings upgrade; and increasingly, 3) tailor-making of products for a growing pool of more sophisticated high-net-worths who are willing pay a price premium for lifestyle (depreciable elements such as trendiness of products, versus traditional appreciable elements such as location).
- ❑ CSI first started their property investment business in commercial property market, which involves smaller lump sum. The first venture was No.88 Gloucester Road in Wan Chai, a 23-storey office building with a GFA of 95,638sqf. CSI acquired the property in May’03 for HK\$196m, and sold for HK\$783m in Jul’07.
- ❑ Profit attributable to shareholders grew from HK\$140.3m in FY06 to \$857.7m in FY11, by 6.1x or at a 5-year CAGR of 44%. Shareholders’ equity grew from HK\$1.21bn in FY06 to HK\$4.24bn in FY11, by 3.5x or at a 5-year CAGR of 28%. The exceptional asset and profit growth is attributed to company’s quick churn model – rather than keeping the units as investment properties. The average holding period on each property is just 3 years (vs major developers’ 4-5 years).
- ❑ Below are some show cases of past transactions:
- ❑ **Mohan Building, 14-16 Hankow Road, Tsim Sha Tsui.** Company acquired this project in Apr 2007 for HK\$575m. It used to be a 12-storey building with G/F~3/F for retail; 4/F~12/F leased to SMEs and trading companies at average rent HK\$10psf/month. Company created value by converting upper floors into a 51-room serviced apartment (called “Han Residence”), total renovation cost was HK\$30m. 4/F~12/F average rent has increased to HK\$50psf/month. The project was subsequently sold for HK\$1,380mn in Aug’11, achieved a return of 128%.



Figure 1

**Exterior – before renovation**



Source: Company

Figure 2

**Exterior – after renovation**



Source: Company

Figure 3

**Serviced apartment room**



Source: Company

Figure 4

**Lobby**



Source: Company

□ **AXA Centre, 151 Gloucester Road, Wan Chai.** Company acquired 51% of building in Aug 2006, and subsequently increased its shareholding to c.90% in 2007. Average cost is HK\$5,000psf. Company added value by improving image, renovation and upgrading the building facilities, and inviting tenants like Porsche (sports car) and Park'n Shop (supermarket) to move in the G/F and basement retail spaces. In Nov'10 company sold 9 office floors strata title and first floor of retail podium in total for a combined consideration of c.HK\$1.56bn or price of HK\$11,000psf, implying a margin of 50.7%.



Figure 5

**Lift lobby – before renovation**



Source: Company

Figure 6

**Lift lobby – after renovation**



Source: Company

Figure 7

**Concierge – before renovation**



Source: Company

Figure 8

**Concierge – after renovation**



Source: Company

- ❑ CSI Properties adopts a churn model and do not hold properties for long-term. From past 8 major property transactions, the average holding periods of each property is 3 years.

Figure 9

**Returns on major projects sold**

Project	Type	Land cost (HK\$m)	Date of acq.	Capex (HK\$m)	Total cost (HK\$m)	Date of sale	Price sold (HK\$m)	Gross profit (HK\$m)	Holding period (# of mth)	Gearing ratio (%)	Equity invest (HK\$m)	Equity val. at exit (HK\$m)	IRR per mth (%)	Total Return (%)	Market return (%)	Active Return (%)
Paul Y Centre, Kwun Tong No.88 Gloucester Road	Ind/office	778	Jan 06	2	780	Jun 07	1,150	370	17.0	85	117	487	8.8	47	10	38
	Office	168	Jun 03	28	196	Sep 07 Feb08~	783	587	51.1	60	78	665	4.3	299	183	116
4 houses in Tai Tam	Residential	304	Dec 06	27	331	May09	556	225	14~29	32	224	449	3.2	68	24	44
Novel Plaza, Shanghai	Office	817	Oct 07	2	819	Sep 08	1,209	390	11.0	43	467	857	5.7	48	9	39
Int'l Capital Plaza, Shanghai 14-16 Hankow Road, TST	Retail/office	412	Apr 06	422	834	Dec 10	1,346	512	56.1	50	417	929	1.4	61	46	15
	Ret/serv apart	576	Apr 07	29	605	Aug 11 Nov11~	1,380	775	52.0	66	205	980	3.1	128	53	75
8 units of The Hampton	Residential	219	May 08	116	335	Mar12	807	472	42~46	50	167	640	3.1	141	91	50
10 Floors of AXA Centre	Office	766	Aug 06	2	768	Nov 10	1,560	792	51.1	50	384	1,176	2.2	103	39	64
<b>Average</b>									<b>39.7</b>	<b>54.6</b>				<b>112</b>	<b>57</b>	<b>55</b>

Source: Company data, CLSA Asia-Pacific Markets

**From retail to residential**

- ❑ The initial venture into commercial property investments had helped grow CSI's balance sheet and skillset, and the company has since expanded their footprints to residential market. The most



remarkable one is The Hampton at 45 Blue Pool Road, Happy Valley.

- ❑ **The Hampton.** In May 2008, company acquired the 45 Blue Pool Road project from Nan Fung (not listed) at a consideration of HK\$290m, or AV HK\$8,121psf. Prior to renovation, the project had 15 residential units, each 2,500sqf.
- ❑ CSI transformed and reduced total no. of units to 11 from 15, but enlarged unit size from c.2,500sqf each to 3,500-5,500sqf. Units were sold with innovative design, furniture and fittings (cost: c.HK\$4,300psf).
- ❑ The project had successfully caught attention of its target customers – mainlanders. Of the 8 units sold up to May'12, all were sold to mainlanders at ASP of HK\$24~25,000psf.

Figure 10

**Exterior – before renovation**



Source: Company

Figure 11

**Exterior – after renovation**



Source: Company

Figure 12

**Duplex unit – with swimming pool**



Source: CLSA Asia-Pacific Markets

Figure 13

**Living area**



Source: CLSA Asia-Pacific Markets



Figure 14

**The Hampton – Cost breakdown/ gross margin**

	HK\$psf
Land cost	8,121
Interest cost	330
Leasehold improvement (Renovation + fittings)	4,298
All-in cost	12,749
Selling price	24,000
Margin (%)	47

Source: Company data, CLSA Asia-Pacific Markets

- ❑ **Kau To Shan land site.** In May'12, company acquired Kau To Shan land site through government tender, added another 50,375sqf to its 1.9m sqf landbank (as of Mar'12). Land cost of HK\$531.5m translate into AV of HK\$10,550psf, company intends to develop the site into 20-25 villas, c.2,500sqf each.
- ❑ All-in cost (including slope inspection/ maintenance) is HK\$18,550psf. CSI will have to sell the project at HK\$20,800psf assuming 1) GFA inflation of 10%, and 2) gross profit of 20%. ASP does not look demanding, comparing to nearby Windsor Park (villas, 26 years) at HK\$26,474psf.

Figure 15

**Kau To Shan land site – cost breakdown**

	HK\$psf
Land cost	10,550
Construction cost + interest	4,500
Renovation + fittings	2,000
Slope inspection/maintenance	1,500
All-in cost	18,550
ASP (assume flat with nearby Kau To Shan Garden)	26,474
Gross margin (assume ASP \$26,474psf, 10% GFA inflation)	37

Source: Company data, CLSA Asia-Pacific Markets

Figure 16

**Kau To Shan land site (R)**



Source: CLSA Asia-Pacific Markets

Figure 17

**View**



Source: CLSA Asia-Pacific Markets

- ❑ **The Monterey Court.** In Jun'12, company acquired another residential project in Hong Kong Island – Monterey Court, for HK\$1.4028bn. The project is located at Perkins Road, Happy Valley,

Please see important notice on last page



with a total GFA of 73,306sqf (AV HK\$19,098psf). Surrounded mainly by villas and some high-rise residential (such as Cavendish Heights developed by Cheung Kong in 1986), Perkins Road is home to well-known names like Joseph Lau (Chairman of Chinese Estates), Chen Zhou Lin (Chairman of Agile), Gordon Wu (Chairman of Hopewell Holdings) and Leung’s family (founder of Hang Seng Bank).

