



Data

Price (20/04/2012)	HK\$10.36
Issued shares	1,647mn
Market cap	HK\$17,067mn
52week high/low	HK\$11.84/5.89

Major shareholders:

Chang Chih-Kai's family(24.47%)
TPG Asia (18.23%)
Chen Tommy Yi-Hsun(10.61%)

Stock performance

	1M	3M	YTD
Daphne	-2.3%	10.9%	19.8%
HSI Index	1.7%	4.5%	14.0%
HSCICG Index	-0.2%	6.2%	12.0%



Report date: 23 April, 2012

Analyst:
Judy Hu
judyhu@abci.com.hk
Tel: (852) 21478310

**Daphne International Holdings Limited (210) –
Initiating Coverage with ‘Buy’ rating**

Daphne International Holdings Limited (“Daphne”) is a leading retailer of women’s footwear in mass market, with two core brands (Daphne and Shoebox) and various middle-to-high end brands (Aee, Dulala, Ameda, Aerosoles, ALDO). We expect that its sales will grow at CAGR of 27.3% with 10-12% of same store sales growth and 12.9% of new store expansion in 2011-2014F. Its net profit will grow at CAGR of 25.6% , driving by strong sales growth in 2011-2014F.

Unique brand positioning and pricing

Both Daphne and Shoebox have stand out from the crowded market with strong competitive edge in brand positioning and pricing.

Well-established sales network

The group has established a nationwide sales network of 6,165 stores at the end of 2011. It has built up a large street-store sales network to distribute its core brands Daphne and Shoebox in the mass market segment in China. The ample experience of its management to manage and expand street store sales network may create relatively high entry barrier for potential competitors to enter into mass women’s footwear market.

Valuation:

We use both DCF and PE multiple methods to balance the long term value and short term trading volatility. We initiate with “BUY” rating and set 12M target price at HK\$ 10.86, based on the average of DCF value of HK\$10.77 and 18x PE of HK\$10.98 in FY 2012. The target price of HK\$10.86 represents 17.8x PE of 2012, 18% discount to Belle’s target PE of 20.96x.

Risk: 1) Intensive competition;2) Fail to expand to middle-to-high end market;3) Channel expansion price risk;4) Rental hike risk;5)Inventory risk;6)Economic risk;7)Share price risk

Financial highlights

Yr end 31 Dec (HK\$ mn)	2010A	2011A	2012F	2013F	2014F
Revenue	6623.94	8576.76	10997.24	13590.45	16582.37
Chg (yoy)	13.58%	29.48%	28.22%	23.58%	22.01%
Net Income	595.61	933.06	1214.19	1518.31	1850.66
Chg (yoy)	51.23%	56.66%	30.13%	25.05%	21.89%
FD EPS(HK\$)	0.319	0.498	0.610	0.763	0.930
Chg (yoy)	40.81%	56.01%	22.50%	25.05%	21.89%
FD P/E(x)	32.45	20.80	16.98	13.58	11.14
NBV(HK\$/share)	1.675	2.154	2.518	3.098	3.799
P/B(x)	6.19	4.81	4.11	3.34	2.73
DPS(HK\$/share)	0.120	0.170	0.221	0.276	0.337
Dividend yield	1.16%	1.64%	2.13%	2.67%	3.25%
ROAE	21.47%	24.75%	25.73%	26.25%	26.22%
ROAA	13.25%	16.16%	17.03%	17.75%	18.07%

Source: Daphne, ABCI Securities



Macro economy

Fast-growing pace of retail sales is unsustainable in view of relatively low income growth

According to the National Bureau of Statistics, total retail sales value grew by CAGR of 19.4% from 2007 to 2011. During this period, retail sales value of clothing products (including garments, footwear, hats and knitwear) grew by CAGR of 27.4%. The CAGR of retail sales of clothing products was 1.41x of the CAGR of total value of retail sales of the retail industry. However, we believe the fast-growing pace of the retail sales value is hard to sustain as household income was growing at much slower pace.

The urban household disposal income grew by CAGR of 12.2% from Rmb13,786 in 2007 to Rmb21,810 in 2011. The CAGR of retail sales value was 1.59x of the CAGR of urban household disposal income during the period of 2007-2011. The relative fast growth of retail sales last five years suggests that the growth momentum is not sustainable.

As China is a fast-growing emerging country, residents are willing to spend more to upgrade the living standard. In the short-term, positive (negative) wealth effect will encourage (discourage) spending. However, income growth is one of major factors to limit the consumption growth in the long-term. Thus, we expect retail sales growth to slow down to in line with the household disposal income growth in the medium to longer terms. Income effect will become a dominant factor to affect retail sector when positive wealth effect is diminishing.

