



Company Report

China Life (2628 HK) – Buy Life & Health Insurance Industry Initiation

Key data

H-share price (HK\$)	22.40
Target price (HK\$)	26.45
Upside potential (%)	18.08
52Wk H/L(HK\$)	24.7 / 17.0
Issued shares:	
H-shares (mn)	7,441
A-shares (mn)	20,823
H-share mkt cap (HK\$m)	652,243
30-day avg vol (HK\$m)	687.0
Major shareholders (%):	
China Life Group	68.4
JPMorgan Chase	4.9

Source: Company & Bloomberg

Revenue breakdown in 2011 (%)

Net earned premiums (NEP)	85.8
Investment income	13.4
Other income	0.8

*Based on 2011 results

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	8.2	4.5
3-mth	12.2	8.7
6-mth	11.2	16.8

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 3 October 2012

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Goliath returns

China Life returns as a market favorite in style. After years-long underperformance, the company has outperformed peers and overall market since Jun 2012. We expect the insurer to win in the new game of ‘margin over volume’. Also, China Life’s EV is the most sensitive to A-share market recovery. Based on these, we initiate coverage on China Life with a BUY recommendation.

A winner in the margin game. China Life will win in the new game of ‘margin over volume’ in our opinion. On one hand, the insurer has more room for improvement on regular FYP sales, as compared to peers. On the other hand, its new critical illness product ‘Kang Ning CI’ has been a blockbuster in the market. Both regular premium and CI products embed high NBM. We expect China Life to extend its strength in these areas into 2013. Per our estimates, China Life will enjoy a NBM of 37% - 38%.

EV sensitive to investment upturn. 10% change in equity values will lead to 5.4% change in China Life’s EV in 1H12. This is high compared to major peers. In 1H12, China Life allocated Rmb164.5bn, or 9.9% of investment portfolio, in equity. We expect the insurer to benefit the most from the upcoming recovery of A-share markets.

Anchor index stock. China Life is an anchor index stock in MSCI China and Hang Seng Index. Most importantly, the stock was heavily underweight by institutional investors since early 2011. Therefore, the stock can benefit from any positive fund flow to Hong Kong stock market, and portfolio reshuffling by institutional investors from now.

Initiate coverage with a BUY rating; TP of HK\$26.45. We derive an appraisal value of Rmb598,097 mn for 2013E, also adopting it as TP, or HK\$26.45/ share. The implied valuation of our TP is 1.53x 2013E PEV and 10.0x 2013E VNB. This represents 18.1% upside potential from the current share price. We initiate coverage of China Life with a BUY recommendation.

Risk factors: worse-than-expected underwriting and investment performance, tighter-than-expected regulations

Results and valuation

FY ended Dec 31	2010	2011	2012E	2013E	2014E
Revenue (Rmb mn)	385,838	370,899	371,959	413,524	444,326
Chg (YoY)	13.7	(3.9)	0.3	11.2	7.4
Net profit (Rmb mn)	33,626	18,331	23,828	29,669	36,288
Chg (YoY)	2.3	(45.5)	30.0	24.5	22.3
EPS (HK\$)	1.42	0.79	1.04	1.31	1.69
PER (x)	15.8	28.4	21.6	17.1	13.2
BPS (HK\$)	8.8	8.3	9.7	10.7	12.5
P/B (x)	2.5	2.7	2.3	2.1	1.8
EVPS (HK\$)	12.6	12.6	15.2	17.2	20.3
PEV (x)	1.8	1.8	1.5	1.3	1.1
VNB (HK\$)	0.8	0.9	0.9	0.9	1.0
VNB (x)	11.8	11.2	8.1	5.6	2.1

Source: Company data, ABCI Securities estimates



Investment Positives

A winner in the margin game. China Life will win in the new game of ‘margin over volume’ in our opinion. Regular premium sales embed higher NBM than single ones. In 1H12, regular FYP constituted 83.4% of China Life’s APE and 33.5% of its FYP. This is compared to 85.7% - 95.5% of APE and 37.5% -68.2% of FYP for peers, implying more room for improvement.