- The Land cost is 23% lower than the Stubbs Road (ex-Lingnan College) land site bought by SHKP (16 HK) in May’11 (AV HK\$24,829psf), and 23% lower than Shouson Peak Road site (ex-government official residence) acquired by Nan Fung in May’12 (AV HK\$24,810psf). It is reported both SHKP and Nan Fung will opt for redevelopment plans.
- The 28-years-old Monterey Court consists of 40 units (2 units/floor of 1,700sqf each, CSI intends to enlarge the average unit size to 1 unit/floor 3,000+sqf each). Apart from unit size, CSI also attempts to increase coverage ratio from 15% to 25%, the extra site area will be for developing 2 villas.
- Under the current planning, CSI will partner a Hong Kong developer (a listed co, to be revealed), CSI will have 55% stake and partner sharing the remaining 45%. Both redevelopment and renovation (similar to The Hampton) options are under consideration. Should CSI go for the redevelopment plan to rebuild a high-rise residential building, company will have to achieve ASP of HK\$32,600psf in order to achieve a 20% gross profit margin.

Figure 18

**The Monterey Court – Cost breakdown**

	HK\$psf
Land cost	19,098
Redevelopment cost	6,000
Interest	1,000
All-in cost	26,098
Comparable 1: Stubbs Road (SHKP) land cost	24,829
Comparable 2: Shouson Peak Rd ( Nan Fung) land cost	24,810

Source: Company data, CLSA Asia-Pacific Markets



Figure 19

**Exterior**



Source: Company

Figure 20

**View**



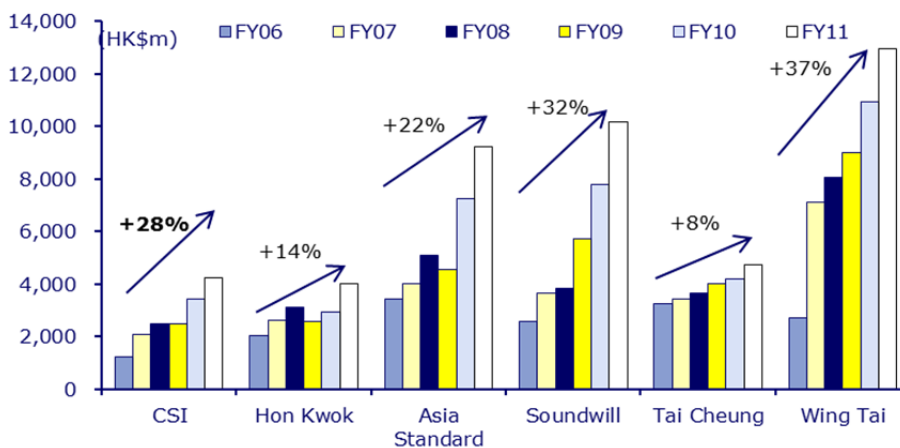
Source: Company

**Translating value into growth**

□ The proactive development approach has produced a higher than peer growth. Book value of the company has grown at 28% CAGR between FY06-11; and profit at 44% CAGR. This is well above the 13% to 19% CAGR in book value and -1% to 23% CAGR in net profit for large-cap developers (SHKP, Kerry, Sino, New World Dev, Henderson Land) and higher than most smaller developers who range between 8% to 37% CAGR in book value and -24% to 27% CAGR in net profit. The two smaller developers that exceeded CSI by growth in book values: Soundwill, was due to completion of a major investment property, Soundwill Plaza, which together with other investment properties, represent 1.08x of book value at end-FY11; and similarly, the growth in book value of Wing Tai is attributed to completion of Landmark East in 4Q08 and subsequent increase in fair value in investment properties. Fair value of investment properties equal 1.07x of Wing Tai's book value at end-FY11.

Figure 21

**5-yr CAGR of shareholders' equity**



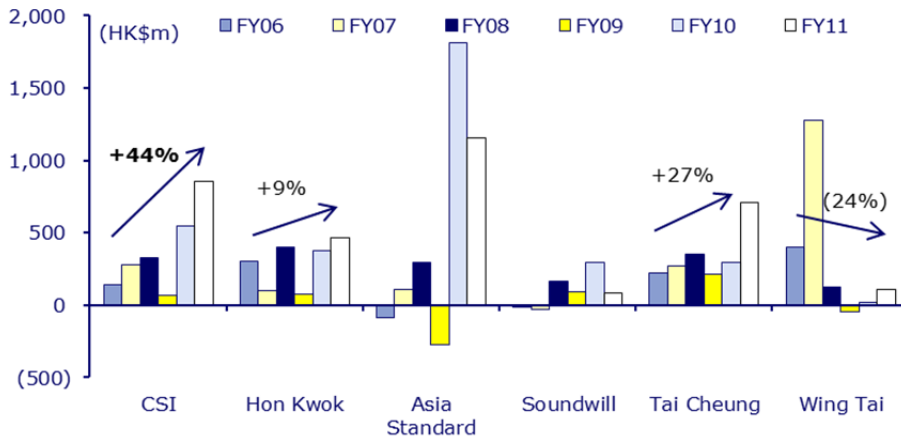
Source: Company data, CLSA Asia-Pacific Markets





Figure 22

**5-yr CAGR of U/L net profit**

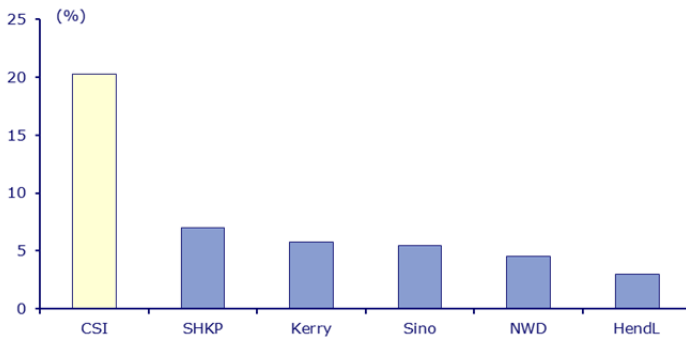


Source: Company data, CLSA Asia-Pacific Markets

- ❑ CSI's 20.2% underlying ROE in FY11, outperforming 3.0~7.0% large-cap developers (SHKP, Kerry, Sino, New World Dev, Henderson Land) and 0.8~14.9% of Wing Tai and peers with similar market cap (HK\$1.2~3bn).
- ❑ 11.2% FY11A ROA of CSI is also at the top-end among small-cap peers, which ranges from 0.5~14.0%.

Figure 23

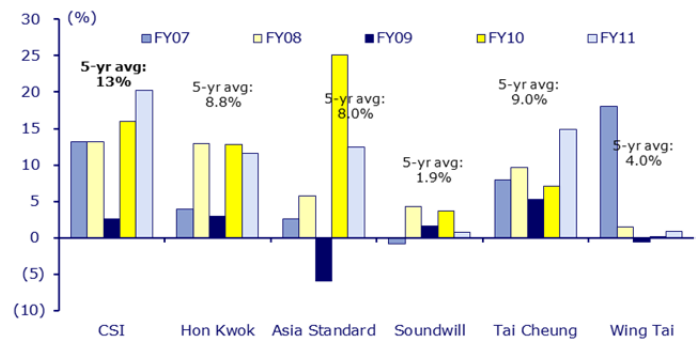
**U/L ROE vs major HK developers (FY11)**