Retail sales slowed down in Q1 2012

For the Q1 2012, the growth of retail sales value slowed down from 17.1% YoY in 2011 to 14.8% YoY in the Q1 2012. Real retail sales growth also slowed down from 11.6% YoY in 2011 to 9.8% YoY in the Q1 2012. Nominal urban household disposal income growth eased slightly from 14.1% YoY in 2011 to 14.0% in the Q1 2012. Real urban household disposal income growth increased from 8.4% YoY in 2011 to 9.8% YoY in the Q1 2012, owing to the decline of inflation pressure. Both nominal and real retail sales growth in the Q1 2012 came down to in line with the corresponding nominal and real urban household disposal income growth. The income factor has become a dominant factor to affect the retail industry in 2012.

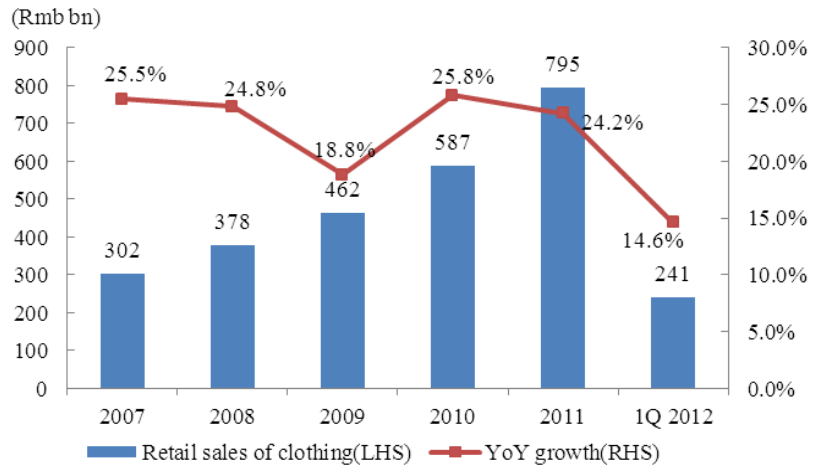
Exhibit 1: 2007-2012 Retail sales growth



Source: National Bureau of Statistics of China, Winds

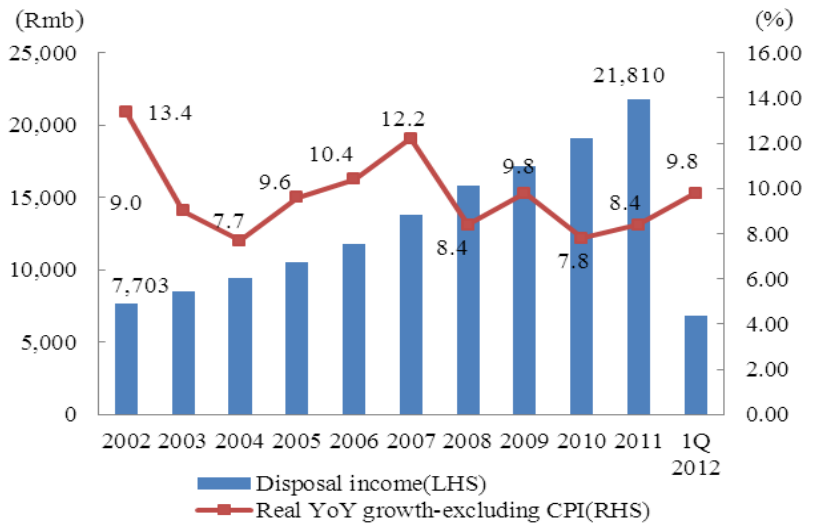


Exhibit 2: 2007-2012 Retail sales of clothing



Source: National Bureau of Statistics of China, Winds

Exhibit 3: 2002-2012 Urban Household disposal income



Source: National Bureau of Statistics of China, Winds



Women Footwear Industry Overview

Women’s footwear market is mainly segmented by prices

The women’s footwear market can be classified into four segments, namely

1. low-end,
2. middle,
3. mid-to-premium and
4. luxury.

Each segment is differentiated itself by price, sales channel and brand positioning. The luxury segment is dominated by foreign brands while middle and middle-to-premium segments are dominated by domestic brands.