Also, the company launched a new critical illness product, named Kang Ning CI, in Apr 2012. The product contains high protection element and of high NBM. Its sales performance was more than satisfactory. In 1H12, it contributed to about 10% of China Life’s FYP as per our channel check. In fact, China Life improved its NBM from 33.9% in 2011 to 38.0% in 1H12. The company achieved a YoY growth of 2.5% VNB, in spite of a YoY decline of 26.4% in FYP. Going forward, we believe China Life can extend its strength in regular FYP and critical illness products against its peers.

Volume downtrend reversing. The total premium sales started to decline YoY since 4Q11. Traditionally, China Life relied heavily on bancassurance channel, which was clogged by the new CIRC regulations. Total premiums declined by 8.6% YoY in 4M12 and FYP dropped significantly by 26.4% in 1H12. However, we witness an improving trend of total premium sales since May. In 8M12, the sales declined by a less margin of 3.2% YoY. Also, per the management, the decline of bancassurance sales may narrow in 2H12.

EV sensitive to investment upturn. Per the company disclosure, 10% change in equity values will lead to 5.4% change in China Life’s EV in 1H12. This is high compared to 2.8% of Ping an, 1.3% of China Pacific and 1.7% of New China Life. In 1H12, China Life allocated Rmb164.5bn, or 9.9% of investment portfolio, in equity. We expect the insurer to benefit the most from the upcoming recovery of A-share markets.

Ample solvency. Post the issuance of Rmb28bn sub-debt, China Life reported a solvency of 230.6%. This is the second highest in the sector. Also, it far exceeded the recommended level of 150% by CIRC.

Anchor index stock. China Life is an anchor index stock in MSCI China and Hang Seng Index. Its index weighting is approximately 3.0% of MSCI China and 2.6% of HSI. Most importantly, the stock was heavily underweight by institutional investors since early 2011. Therefore, the stock can benefit from any positive fund flow to Hong Kong stock market, and portfolio reshuffling by institutional investors from now.

Investment Concerns

Losing market shares. As an incumbent, China Life has been losing market share since 2006. Its market share declined from 45.0% in 2006 to 32.4% in 8M12. Under the circumstance of clogged bancassurance channel, we expect China Life to continue losing shares to peers.

Not as high EV operating margins. In 2011, China Life’s EV operating margins was 15.9%, lower than 23.6% of Ping An, 31.1% of New China Life and 29.7% of Taiping Life. Given the high base effect, we do not expect China Life to outgrow its peers in EV in the future.



Valuation & Recommendation

We forecast mid-teens EV Growth. China Life reported group EV of Rmb292,854 mn in 2011 and Rmb334,326 mn in 1H12. In 2012E, we expect the company to report investment return variance of Rmb12,000 mn, due to slightly improved capital markets in China, compared to 2011. Besides, we forecast VNB of Rmb20,399 mn in 2012E and Rmb20,855 mn in 2013E, on the back of strong NBM's averaging 37.5%. As such, we forecast the EV to reach Rmb348,533 mn in 2012E, up 19.0% YoY, and Rmb389,743 mn in 2013E, up 11.8% YoY.

Expecting a sharp growth in earnings. Based on a net premium growth of 6.0% YoY and gross investment yield of 4.3%, we estimate China Life to report net earnings of Rmb29,669 mn in 2013E, up 24.5% YoY from Rmb23,828 mn in 2012E. Our earnings forecast is slightly behind consensus of Rmb31,833 mn, due to more conservative assumption on insurance reserves.

TP and recommendation. Based on the aforementioned assumptions, we derive an appraisal value of Rmb598,097 mn for China Life in 2013E and also adopt it as our target price. It is equivalent to HK\$26.45/ share. We forecast 2013E EVPS and VNB of HK\$17.24 and HK\$0.92, respectively. The implied valuation of our TP is 1.53x 2013E PEV and 10.0x 2013E VNB. This represents 18.08% upside potential from the current share price. We initiate coverage of China Life with a BUY recommendation.