Source: Company data, CLSA Asia-Pacific Markets

Figure 24

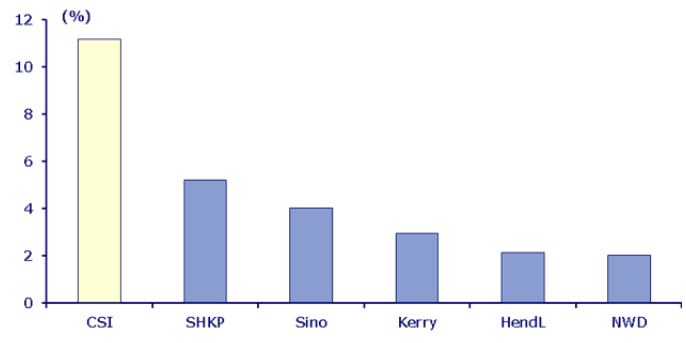
**U/L ROE vs peers**



Source: Company data, CLSA Asia-Pacific Markets

Figure 25

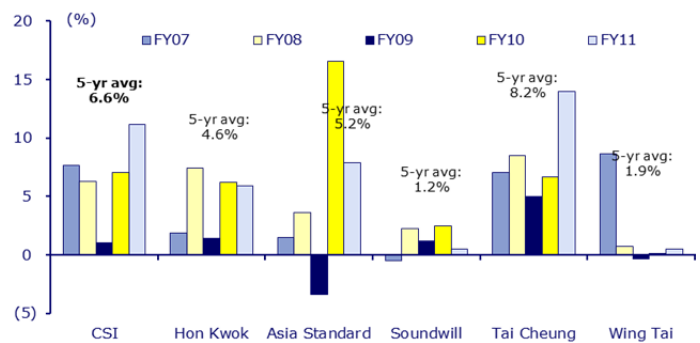
**ROA vs major HK developers (FY11)**



Source: Company data, CLSA Asia-Pacific Markets

Figure 26

**ROA vs smaller HK developers**

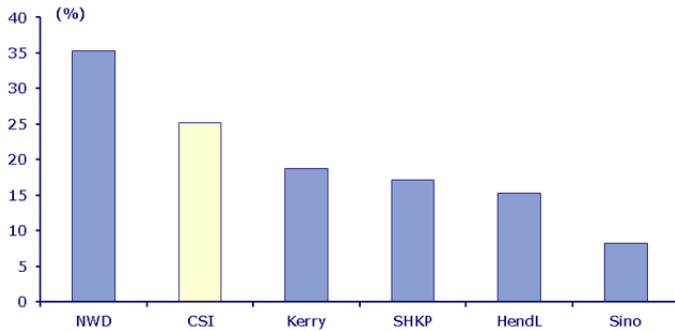


Source: Company data, CLSA Asia-Pacific Markets



Figure 27

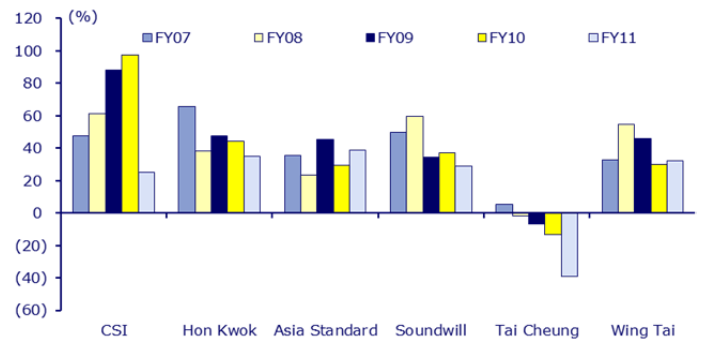
**Net gearing vs major HK developers (FY11)**



Source: Company data, CLSA Asia-Pacific Markets

Figure 28

**Net gearing vs smaller HK developers**



Source: Company data, CLSA Asia-Pacific Markets

- Future growth driver relies on 15 major properties, some 2.05m sqf residential + commercial GFA, on the sales pipeline. We note 2.05m sqf is an equivalence of 12.5x annual GFA sold by CSI in past 5 years.

Figure 29

**Sales pipeline (major properties)**

Property/ project	Location	Stake (%)	Date of acq.	GFA (sqf)	AV spent YTD (HK\$psf)	Capex spent YTD (HK\$psf)	Sunk Cost (HK\$psf)	Est. capex to spend (HK\$psf)	Est. all-in cost (HK\$psf)	Market ASP (HK\$psf)	Status	
<b>Commercial</b>												
Cubus, 1-3 Hoi Ping Road	Causeway Bay	25	Apr 06	60,000	5,200	2,500	7,700	-	7,700	20,000	Cubus features high-end restaurants and lifestyle complex. Available for immediate sale	
23-25, & 27 Ashley Road	Tsim Sha Tsui	100	Sep 06	62,000	5,545	156	5,702	3,000	8,702	15,000	Planned to joint dev with 21 Ashley Road, which holds 3/12 property rights	
Basement, G/F, 1506-7, 17-24/F, Skysign, 78 carparking spaces of AXA Centre, 151 Gloucester Road	Wan Chai	100	Aug 06, May 07	153,000	5,000	13	5,013	-	5,013	12,000	Available for immediate sale	
H8, 8 Hau Fook Street	Tsim Sha Tsui	100	Jun 06	45,000	3,528	1,822	5,350	-	5,350	14,000	Redeveloped into a Ginza-style building focusing medium to high-end F&B centre. Available for immediate sale	
The Platinum, Taicang Road	Lu Wan, Shanghai	50	Apr 10	370,000	1,823	-	1,823	100	1,923	5,667	Grade A commercial building in prime Xin Tian Di area	
In Point, Wujiang Road & Shimenyi Road	Jing An, Shanghai	100	Aug 09	122,000	2,663	33	2,695	100	2,795	4,534	Plan to sell >2013 when after nearby Dazhongli project completed. Expect to sell at Rmb50k psm	
JIA Hotel, 1 Irving Street	Causeway Bay	100	May 11	45,000	5,517	20	5,536	3,000	8,536	15,000	Plan to convert the project into a mixed comm'l project with flagship store, F&B, and hotel	
2-4 Shelly Street	Central	100	Mar 11	32,000	9,299	56	9,355	5,000	14,355	20,000	now boutique hotel. Approve residential + comm'l arrangement. Another plan comm'l + F&B (similar to H8 mode). Will know in 1-2 months, F&B may be more beneficial/ higher return.	
Novotel Nathan Road Hotel	Jordon	50	Jul 12*	290,000	8,166	-	8,166	500	8,666	16,000	Purchase agreement signed, target completion in Jul'12.	
Retail shop at 24 Wellington Street	Central	100	Late 2011	700	154,286	-	154,286	-	154,286	242,857	Acquired for HK\$108m. Asking HK\$170m (or \$242,857psf)	
Golden computer centre (new wing)	Shum Shui Po	70	Feb 12	29,800	16,107	-	16,107	-	16,107	18,000	Jointly acquired the property with ITC Corporation for HK\$480m	
<b>Residential</b>												
5B, 7A, 7B The Hampton, 45 Blue Pool Road	Happy Valley	100	May 08	12,483	7,835	4,414	12,249	-	12,249	25,000	Sold in May'12.	
1A, 2A, 2B The Hampton, 45 Blue Pool Road	Happy Valley	100	May 08	9,149	7,835	4,722	12,557	-	12,557	25,000	Available for immediate sale	
47 Barker Road	The Peak	100	Feb 11	4,000	50,000	175	50,175	5,000	55,175	80,000	Renovation work will complete by end of 2012	
33-39 Tung Lo Wan Road	Causeway Bay	50	Jul 11	90,000	7,489	-	7,489	4,500	11,989	20,000	Expect presale by 2H 2013	
Land in Qing Pu	Qing Pu, Shanghai	50	Jun 11	643,000	839	-	839	680	1,519	3,021	Expected completion - 2014	
Kau To Shan land site	Shatin	100	May 12	50,375	10,551	-	10,551	7,500	18,051	26,000	ASP of nearby 26-yr old Windsor Park \$25,000psf	
The Monterey Court	Happy Valley	55	Jun 12	73,306	19,136	-	19,136	8,000	27,136	35,000	*shareholding and development structure still under planning	
<b>Attributable cash inflows/ outflows (HK\$m)</b>						<b>237</b>	<b>6,698</b>	<b>1,726</b>	<b>8,423</b>	<b>14,931</b>		

Source: Company data, CLSA Asia-Pacific Markets

- The Platinum (in Shanghai) is a 50-50 joint venture project with Chinese Estate. The latter's luxury residential project, La Scala in Taipa, may risk being seized by Macau Government as Chinese Estate's Chairman Joseph Lau was accused by the Macau government for bribery and money laundering in relation to the acquisition of the site.
- Chinese Estate is believed to have invested HK\$2.8 billion in the project and some 304 units have been sold and presale cash deposit of HK\$384mn was received.