The market shares of middle and mid-to-premium segments are increasing

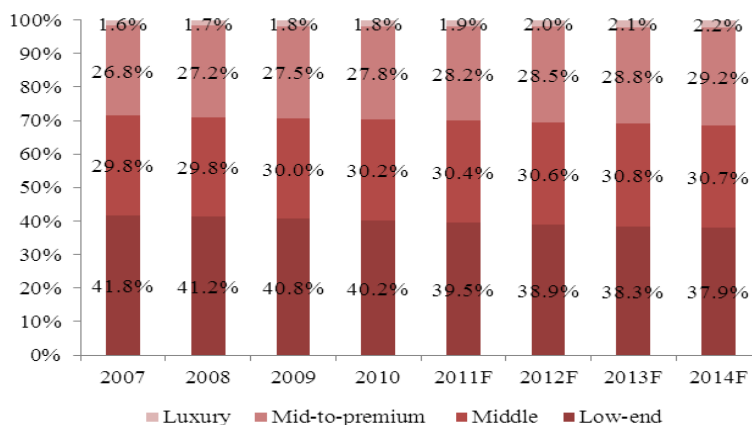
Currently, the low-end and middle segments captured more than 70% market shares of women’s footwear segments in 2010. As the household income keeps rising in nominal term and real term, we expect that the market share of low end segment will decline while the total market share of middle and mid-to-premium segments will increase.

Exhibit 4

Price segment	Price range	Sales channels	Brands
Low-end	< Rmb 300	Hypermarkets/Supermarkets/Multi-brand footwear stores	No brand
Middle	Rmb 300-600	Chained specialty stores/Middle-end department stores	Daphne/Comrade/Walker Shop
Mid-to-premium	Rmb 600-2,000	Chained specialty stores/Middle-to-high end department stores	Belle/Teenmix/Tata/Cl.anner/ST&SAT/Clarks/Ecco
Luxury	>Rmb 2,000	High-end department store/Mono-brand specialty stores	LV/Gucci/D&G/Salvatore Ferragamo

Source: Euromonitor

Exhibit 5: 2007-2014F market shares of the women's footwear segment in China



Source: Euromonitor



Brand portfolio

Core brands target mass market

The group has two self-developed footwear brands (Daphne and Shoebox) to target mass market clients. These two brands form the core brands business of the group. The Daphne brand was founded in 1990 whereas the Shoebox brand debuted in 2004. Daphne is well-known by consumers in the mass market with its fashionable design and affordable price. Shoebox's brand is mainly designed in traditional style with cheaper price compared with Daphne. Both Daphne and shoebox have strong brand advantage due to its appropriate pricing and unique street store sales network. At the end of 2011, the ASP of its core brand (Daphne and Shoebox) is around Rmb207 per pair (or HK\$251/pair). The number of its core brand stores reached 5,602 and the core business sales account for 89% of total sales in 2011. For the 1Q 2012, number of outlets of its core brands increased by 149 to 5,751(including net addition of 166 directly-managed stores & net decrease of 17 franchised stores). We believe the core brand business will continue to contribute most of the group's profit in the coming years.

Implement multi-brand to expand into middle-to-high market

In Jan 2010, the group announced to acquire Full Pearl to enter into middle-to-high end market. Full Pearl runs several brands like Aee, Ameda and ALDO. The group completed the integration of the acquired business of Full Pearl in 2011. At the end of 2011, the number of its middle-to-high end brand stores reached 563 and this business segment recorded operating loss of HK\$64.6mn in FY 2011. We see the operating loss of this business segment is due to relatively low sales per store and weak position of these brands in the middle-to-high end segments of the women footwear industry.

The group is good at marketing its products to mass market but lacks of track record to marketing and distributing middle-to-high end products. In our industry analysis, the market share of low end segment will decline as urban household disposable income keeps growing. This industry development is unfavourable to the group which its core brands are focusing on middle-to-low end segment. The group has to diversify its brands and to capture more market share in the middle-to-high end segments. Hence, it is crucial for the group to transform from middle-to-low end women's footwear retailers to middle-to-high end women's footwear retailers in coming years.

Exhibit 6: Daphne's brand portfolio-FY2011

	Brand portfolio	Target consumer group	Sales as % of total revenue	No.of stores	2011 ASP(HK\$)	Retail sales per store(HK\$ mn)
Core brands	Daphne, Shoebox	Mass market	89%	5602	251	1.37
Other brands	Aee,Dulala,Ameda, Aerosoles,ALDO	Middle-to-high end	6.00%	563	-	0.94

Source: Daphne, ABCI Securities



Exhibit 7: Daphne's brands



Source: Daphne



Well established sales network

The group has established a nationwide sales network of 6,165 stores at the end of 2011. It has built up a large street-store sales network to distribute its core brands Daphne and Shoebox in the mass market segment in China. Its core brands had 5,602 outlets at the end of 2011, of which, 81% of them (4,547 stores) is directly managed by the group and 19% of them (1,055 stores) is run by franchisees.