China Life: 1H12 profit & loss

	2009	2010	2011	1H10	2H10	1H11	2H11	1H12	HoH	YoY
	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	Chg (%)	Chg (%)
GWP & Policy fees	275,970	318,229	318,252	183,614	134,615	195,490	122,762	185,438	51.1	(5.1)
(-) Premiums to Reinsurers	158	177	232	90	87	124	108	151	39.8	21.8
NWP & Policy fees	275,812	318,052	318,020	183,524	134,528	195,366	122,654	185,287	51.1	(5.2)
Chg. in Unearned Premium Res.	735	(36)	256	(65)	29	517	(261)	548	(310.0)	6.0
NEP & policy fees	275,077	318,088	318,276	183,589	134,499	194,849	123,427	184,739	49.7	(5.2)
Investment income	61,583	64,993	49,851	30,612	34,381	31,315	18,536	22,366	20.7	(28.6)
Other income	2,630	2,757	2,772	1,190	1,567	1,302	1,470	1,495	1.7	14.8
Total revenue	339,290	385,838	370,899	215,391	170,447	227,466	143,433	208,600	45.4	(8.3)
Claims, Surrenders, Annuities /										
Maturities	(99,295)	(95,151)	(111,169)	(48,029)	(47,122)	(70,044)	(41,125)	(71,648)	74.2	2.3
Div. & Int. to PH & Net Inc. in PH Res.	(154,372)	(199,655)	(187,704)	(122,543)	(77,112)	(117,091)	(70,613)	(100,229)	41.9	(14.4)
Ttl. Claims / PH Benefits	(253,667)	(294,806)	(298,873)	(170,572)	(124,234)	(187,135)	(111,738)	(171,877)	53.8	(8.2)
U/W & Policy Acq. Expense	(22,936)	(27,256)	(27,434)	(13,962)	(13,294)	(15,343)	(12,091)	(14,569)	20.5	(5.0)
General & Administrative Expense	(18,719)	(20,285)	(21,549)	(8,405)	(11,880)	(9,030)	(12,519)	(9,813)	(21.6)	8.7
Other Expense	(2,927)	(4,254)	(4,743)	(1,919)	(2,335)	(2,200)	(2,543)	(2,850)	12.1	29.5
Total Expenses	(44,582)	(51,795)	(53,726)	(24,286)	(27,509)	(26,573)	(27,153)	(27,232)	0.3	2.5
Net profit before Tax	41,041	39,237	18,300	20,533	18,704	13,758	4,542	9,491	109.0	(31.0)
Associate / JV - Profits / Losses	704	1,771	2,213	1,070	701	1,169	1,044	1,521	45.7	30.1
Tax Expense	(8,709)	(7,197)	(2,022)	(3,488)	(3,709)	(1,853)	(169)	(1,271)	652.1	(31.4)
Net profit after Tax	33,036	33,811	18,491	18,115	15,696	13,074	5,417	9,741	79.8	(25.5)
Minority interest	(155)	(185)	(160)	(81)	(104)	(110)	(50)	(106)	112.0	(3.6)
NP to China Life Shareholders	32,881	33,626	18,331	18,034	15,592	12,964	5,367	9,635	79.5	(25.7)

Source: Company, ABCI Securities

China Life: Embedded Value (EV), Value of New Business (VNB) & New Business Margins (NBM)

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
ANAV	136,286	110,266	125,829	144,655	137,661	159,948	24	8
VIF	232,639	215,608	202,352	183,008	167,352	149,387	8	15
Solvency Cost	(34,598)	(33,020)	(31,688)	(29,564)	(26,572)	(24,106)	5	9
EV	334,326	292,854	296,493	298,099	278,441	285,229	14	13
EVPS (HK\$)	14.55	12.67	12.77	12.57	11.23	11.50	15	14
APE	32,842	59,646	39,888	65,968	37,134	51,374	66	(18)
VNB	12,494	20,199	12,186	19,839	11,548	17,713	56	3
NBM (APE Basis %)	38.0	33.9	30.6	30.1	31.1	34.5	4.2	7.5
FYP	81,824	163,523	111,103	190,252	111,576	156,156	56	(26)
VNB	12,494	20,199	12,186	19,839	11,548	17,713	56	3
NBM (FYP Basis %)	15.3	12.4	11.0	10.4	10.3	11.3	2.9	4.3
VNB (HK\$)	0.54	0.87	0.52	0.84	0.47	0.71	56	4