Please see important notice on last page



- ❑ As of 31 Dec 2011, Chinese Estates has bank balances & cash of HK\$4.37bn, gross debt of HK\$22.7bn and net gearing of 51.7%.
- ❑ The Platinum project is planned for sale in FY14 after the completion of nearby Swire Properties' DaZhongLi project. Total attributable sales proceed from The Platinum is estimated to be around HK\$1.05bn. Together with 33-39 Tung Lo Wan Road (JV with ITC) and basement+carpark spaces of AXA Centre, Barker Road, and retail shop at Wellington Street, total cash proceeds in FY14 is estimated to be around c.HK\$3.08bn
- ❑ The Platinum represents 17% of total GFA in sales pipeline, and 34% of FY14 attributable cash inflows.
- ❑ As advised by CSI's management, CSI is the lead manager of The Platinum project and has the control over timing & selling price at disposal



## Cashflows & financing

- CSI's leverage had been in line with peers save for FY09-10 for reasons detailed below.

Figure 30

### Extract of cashflow statements

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	1H12
	(HK\$m)	(HK\$m)	(HK\$m)	(HK\$m)	(HK\$m)	(HK\$m)	(HK\$m)	(HK\$m)
<b>Cash at 1 April</b>	<b>128.3</b>	<b>211.1</b>	<b>215.2</b>	<b>336.0</b>	<b>929.6</b>	<b>1,197.9</b>	<b>581.7</b>	<b>1,721.7</b>
<b>Operating cashflow</b>	<b>(129.1)</b>	<b>4.8</b>	<b>(1,006.4)</b>	<b>(676.1)</b>	<b>(1,108.8)</b>	<b>(1,756.9)</b>	<b>(595.8)</b>	<b>1,140.8</b>
- Change in properties held for sale	(184.8)	25.1	(900.2)	(684.3)	(994.9)	(127.6)	(776.8)	-
<b>Investing cashflow</b>	<b>(163.0)</b>	<b>(68.7)</b>	<b>(548.0)</b>	<b>601.0</b>	<b>536.5</b>	<b>(163.7)</b>	<b>1,537.1</b>	<b>(421.6)</b>
- Acquisitions of projects	(238.1)	(241.7)	(852.9)	(152.9)	-	(51.6)	138.4	-
- Disposals of projects	152.0	375.5	75.3	852.7	37.1	-	1,474.7	-
- Others	(77.0)	(202.5)	229.6	(98.9)	499.4	(112.0)	(76.0)	(421.6)
<b>Financing cashflow</b>	<b>375.0</b>	<b>68.1</b>	<b>1,675.3</b>	<b>668.7</b>	<b>840.6</b>	<b>1,304.3</b>	<b>198.8</b>	<b>(248.0)</b>
- Net bank borrowings	360.9	(127.9)	947.6	320.3	891.6	1,080.8	247.5	2.5
- Issue of shares	0.7	222.0	614.4	5.4	-	418.4	-	-
- CBs	-	-	133.0	390.0	-	78.0	-	-
- Others	13.4	(26.1)	(19.8)	(47.0)	(51.0)	(272.9)	(48.8)	(250.4)
<b>Cash at 31 March</b>	<b>(136.8)</b>	<b>171.5</b>	<b>(1,112.2)</b>	<b>846.3</b>	<b>739.5</b>	<b>290.5</b>	<b>2,482.0</b>	<b>1,771.4</b>
<b>Net gearing (%)</b>	<b>37.8</b>	<b>8.2</b>	<b>47.7</b>	<b>61.1</b>	<b>87.9</b>	<b>97.4</b>	<b>25.2</b>	<b>21.5</b>

Source: Company data, CLSA Asia-Pacific Markets

- 2008/09 global financial crisis has affected CSI's operations and cashflows.
- Lehman Brothers used to be an investment partner (Paul Y Centre in Kwun Tong acquired in Dec'05; International Capital Plaza in Shanghai acquired in Apr'06), and a major shareholder of CSI (holding 8.39% equity stake. At the date of liquidation, LB held HK\$41m notional amount of convertible bond due 2011, and HK\$187m notional amount of CB due 2012, which can be converted into 2.23% and 7.43% of existing shares).
- CSI subsequently repurchased the CB from third parties who apparently bought from Lehman Brothers for HK\$294.4m (face value: HK\$428.9m) during FY10, and the equity shares held by the liquidator have been sold to third parties.
- Regarding the joint-development project in Shanghai, International Capital Plaza, LB originally held 40% stake but subsequently diluted to 25% due to a capital increase for renovation work, and the remaining 25% stake was bought back by CSI for HK\$14m.
- In Apr'09 company rescinded the acquisition of 2 Chung Hom Kok Road, which agreed to acquire from Yu Tai Hing for HK\$478m in late 2008 as the other joint-venture partner Lehman Brothers was liquidated, and making CSI losing deposit paid equalled 10% of total consideration.
- But financial crisis also provided acquisition opportunities for CSI. Just 2 months later, in Jun'09 company acquired 38/F Shun Tak Centre for HK\$262m in Jun'09. The appetite continued to build and company acquired Grand Millennium Plaza and "gi" shopping mall in Aug/Oct'09.
- The Shun Tak Centre was sold to Value Partners for HK\$277m just 3 days after acquisition, gained HK\$15m; part of Grand Millennium Plaza units was sold for HK\$9,483psf in Sep'11 (vs HK\$8,400psf); "gi" shopping mall was subsequently sold for HK\$420m in Oct'10 (acquired for HK\$320m in Feb'10).



Figure 31

**More acquisitions than disposals after Lehman Brothers liquidation**

Date	Projects	Price (HK\$m)	Note
<b>Acquisitions</b>			
Apr 09	2 Cape Drive (10% deposit)	47.8	Loss of deposit due to rescission of acquisition
2Q09	40% Int'l Capital Plaza	250	Acquired from liquidator post Lehman liquidation
Jun 09	38/F Shun Tak Centre	262	
Sep 09	5/F & 15/F of Grand Millennium Plaza	130	
Oct 09	50% stake H8	50	Henry Group re-sell the 50% stake of H8 to CSI
Feb 10	"gi" shopping mall	320	
		<b>1059.8</b>	
<b>Disposals</b>			
Mar 09	House at Tai Tam Road	(120)	ASP \$23,108psf
Jul 09	128 Connaught Road Central	(120)	
Aug 09	30-30A Stanley Street	(150)	
Dec 09	Retail shop at 83-97 Nathan Road	(86)	
Dec 09	Eton Building	(220)	
		<b>(696)</b>	

Source: Factiva, Company, CLSA Asia-Pacific Markets

- ❑ Net gearing decreased from 88~97% in '09/'10 to 25.2% at Mar'11, and then to 21.5% at Sep'11 after rights issue and cash inflows from offloading some projects.
- ❑ Company expects to 4 projects to be offloaded and contribute to FY13F revenue: remaining office units of AXA Centre (mgt est. sales proceeds: HK\$1,600m), 3 units of The Hampton (HK\$250m), Cubus (HK\$400m), and H8 (HK\$180m)
- ❑ Major cash outflows, as per management, in next 12 months include land premiums for Kau To Shan land site (HK\$532m), The Monterey Court (HK\$772m for 55% stake), and Golden Computer Shopping Centre (HK\$336m for 70% stake)
- ❑ SG&A in FY11 was HK\$80m (5-yr CAGR 16.1%), finance cost of HK\$55m (5-yr CAGR 50.3%), tax of HK\$21.8m (5-yr CAGR of 2.4%), and dividends of HK\$82.3m (5-yr CAGR of 40%)