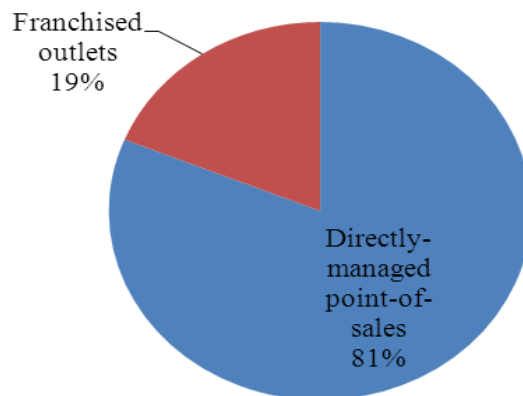
A high proportion of self-managed outlets bring in challenges to the group in working capital management (such as inventory control) and chain-stores management. 70% of its core brands outlets are located in 3-6 tier cities, which will provide long term growth for the company. We expect the number of core brands outlets to increase at CAGR of 12.9% from 5,602 in 2011 to 7,702 in 2014 .

Exhibit 8: Distribution network

	2010A	2011A	2012F	2013F	2014F
Core brand stores	4,902	5,602	6,302	7,002	7,702
YoY growth	17.39%	14.28%	12.50%	11.11%	10.00%
Other brand stores	297	563	763	963	1,163
YoY growth	506.12%	89.56%	35.52%	26.21%	20.77%
Total stores	5,199	6,165	7,065	7,965	8,865
YoY growth	23.05%	18.58%	14.60%	12.74%	11.30%
New added stores	974	966	900	900	900

Source: Daphne, ABCI Securities

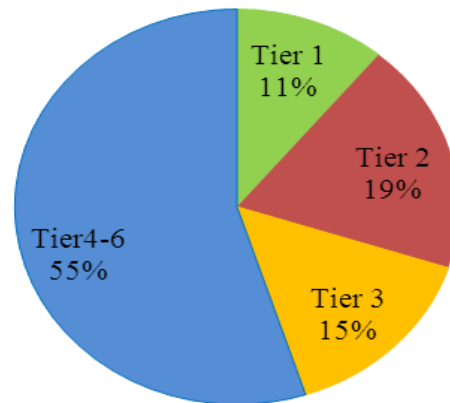
Exhibit 9: Franchised outlets and directly-managed outlets distribution



Source: Daphne



Exhibit 10: Outlet distribution by cities in China



Source: Daphne



Supply chain analysis

Tight supply chain management enhances operation efficiency

The group adopts a sales-based supply chain to enhance its operation efficiency. Its first order ratio (as % of total sales for new season) has reduced from 90% to 70%. Meanwhile, its cycle time for replenishment orders has shortened from 45 days to 30-35 days. The tight supply chain management will control inventory at a healthy level. The inventory turnover days of the group were 172 days in FY11, against its peer Belle (footwear's segment at 202 days) and C. Banner (238 days). The inventory turnover days of the group was lower than two major HK-listed peers. However, we do not satisfy to these performances. From consumers' point of view, middle-to-high end consumers will not have keen interest to buy footwear products if they know the products were made in 172-238 days ago. The long inventory turnover days indicate a significant business risk incurred on the business model which is heavily reliance on the directly managed stores when the amount slow-moving inventory is surging. If long inventory turnover day is becoming an industry phenomenon, this will tie up lots of financial resources of the group in existing self-owned sales network and will impose financial constraint of the group to expand its self-owned sales network in the future. Moreover, the long inventory turnover days also signals the weakness of the group in product design and development.



Comparison with peers

Daphne ranked No.2 regarding sales network among HK listed women's footwear retailers. It achieved highest same store sales growth (SSSG) in 2011 due to well positioning in mass market. It also has short inventory turnover day of 172 days, compared with 202days of Belle and 238 days of C.Banner in 2011. With its high proportion of street stores, its AR turnover days are shorter compared with Belle and C.Banner. In terms of ROAE and ROAA, Daphne recorded 24.7% and 16.2% respectively in 2011, which was in line with peers.