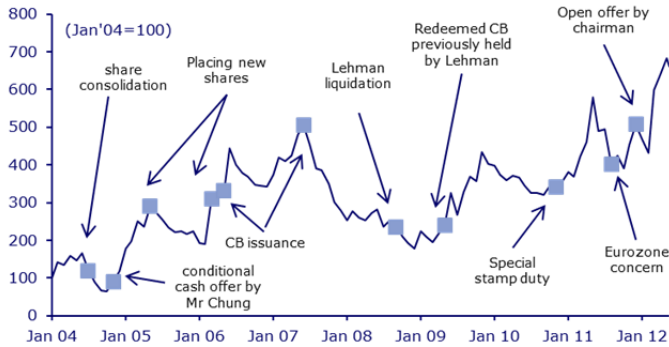
**Past share price performance and valuation**

- ❑ Chairman Mico Chung acquired 29.7% stake in CSI Properties back in Feb'04.
- ❑ CSI shares underperformed when company announced share consolidation in Jul'04. In Nov'04, Mr Chung increased his stake in CSI from 29.36% to 30.25%. A conditional cash offer was announced and share price outperformed Hang Seng Index, major and smaller HK developers.
- ❑ CSI shares underperformed when CSI issued HK\$133m convertible bonds in Jun'07. Lehman Brothers was one of the subscribers
- ❑ In May'09, CSI shares rebounded and outperformed when CSI acquired the convertible bonds from third parties who apparently bought from Lehman Brothers in May'09. The outperformance of CSI shares was also noted in winter 2010 when HK Government announced Special Stamp Duty.
- ❑ Stock is trading at 0.43x FY11A PB (vs 0.46x to 0.75x of major HK developers and 0.14x to 0.62x of smaller HK developers), 2.9x FY11A PE (vs 11.0x to 17.5x of major HK developers and 1.2x to 49.4x of smaller HK developers) on FY11 underlying ROE of 20% and 5-year average underlying ROE of 13% (vs 4% to 6% of major HK developers and 2% to 9% of smaller HK developers).



Figure 32

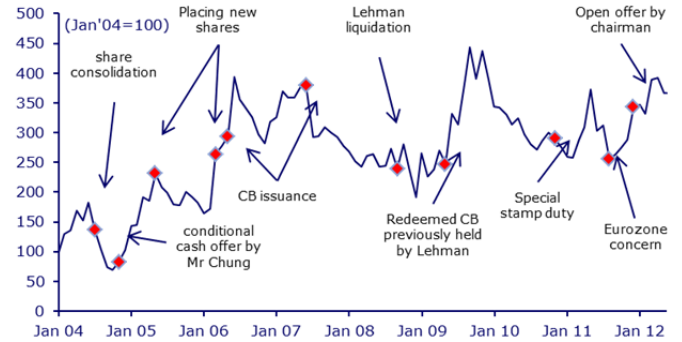
**CSI share price relative to major HK developers**



Source: Datastream, CLSA Asia-Pacific Markets. Major HK developers include SHKP, Kerry Prop, New World Dev, Hendl, and Sino Land.

Figure 33

**CSI share price relative to smaller HK developers**



Source: Datastream, CLSA Asia-Pacific Markets. Smaller HK developers include Hon Kwok, Asia Standard, Soundwill, Tai Cheung, and Wing Tai Prop.

Figure 34

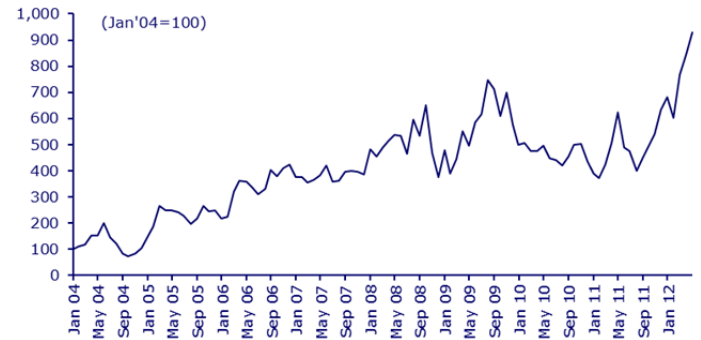
**CSI share price relative to Hon Kwok (160 HK)**



Source: Datastream, CLSA Asia-Pacific Markets

Figure 35

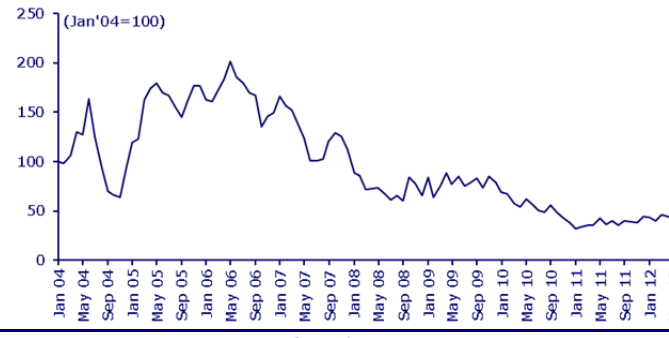
**CSI share price relative to Asia Standard (129 HK)**



Source: Datastream, CLSA Asia-Pacific Markets

Figure 36

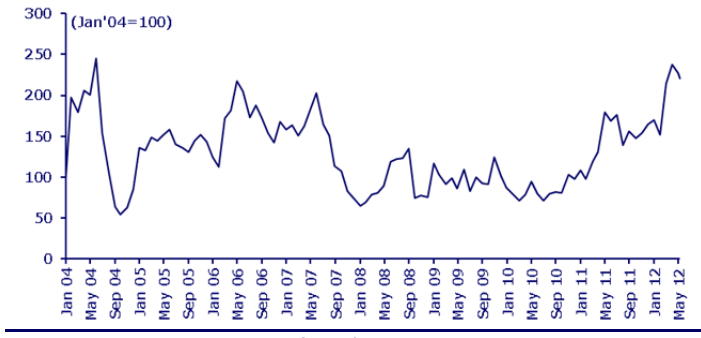
**CSI share price relative to Soundwill (878 HK)**



Source: Datastream, CLSA Asia-Pacific Markets

Figure 37

**CSI share price relative to Midland (1200 HK)**



Source: Datastream, CLSA Asia-Pacific Markets

Figure 38

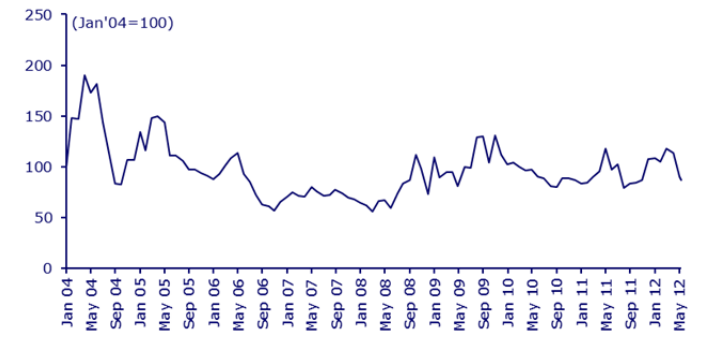
**CSI share price relative to Tai Cheung (88 HK)**



Source: Datastream, CLSA Asia-Pacific Markets

Figure 39

**CSI share price relative to Wing Tai (369 HK)**

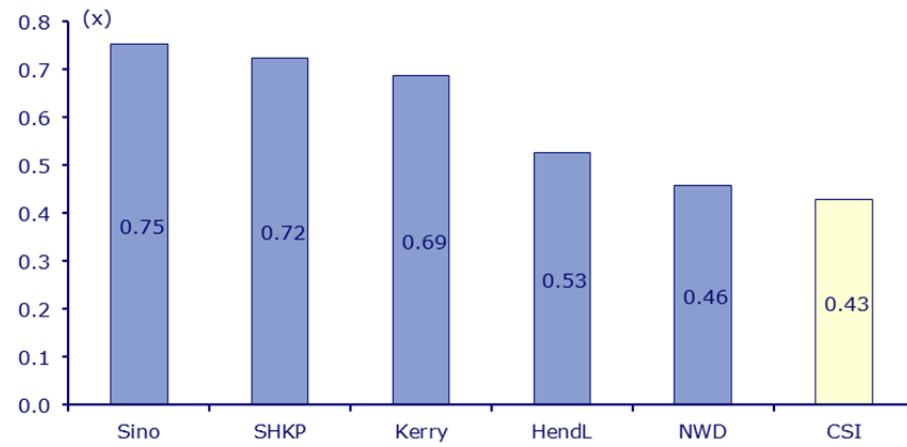


Source: Datastream, CLSA Asia-Pacific Markets



Figure 40

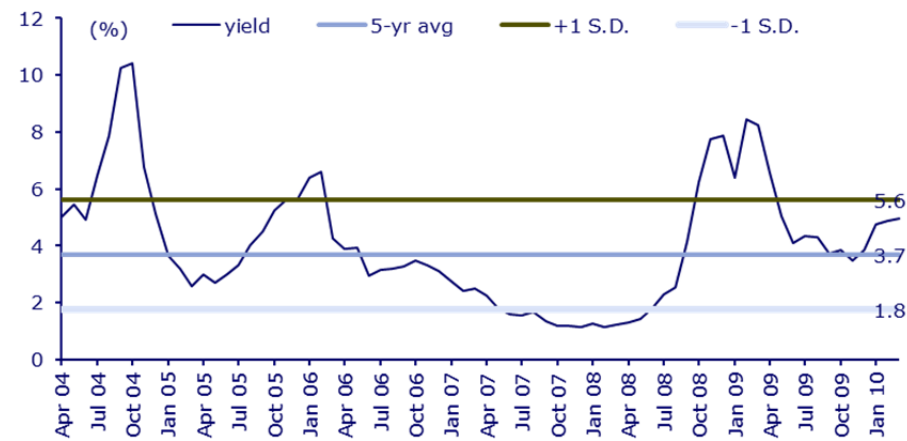
**CSI's PB vs major HK developers**



Source: Company data, CLSA Asia-Pacific Markets

Figure 41

**1-yr fwd dividend yield (Apr'04~Mar'10 avg yield: 3.7%)**



Source: Company data, CLSA Asia-Pacific Markets



**Appendix 1 – About the chairman, Mr Mico Chung**

- Chairman Mr Mico Chung, who took over the company early in 2004, is experienced in acquisitions and had a proven track-record on property investments. He was involved in major deals such as acquisition of World Trade Centre (in Causeway Bay) by Sun Hung Kai Properties from HKLand for HK\$1.72bn in 1990; inception of Cyberport project; acquisition of HKT by PCCW; spin-off of Pacific Century Premium Development from PCCW.
- Chairman has been active in acquiring shares of CSI Properties. His shareholding increased from 29.436% at Mar'04, to 34.45% at Sep'11. As of Mar'12, Mr Chung has 51.15% stake in CSI Properties, after an open offer in Dec'11.

Figure 42

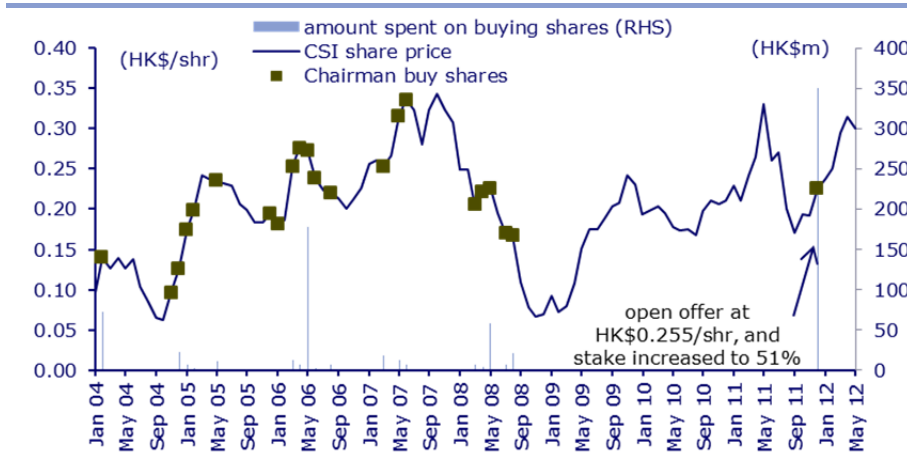
**Chairman Chung's work experience**

Year	Events
1983~1986	Graduated from University of London in 1983 and qualified as a solicitor in 1986
1988~1990	Joined investment banking arm of Standard Chartered Bank. Prior to this, Mr Chung spent 2 years working with the commercial department of a local law firm
1990~1992	Director & general manager of Bond Corporation International.
1992~1999	Joined China Strategic Holdings (235 HK)
1996~2010	Executive director of PCCW responsible for M&A activities and re-designated to non-executive director in May 2010
1999	Joined Pacific Century Group as executive director responsible for group's M&A activities
2001~2008	Independent non-executive director of CIAM Group (378 HK)
2004~present	Chairman and executive director of CSI properties (497 HK) which he joined in 2004
2010-2011	Non-executive director of PCCW (8 HK)
2011~present	Non-executive director of HKT Trust (6823 HK) Major deals include acquisition of World Trade Centre in Causeway Bay from HKLand for \$1.72bn in 1990, inception of Cyberport project, acquisition of HKT by PCCW, spin-off of Pacific Century Premium Development from PCCW