Exhibit 11: Peers comparison-FY 2011

	Belle(Footwear)	Daphne	C.Banner
Code	1880 HK	210 HK	1028 HK
Market positioning	Mid-to-high end	Mid end/Mass market	Mid-to-high end
Operation statistics			
No.of stores	10,270	6,165	1,748
New store growth	23.60%	18.60%	35.60%
Same store sales growth	15%	21%(core brands)	14.60%
Financial data			
Inventory turnover days	202	172	238
AR turnover days	31	10	38
AP turnover days	35	68	81
2011 Revenue (Rmb mn)	28,945	8,577	2,044
YoY growth	22.10%	29.50%	29.80%
2011 Net profit (Rmb mn)	4,255	933	290
Gross profit margin	57.20%	61.10%	63.50%
Net profit margin	14.70%	10.90%	14.20%
ROAE	23.10%	24.70%	28.40%
ROAA	18.30%	16.20%	21.30%

Source: Belle, Daphne, C.Banner, Bloomberg, ABCI Securities



Earnings Assumptions and Forecast

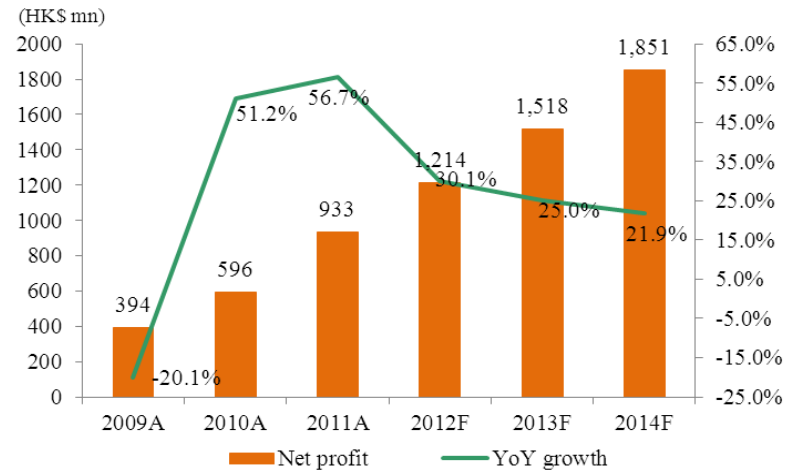
We expect its revenue and net profit to grow at CAGR of 27.3% and 25.6% from FY 2011 to FY 2014 respectively. Its new stores will grow by 12.9% CAGR in 2011-2014F. Our key assumptions are as below:

Exhibit 12: Key operating assumptions

	2010	2011	2012F	2013F	2014F
Core brands SSSG(%)	10%	21%	12%	10%	10%
Total stores No.	5,199	6,165	7,065	7,965	8,865
YoY growth	23.05%	18.58%	14.60%	12.74%	11.30%
Business segment breakdown as % of total sales					
	2010	2011	2012F	2013F	2014F
Core brands	85.25%	94.41%	87.68%	87.23%	86.91%
Other brands	6.18%	6.58%	8.02%	9.12%	9.94%
OEM	8.57%	5.59%	4.30%	3.65%	3.14%

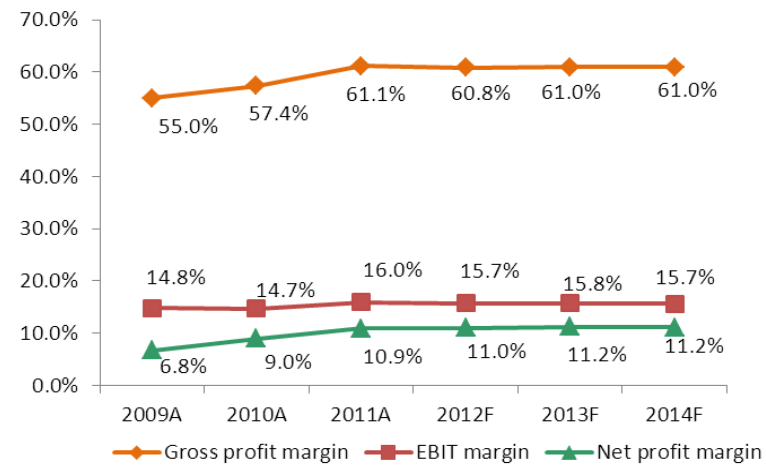
Source: Daphne, ABCI Securities

Exhibit 13: 2011-2014F net profit CAGR=25.6%



Source: Daphne, ABCI Securities

Exhibit 14: GPM, EBIT Margin and NPM (2009-2014F)



Source: Daphne, ABCI Securities



Valuation

We use both DCF and PE multiple methods to balance the long term value and short term trading volatility. We initiate with BUY rating and set 12M target price at HK\$ 10.86, based on the average of DCF value of HK\$10.77 and 18x PE of HK\$10.98 in FY 2012. The target price of HK\$10.86 represents 17.8x PE of 2012, 18% discount to Belle's target PE of 20.96x.