Source: Factiva, CLSA Asia-Pacific Markets

Figure 43

**Chairman has been active in buying CSI's shares**



Source: HKEx, Datastream, CLSA Asia-Pacific Markets




**Appendix 2 – Major events**

Figure 44

**Major events of CSI**

Date	Events
May 03	Acquired 88 Gloucester Road for HK\$196m. A 23-storey office building, with a total GFA of 95,638sqf, AV HK\$2049psf.
Feb 04	Mr Chung acquired 29.7% stake of CSI Properties, total consideration HK\$73m.
Apr 04	Acquired 2 blocks at Lockhart Road, Wanchai. The buildings were sold for HK\$118m after one week of purchase, gaining HK\$10m in just one week.
May 04	Acquired 53-55 Chatham Road South for HK\$220m. A 17-storey office+retail building, with a total GFA of 50,000sqf. AV HK\$4400psf
Jul 04	Acquired 8 Hau Fook Street, Tsim Sha Tsui, for HK\$85m. Total GFA of 24,093sqf, AV HK\$3,528psf. The site can be redeveloped into office building with total GFA of 40,000sqf
Jan 05	Sold 53-55 Chatham Road for HK\$280m, profit of HK\$60m
Jan 05	Acquired 32-40 Yiu Wa Street land site, Causeway Bay for HK\$240m. Planned to develop a 23-storey commercial building, with capex HK\$300m
Mar 05	Issued HK\$106m of new shares. Subscribers include Richard Li Tzar Kai, Francis Yuen (ex-Deputy Chairman of PCCW), ITC Corporation (372 HK)
Mar 05	Acquired 6/F Admiralty Centre for HK\$125m in Feb'05. The property was subsequently sold for HK\$144m, realising HK\$18m profit in just one month.
May 05	Sold all 17.63% stake in Capital Estate (193 HK) for HK\$40.41m
Dec 05	Acquired Paul Y Centre for HK\$780m: 25% CSI, 25% Paul Y, 50% Lehman Brothers. Company planned to spend HK\$20m on renovating the lift lobbies at main entrance and each floor.
Jun 06	Mr Chung became chairman of CSI Properties
Mar 06	Sold 7 Belleview Drive, Repulse Bay for HK\$42.3m. Total GFA of 3,000sqf and garden + path of 2,400sqf, the project was acquired early in 2002 for HK\$28.5m.
Mar 06	Acquired 23-25 Ashley Road, Tsim Sha Tsui for HK\$200.8m. Total GFA of 38,000sqf, AV HK\$5,284psf. Company acquired nearby 27 Ashley Road for HK\$143m within the week.
Mar 06	Sold 31/F + 4 carparking spaces in Bank of America Tower for HK\$130m. The property was acquired early in Oct'04 for HK\$90m.
Mar 06	Acquired 1-3 Hoi Ping Road, Causeway Bay, for HK\$312m. Existing a 6-storey building can be redeveloped into a 60,000sqf (GFA) commercial + residential building. CSI has 25% stake.
Apr 06	Company planned to set up a REIT, after disposing non-core commercial properties
Apr 06	Sold 32-40 Yiu Wa Street project for HK\$337m, realised a profit of HK\$97m in one year
Jun 06	Acquired 100,000sqf office, 40,000sqf retail and 89 carpark spaces of AXA Centre, Wan Chai, for HK\$780m.
Jul 06	Mr Chung insisted company has no plans to set up REIT
Nov 06	Sold 50% stake of 8 Hau Fook Street project to Henry Chun For NG (Chairman of Henry Group 859 HK) for HK\$188m.
Jun~Nov 06	Acquired 97% stake of 77-83 Jervois Street for HK\$240m (AV: HK\$3,500psf)
Dec 06	Company planned to enter Shanghai market in 2007. Investment in Shanghai will represent 30-40% of total assets of the company
Dec 06	Acquired 4 houses at Tai Tam Road for HK\$330m. Company planned to spend HK\$10m/house on renovation.
Jan 07	Mr Chung expressed his positive views on Hong Kong grade A office rent
Feb 07	Acquired Hankow Building for HK\$570m. The project is a commercial building with total GFA of 38,500sqf, AV HK\$14,800psf
Mar 07	Sold Paul Y Centre for HK\$1.2bn
May 07	Set up office in Shanghai, and planned to invest US\$2bn in next 2 years. Company acquired Fu Hai Comm'l Plaza project (now: International Capital Plaza) for HK\$450m. CSI owned 60%, Lehman Brothers 40%.
Jun 07	Issued HK\$390m convertible notes. Subscribers include Lehman Brothers, Credit Suisse, Stark Investments
Jul 07	Sold 88 Gloucester Road for HK\$783m (or HK\$8,300psf). Company acquired the property for HK\$196m in May'03, and spent HK\$27m on land premium and connecting the property and O'brien Road footbridge
Jul 07	Acquired 18/F 9 Queen's Road Central, a office property with GFA of 13,721sqf, for HK\$192m. The property was subsequently sold for HK\$234m in Nov'07.
Aug 07	Acquired 53% stake of Eton Building, Sheung Wan, for HK\$150m. The commercial property has total GFA of 39,093sqf, AV HK\$3837psf. Company planned to spend HK\$5m on lobby and exterior renovation
Sep 07	Acquired Novel Plaza, Shanghai, for US\$105m. The commercial property has GFA of 29,000sqm, AV Rmb27,800psm
Nov/Dec 07	Sold 2 houses at Tai Tam Road for HK\$150m (ASP: HK\$30,000psf) and HK\$140m (ASP: HK\$27,000psf) in Nov'07 and Dec'07 respectively.
Feb 08	Acquired 85 Jervois Street (AV: \$3,659~4,450psf). Planned to jointly-develop with 77-83 Jervois Street project
Feb 08	Acquired 45 Blue Pool Road (now: The Hampton) from Nan Fung for HK\$290m (AV: HK\$7835psf)
Mar 08	Acquired 16 floors (or 66% stake) of 128 Connaught Road Central, Sheung Wan for HK\$95m.
Jun 08	Acquired 2 Cape Drive, Chung Hom Kok, for HK\$480m from Yu Tai Hing. Existing 11 villas, company planned to redevelop into 5-6 4000sqf each villas.
Jun 08	Sold 1 house of Tai Tam Road for HK\$161m, ASP HK\$31,000psf
Jun 08	Acquired 30-30A Stanley Street, Central, for HK\$105m.
Sep 08	Company announced Lehman Brothers held 8.39% of equity stake in CSI, and HK\$41m convertible notes due 2011 (can be converted into 2.23% of existing share capital), and HK\$187m convertible notes due 2012 (can be converted into 7.43% of existing share capital)
Mar 09	Sold the last house of Tai Tam Road for HK\$120m, ASP HK\$23,108psf
Apr 09	Rescinded the acquisition of 2 Cape Drive. Loss of deposit of HK\$47.8m (10% of total consideration)
Jun 09	Acquired 38/F of Shun Tak Centre, an office with total GFA of 25,835sqf. Total consideration is HK\$262m, AV HK\$10,141psf
Jul 09	Rights issue. 9 rights for every 20 shares held
Jul 09	Sold 16 floors of 128 Connaught Road Central for HK\$120m (ASP HK\$5,063psf)
Aug 09	Sold 30-30A Stanley Street, Central, for HK\$150m (ASP: HK\$12500psf)
Aug 09	News saying two interested parties asking to acquire CSI's 90% stake in AXA Centre for HK\$9,000psf (or HK\$2.7bn). CSI rejected the offer
Sep 09	Acquired 5/F & 15/F of Grand Millennium Plaza, Sheung Wan, for HK\$130m.
Oct 09	Henry Group (859 HK) sold 50% of 8 Hau Fook Street project stake back to CSI, for HK\$50m.
Dec 09	Sold a ground-floor retail shop at 83-97 Nathan Road for HK\$85.8m. Company acquired the shop in 2006 for HK\$51.5m
Dec 09	Sold Eton Building for HK\$220m.

Source: Factiva, CLSA Asia-Pacific Markets



Figure 45

**Major events (con't)**

Date	Events
Feb 10	Acquired "gi" shopping mall in Tsim Shai Tsui for HK\$320m.
Sep 10	Acquired 1 Irving Street, Causeway Bay ("JIA" Hotel) for HK\$548m. Total GFA of 48,000sqf implies AV of HK\$11,433psf
Oct 10	Sold "gi" shopping mall for HK\$420m
Nov 10	Sold 9 office floors of AXA Centre for HK\$1,400m.
Nov 10	Value Partners sold its 0.66% stake in CSI. Latest holding is 4.77%
Nov 10	Acquired 31/F of Bank of America Tower for HK\$283m. Total GFA of 13,880sqf implies AV of HK\$20,389psf
Nov 10	Acquired 2-4 Shelley Street for HK\$285m. Company planned to redevelop a 25,200sqf commercial building
Nov 10	Sold 1/F retail space for HK\$162m, ASP \$7,361psf
Dec 10	Sold Hankow Building for HK\$1380m. Company acquired the building in 2007 for HK\$570m, together with HK\$30m on renovation, the gross profit on disposal is HK\$760m
Jan 11	Acquired 47 Barker Road for HK\$200m, AV HK\$51,500psf
Apr 11	Redeemed HK\$96.8m convertible bonds
Apr 11	Templeton sold all its 5.25% stake in CSI
Jul 11	Acquired 50% stake of 33-39 Tung Lo Wan Road project from ITC Corporation (199 HK)
Sep 11	Sold 8,088sqf of 32/F Bank of America Tower for HK\$217m, ASP HK\$26,944psf
Feb 12	Acquired a retail shop at 16 Yiu Wa Street, Causeway Bay, for HK\$55m AV HK\$68,750psf
Mar 12	Sold the retail shop at 16 Yiu Wa Street for HK\$59m
Mar 12	Acquired Golden Computer Shopping Arcade (new wing) for HK\$480m, AV HK\$16,000psf
May 12	Acquired Kau To Shan land site for HK\$531.5m, AV HK\$10551psf
Jun 12	Acquired Monterey Court for HK\$1.4bn AV HK\$19,136psf