Exhibit 15: Valuation Table

Code	Name	Mkt cap(HK\$m)	Price(HK\$)	PER			Net profit growth		
				2010	2011	2012	2010	2011	2012
1880	Belle	125,501	14.88	31.66	24.39	20.96	36.75%	30.37%	17.81%
210	Daphne	17,067	10.36	28.78	18.18	15.82	51.21%	56.68%	39.77%
1836	Stella	17,437	21.95	18.29	15.57	13.72	19.10%	18.01%	14.12%
1028	C.Banner	4,700	2.35	19.58	11.75	10.22	115.78%	79.27%	28.74%
738	Le Saunda	1,745	2.73	10.50	9.75	8.81	39.08%	9.46%	21.37%
Average				21.76	15.93	13.90			
Weighted ave.				29.40	22.32	19.24			

Source: Bloomberg, ABCI Securities

DCF model

Exhibit 16:

(HK\$ mn)	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F
EBIT	1,726	2,143	2,598	3,051	3,147	3,461	3,738	3,925	4,121	4,204
Tax	(454)	(566)	(689)	(751)	(775)	(854)	(923)	(970)	(1,019)	(1,039)
D&A	228	287	346	408	476	551	633	724	824	933
WC changes	4	(628)	(335)	(465)	(201)	(479)	(120)	(284)	(140)	(38)
Capex	(500)	(500)	(500)	(550)	(605)	(666)	(732)	(805)	(886)	(974)
FCF	1,005	737	1,420	1,693	2,041	2,014	2,597	2,590	2,901	3,085
DCF	1,005	658	1,132	1,205	1,297	1,142	1,315	1,171	1,171	1,112
										26,205
										8,432

Source: ABCI Securities

Exhibit 17:

Risk free rate	1.20%	WACC	12.01%
BETA	0.894	Share price(HK\$)	10.36
Market risk premium	12.27%	Perpetuity growth rate	2.00%
Cost of equity	12.17%	SUM DCF	19,639.53
Cost of debt	7.59%	Net Debt	1,788.75
Effective tax rate	25.00%	Minority interest	11.67
Cost of debt(after tax)	5.69%	NAV	21,439.94
Market value of equity(HK\$ mn)	17,066.67	Total Shares(mn)	1,990.25
Market value of debt(HK\$ mn)	612.88	NAV per share(HK\$)	10.77
Total value(HK\$ mn)	17,679.55		

Source: ABCI Securities



Scenario analysis

The following exhibit illustrates various assumptions to our base, bull and bear scenarios of its core brands business. We use CPI of clothing and real growth of urban household disposal income as our reference indexes. Our bear case assumes ASP maintain flat and new store opening of 350 for its core brands (50% of management guidance of 2012). Our bull case assumes its SSSG maintain at 20% and new store opening of 700 in 2012. Our target multiple are based on past 1 year PE band.

Exhibit 18: Reference

CPI of clothing (%)									
2011-08	2011-09	2011-10	2011-11	2011-12	2012-01	2012-02	2012-03	1 Q 2012	Median
2.90	3.20	3.70	3.50	3.80	3.30	3.80	3.80	3.60	3.50
Real growth of urban household disposal income (%)									
2007	2008	2009	2010	2011	1Q 2012	Median			
12.20	8.40	9.80	7.80	8.40	9.80	8.40			

Source: National Bureau of Statistics of China, Winds

Exhibit 19:

FY 2012	Bear case	Base case	Bull case
ASP growth	0.00%	3.00%	8.00%
Volume growth	8.80%	9.500%	12.00%
New store growth	6.20%	12.50%	12.50%
Sales growth(Core brand)	18.80%	26.93%	35.99%
EBIT margin	15.24%	15.70%	16.00%
EPS(Diluted)	0.570	0.610	0.664
EPS growth	14.39%	22.50%	33.41%
Target multiple	13.40	16.70	20.50
Target price	7.63	10.19	13.62

Source: ABCI Securities



Site visit to women's footwear retailers in Suzhou and Hangzhou

We visited Suzhou store of Golden Eagle (3308) and Xihu store of Intime (1833) in Hangzhou during 6th-8th April. Our observations are as follows:

- **Intensive competition:** Numerous brands of women's shoes outlets are crowded in the 1st floor of the department stores with more than 40 brands, which reflects intensive competition in women's brand shoes market.
- **High homogeneity:** As we walked through each shoe counter, we've found domestic women's shoes retailers provide similar products in designation, pricing and product display. The brand characteristic is not clear.
- **High concentration:** More than 10 brands (Such as Belle, Teenmix, Tata, Staccato, Millie's, Joy & Peace) are under Belle's brand portfolio, which reflects Belle has well penetrated in the department stores channel. Daphne has 4 brands (Such as Daphne, Aee, Ameda, Aerosoles) located in the department store. The tag prices of Daphne's spring/summer shoes are around Rmb300-700. Its middle-to-high end brands shoes (such as Aee and Ameda) are around Rmb700-1,200, in line with Belle's brand shoes.

We conclude that brand women's shoes retailers are still in the fast growing trend. Big brand retailer may enjoy stronger competitive advantages due to extensive sales channels, stronger bargaining power with department store and economy of scale to achieve operating efficiency. Industry consolidation may happen as smaller players fail to catch up consumers' preference and fast change of fashion trend.



Risk Factors

Competition: The women's footwear industry in China is highly competitive with numerous brands. If the group fails to catch up fashion trend and cater customers' preferences, its market share will be eroded and its slow-moving inventory will be piled up. Both financial and business risks of the group will increase subsequently.

Fail to expand to middle-to-high end market: The group launched several own-brands and licensed brands to target the growing middle-class customers. This business segment recorded operating loss of HK\$ 64.6mn in FY 2011. We observe local and foreign brands have penetrated well in department store channel. If Daphne fails to turn around this segment business, this business segment will erode the group's profit and tie up the financial resources of the group.

Channel expansion risk: The group mainly adopts street-store channel to expand as it target mass market. 55% of its stores are located in 4-6 tier cities. It is extremely difficult to manage such a nationwide sales network.

Rental hike risk: The group may face rental hike associated with its large sales network. Rental expense accounts for 20% of total sales. The rising rental expense may drag down operating margin of Daphne.

Inventory risk: The group set up an aggressive store opening plan for opening 900 stores per year in the next 3 years. As we see the inventory increased 89.8% to HK\$ 2,058.5mn in 2011. Its average inventory turnover day has extended to 172 days from 128 days. We expect that its inventory turnover days will maintain at a high level of 174-185 days for next 3 years.

Economic risk: The growth of economy is slowing down. We expect the growth of average household income to slow down subsequently. The affordability of consumers will be adversely by the slowdown of economic growth.

Share price risk: 30-days volatility of the stock was 48.7%, or 3.25x of 30-days volatility of HSI of 15.0%. The major shareholder disposed 30mn shares at average price of HK\$ 11.0/ share on Apr. 13. The share price risk of Daphne is relatively high.

**Daphne: Financial Summary****Income Statement**

Yr end 31 Dec (HK\$ mn)	2010A	2011A	2012F	2013F	2014F
Turnover	6623.94	8576.76	10997.24	13590.45	16582.37
Cost of sales	(2823.00)	(3332.99)	(4310.92)	(5300.28)	(6467.12)
Gross profit	3800.94	5243.78	6686.32	8290.17	10115.25
Selling & Distribution Expenses	(2485.38)	(3366.34)	(4321.92)	(5341.05)	(6516.87)
Administrative expenses	(444.39)	(556.03)	(712.94)	(881.06)	(1075.02)
Other income	88.87	121.35	74.74	74.74	74.74
Other (losses)/gains	11.73	(74.20)	0.00	0.00	0.00
EBITDA	1113.99	1554.42	1954.57	2430.10	2944.30
Depreciation & Amortisation	142.22	185.86	228.36	287.29	346.21
EBIT	971.77	1368.57	1726.20	2142.81	2598.09
Finance income	0.00	0.00	0.00	0.00	0.00
Finance costs	(44.80)	(46.91)	(46.50)	(46.50)	(46.50)
Fair value loss on derivative financial instrument-warrants	(77.33)	0.00	0.00	0.00	0.00
Share of profit of an associated company	0.62	0.42	0.00	0.00	0.00
Profit before taxation	850.26	1322.08	1679.71	2096.31	2551.60
Income tax	(238.55)	(377.35)	(453.52)	(566.00)	(688.93)
Profit for the year	611.71	944.73	1226.19	1530.31	1862.66
Minority interests	16.10	11.67	12.00	12.00	12.00
Profit Attributable to Equity Holders of the Company	595.61	933.06	1214.19	1518.31	1850.66
EPS (HK\$)	0.364	0.570	0.737	0.922	1.123
Diluted EPS (HK\$)	0.319	0.498	0.610	0.763	0.930
Dividend	196.55	278.83	364.26	455.49	555.20
DPS (HK\$)	0.120	0.170	0.221	0.276	0.337