Source: Factiva, CLSA Asia-Pacific Markets



Figure 46

**Summary financials**

<b>Year to 31 March</b>	<b>FY07A</b>	<b>FY08A</b>	<b>FY09A</b>	<b>FY10A</b>	<b>FY11A</b>
	<b>(HK\$m)</b>	<b>(HK\$m)</b>	<b>(HK\$m)</b>	<b>(HK\$m)</b>	<b>(HK\$m)</b>
<b>Summary P&amp;L</b>					
<b>Revenue</b>	<b>102</b>	<b>403</b>	<b>669</b>	<b>1,448</b>	<b>2,745</b>
Gross profit	71	208	209	269	972
Finance costs	(42)	(121)	(113)	(55)	(80)
Other items	292	156	(15)	353	48
<b>Profit before tax</b>	<b>321</b>	<b>243</b>	<b>81</b>	<b>567</b>	<b>940</b>
Taxation	(43)	71	(18)	(22)	(84)
Minorities	(2)	12	(1)	1	1
<b>Net profit</b>	<b>277</b>	<b>325</b>	<b>62</b>	<b>546</b>	<b>858</b>
<b>Summary cashflows</b>					
Operating cashflows	(129)	5	(1,006)	(676)	(1,109)
Investing cashflows	(163)	(69)	(548)	601	536
Financing cashflows	375	68	1,675	669	841
Incr/(decr) in net cash	83	4	121	594	268
Opening cash	128	211	215	336	930
<b>Closing cash</b>	<b>211</b>	<b>215</b>	<b>336</b>	<b>930</b>	<b>1,198</b>
<b>Summary balance sheet</b>					
Non-current assets	931	937	832	349	274
Ppt held for sale	227	105	1,789	3,191	4,330
Cash	211	215	336	930	1,198
Other current assets	145	364	643	695	257
<b>Total assets</b>	<b>1,514</b>	<b>1,621</b>	<b>3,601</b>	<b>5,164</b>	<b>6,060</b>
Short-term debt	159	159	292	125	1,322
Other current liabs	45	23	69	186	164
Long-term debt	376	155	1,048	2,319	2,047
Other non-curr liabs	77	72	90	13	18
Minorities	-	1	-	43	39
Shareholders' fund	858	1,211	2,102	2,478	2,470
<b>Total liabs &amp; equity</b>	<b>1,514</b>	<b>1,621</b>	<b>3,601</b>	<b>5,164</b>	<b>6,060</b>

Source: Company data, CLSA Asia-Pacific Markets



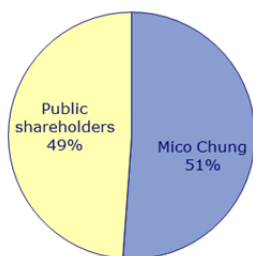
## 10 things you need to know

### 1. Company profile and history

- ❑ CSI Properties is a property developer focusing on repositioning commercial properties in prime areas, and residential properties
- ❑ Listed on HKEx in Apr'1992. Present chairman, Mr Mico Chung, acquired 29% stake of the company in 2004, gradually increased to 51%. Mico became chairman of CSI since 2006.
- ❑ Company has a sales pipeline of 15+ projects (GFA: 2m+ sqf), from residential to commercial, across Shanghai and Hong Kong

### 3. Ownership structure

Shareholding structure as of 20 April 2012:



# of share (at 30 Apr 2012):  
8,223.1m shares

Par value: HK\$0.008/share

### 5. Capital-raising history

- ❑ Convertible bonds: Company issued CBs in May'06, Jun'07 and Dec'09, principal amounts of HK\$133m, HK\$390m, and HK\$78m respectively
- ❑ Rights issue: issued HK\$173m shares on the basis of 9 rights for every 20 shares held in Jul'09
- ❑ Placements: Issued new shares through placements in May'05, Mar'06, Jun'06, Feb'07 and Aug'09 for HK\$108m, HK\$114m, HK\$498m and HK\$245m respectively

### 7. Cashflow

- ❑ Company borrows on average 50% of property value, and 100% on construction/renovation costs
- ❑ Net gearing at Sep'11 is 30%. Gross debt of HK\$3.87bn, cash of HK\$2.2bn
- ❑ FY13F cashflow largely depends on the sale of remaining office units at AXA Centre, and The Cubus; and any new project acquisitions

### 9. Key strengths

- ❑ Differentiation strategy: stylish layout, furniture and fittings are not easily replicated by competitors
- ❑ Experienced team: proven track-record in identifying and repositioning properties with 8+ year experience
- ❑ Diversified investments: from residential, office to retail shops; from Hong Kong to Shanghai

### 2. How does the company make money?

- ❑ Company adds value to existing properties through repositioning which includes tenant mix, layout, furniture & fittings, unit size, etc.
- ❑ Of the past major projects sold, company added on avg 55% to properties acquired. Together with passive/market return of 57%, company achieved total return of 112%.
- ❑ Rarely holds investment properties for long-term. Average holding period of each property is 3 years

### 4. Management/board composition/auditor

- ❑ Mr Chung Cho Yee, Mico, 51, chairman. A qualified solicitor, Mico is also non-executive director of PCCW, independent non-executive director of HKC (Holdings)
- ❑ Kan Sze Man, 40, executive director and group general counsel
- ❑ Chow Hou Man, 41, Group CFO
- ❑ Wong Chung Kwong, 61, General Manager of Group Property Division
- ❑ Auditor: Deloitte.

### 6. Dividend history

- ❑ Company declared HK\$82.3m dividend in FY11, a dividend pay-out ratio of 10%
- ❑ Highest pay-out ratio was at FY09, a 25% pay-out despite financial crisis
- ❑ Pay-out ratio from FY05~FY11 (exclud'g FY09) ranges from 7% to 14%

### 8. Key things to note in the accounts

- ❑ Rental income represents 10% of revenue from HK\$277.5m. y-y comparison is not representative due to change in components of underlying properties
- ❑ Post share sub-division in Apr'07, par value of each share changed from HK\$0.04/share to HK\$0.008/share

### 10. Key risks

- ❑ Liquidity: 3-month avg daily turnover of HK\$6.4m/day.
- ❑ Financing/interest rate risk: Bank borrowings are one of the major source of funding on project acquisitions and construction Capex.
- ❑ JV partner risk: Projects including Cubus & 33-39 Tung Lo Wan Rd. are under joint-developments. Partners include ITC Corp, Asia Std, GAW Capital, Chinese Estates, Phoenix, & Parkview.



## Companies mentioned

CSI Properties (N-R)  
MidlandAsia Standard (N-R)  
Hon Kwok Land (N-R)  
Midland (1200 - HK\$3.83 - SELL)  
Soundwill (N-R)  
Wing Tai Holdings (N-R)  
Tai Cheung (N-R)

**Key to CLSA investment rankings:** **BUY:** Total return expected to exceed market return AND provide 20% or greater absolute return; **O-PF:** Total return expected to be greater than market return but less than 20% absolute return; **U-PF:** Total return expected to be less than market return but expected to provide a positive absolute return; **SELL:** Total return expected to be less than market return AND to provide a negative absolute return. For relative performance, we benchmark the 12-month total return (including dividends) for the stock against the 12-month forecast return (including dividends) for the local market where the stock is traded.

©2012 CLSA Asia-Pacific Markets ("CLSA").

**Note: In the interests of timeliness, this document has not been edited.**

The analyst/s who compiled this publication/communication hereby state/s and confirm/s that the contents hereof truly reflect his/her/their views and opinions on the subject matter and that the analyst/s has/have not been placed under any undue influence, intervention or pressure by any person/s in compiling such publication/ communication.

The CLSA Group, CLSA's analysts and/or their associates do and from time to time seek to establish business or financial relationships with companies covered in their research reports. As a result, investors should be aware that CLSA and/or such individuals may have one or more conflicts of interests that could affect the objectivity of this report. Regulations or market practice of some jurisdictions/markets prescribe certain disclosures to be made for certain actual, potential or perceived conflicts of interests relating to research report and such details are available at [www.clsa.com/member/research\\_disclosures/](http://www.clsa.com/member/research_disclosures/). Disclosures therein include the position of the CLSA Group only and do not reflect those of Credit Agricole Corporate & Investment Bank and/or its affiliates. If investors have any difficulty accessing this website, please contact [webadmin@clsa.com](mailto:webadmin@clsa.com) or (852) 2600 8111. If you require disclosure information on previous dates, please contact [compliance\\_hk@clsa.com](mailto:compliance_hk@clsa.com)

IMPORTANT: The content of this report is subject to and should be read in conjunction with the disclaimer and CLSA's Legal and Regulatory Notices as set out at [www.clsa.com/disclaimer.html](http://www.clsa.com/disclaimer.html), a hard copy of which may be obtained on request from CLSA Publications or CLSA Compliance Group, 18/F, One Pacific Place, 88 Queensway, Hong Kong, telephone (852) 2600 8888.

27/04/2012