Source: Daphne, ABCI Securities

**Balance Sheet**

Yr end 31 Dec (HK\$ mn)	2010A	2011A	2012F	2013F	2014F
Non-current assets	1123.28	1446.75	1818.60	2113.98	2365.86
Intangible assets	129.89	129.93	135.35	140.22	144.54
Land use rights	50.34	51.20	62.08	72.72	83.10
Fixed assets	710.85	899.66	1154.99	1352.20	1491.28
Others	232.20	365.96	466.18	548.84	646.94
Current assets	3925.77	5054.67	5936.35	7239.17	8768.73
Inventories	1084.31	2058.53	2252.39	2795.49	3363.68
Trade receivables	210.43	274.30	347.23	420.86	516.32
Other receivables, deposits and prepayments	571.36	926.10	906.78	1358.30	1405.43
Pledged bank deposit	0.00	0.00	0.00	0.00	0.00
Bank deposit with maturity over three months	35.39	0.00	0.00	0.00	0.00
Cash and cash equivalents	2024.29	1795.74	2429.95	2664.52	3483.30
Current liabilities	1160.48	1640.24	1891.91	2332.62	2708.51
Trade payables	577.95	819.13	987.87	1233.84	1476.97
Other payables and accrued charges	371.96	563.50	646.43	841.18	973.92
Income tax payable	199.30	250.61	250.61	250.61	250.61
Bank loans	11.28	7.00	7.00	7.00	7.00
Derivative financial instrument – warrants	0.00	0.00	0.00	0.00	0.00
Non-current liabilities	580.97	629.55	629.46	629.46	629.46
Convertible bonds	556.62	605.88	605.88	605.88	605.88
Others	24.34	23.67	23.58	23.58	23.58
Total equity	3307.60	4231.63	5206.60	6360.65	7755.83
Equity attributable to equity holders of the Company	3124.33	4035.87	5010.84	6164.90	7560.07
Minority interests	183.27	195.76	195.76	195.76	195.76
Book value per share (HK\$)	1.675	2.154	2.518	3.098	3.799

Source: Daphne, ABCI Securities

**Cash Flow Statement**

Yr end 31 Dec (HK\$ mn)	2010F	2011A	2012F	2013F	2014F
Profit before taxation	850.26	1322.08	1679.71	2096.31	2551.60
Depreciation&Amortisation	142.22	185.86	228.36	287.29	346.21
Interest expense	44.80	46.91	46.50	46.50	46.50
(Interest income)	(37.15)	(63.14)	(63.14)	(63.14)	(63.14)
Others	138.20	121.07	0.00	0.00	0.00
Working capital change	18.42	(1002.83)	4.20	(627.54)	(334.90)
Income tax paid	(264.36)	(367.31)	(453.52)	(566.00)	(688.93)
Net cash generated from operating activities	892.39	242.64	1442.10	1173.41	1857.33
Capex	(281.32)	(393.66)	(500.00)	(500.00)	(500.00)
Others	52.11	70.94	63.14	63.14	63.14
Net cash used in investing activities	(229.21)	(322.72)	(436.86)	(436.86)	(436.86)
Dividend paid	(184.41)	(234.79)	(364.26)	(455.49)	(555.20)
Other investing activities	(51.67)	(7.22)	(6.88)	(46.50)	(46.50)
Net cash generated from/(used in) financing activities	(236.08)	(242.00)	(371.13)	(501.99)	(601.70)
Net increase in cash	427.10	(322.09)	634.11	234.57	818.78
Cash at beginning of year	1544.85	2024.39	1795.84	2429.95	2664.52
Effect on foreign exchange	52.43	93.54	0.00	0.00	0.00
Cash at end of year	2024.39	1795.84	2429.95	2664.52	3483.30

Key Financial Ratios

Yr end 31 Dec	2010A	2011A	2012F	2013F	2014F
Revenue growth	13.58%	29.48%	28.22%	23.58%	22.01%
Net profit growth	51.23%	56.66%	30.13%	25.05%	21.89%
Gross margin	57.38%	61.14%	60.80%	61.00%	61.00%
Operating margin	14.67%	15.96%	15.70%	15.77%	15.67%
Net profit margin	8.99%	10.88%	11.04%	11.17%	11.16%
ROAE	21.47%	24.75%	25.73%	26.25%	26.22%
ROAA	13.25%	16.16%	17.03%	17.75%	18.07%
Inventory turnover days	128	172	183	174	174
Account receivable days	11	10	10	10	10
Account payable days	62	76	76	76	76
Net debt/ equity	60.86%	42.27%	46.54%	41.78%	44.82%
Dividend payout ratio	33.00%	29.88%	30.00%	30.00%	30.00%
Dividend yield	1.16%	1.64%	2.13%	2.67%	3.25%

Source: Daphne, ABCI Securities



Disclosures

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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183