Source: Company, ABCI Securities

China Life: Investment & Yields

(%)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Cash Equivalents	5.3	3.7	5.5	3.6	3.6	3.1	1.6	(0.1)
Deposits	37.7	34.8	34.3	33.1	33.9	29.4	2.8	3.3
Bonds	42.4	44.6	43.2	45.5	48.5	49.7	(2.2)	(0.9)
Equities	9.9	12.1	13.4	14.7	11.2	15.3	(2.2)	(3.5)
Others	4.8	4.7	3.6	3.2	2.9	2.5	0.0	1.2
Total Inv'ts (RMB bn)	1,662	1,495	1,454	1,336	1,243	1,172	11	14
Net Investment Yield (%)	4.5	4.3	4.3	3.9	4.1	3.7	0.2	0.1
Total Investment Yield (%)	2.8	3.5	4.5	5.2	5.0	5.8	(0.7)	(1.7)

Source: Company, ABCI Securities



China Life: Operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross premiums	185,438	318,252	195,490	318,088	183,614	275,970	51	(5)
Individual	176,499	302,012	186,858	302,753	175,520	261,715	53	(6)
Group	316	438	298	468	283	190	126	6
Short-term	8,623	15,802	8,334	14,867	7,811	14,065	15	3
FYP Regular	27,399	48,104	31,974	52,159	28,863	39,711	70	(14)
% of FYP Ind. Regular	76.1	68.1	70.1	70.2	72.0	74.6	8.0	6.0
# of agents	682,000	685,000	662,000	706,000	736,000	770,000	(0)	3
FYP Regular per agent (Rmb)	40,174	70,225	48,299	73,880	39,216	51,573	(43)	(17)
Individual FYP	72,885	147,286	102,472	174,808	103,486	142,960	(51)	(29)
Individual FYP per agent (Rmb)	106,870	215,016	154,792	247,603	140,606	185,662	(50)	(31)
Persistence 13 mo (%)	92.5	92.5	92.5	93.0	94.0	93.7	0.0	(0.0)
Solvency (%)	230.6	170.1	164.2	212.0	217.2	303.6	60.4	66.4

Source: Company, ABCI Securities

China Life - share price & valuation

		2004	2005	2006	2007	2008	2009	2010	2011	2012E
Share Price (HK\$)	Hi	6.55	6.90	27.20	52.00	39.85	41.00	39.35	32.65	24.35
	Lo	3.85	4.85	7.05	19.26	16.70	19.90	29.70	17.24	17.06
	Av	4.99	5.61	12.92	31.97	28.08	30.64	34.32	24.95	20.81
PEV(X)	Hi	2.06 x	1.67 x	4.22 x	5.43 x	4.13 x	3.58 x	3.13 x	2.59 x	1.61 x
	Lo	1.21 x	1.17 x	1.09 x	2.01 x	1.73 x	1.74 x	2.36 x	1.37 x	1.12 x
	Av	1.57 x	1.36 x	2.01 x	3.34 x	2.91 x	2.67 x	2.73 x	1.98 x	1.37 x
EVPS YoY Growth (%)		30%	56%	49%	1%	19%	10%	0%	20%	
VNB(X)	Hi	14.67 x	10.21 x	55.99 x	92.84 x	54.03 x	41.54 x	32.02 x	23.03 x	10.34 x
	Lo	2.92 x	2.65 x	1.65 x	21.19 x	12.62 x	11.87 x	20.48 x	5.32 x	2.13 x
	Av	7.87 x	5.44 x	17.48 x	49.00 x	32.97 x	26.97 x	26.00 x	14.18 x	6.36 x
VNB YoY Growth (%)		18%	37%	23%	22%	27%	18%	4%	2%	

Source: Bloomberg, Company data, ABCI Securities



China Life: Embedded Value

(Rmb mn)	2009	2010	2011	2012E	2013E	1H12
Embedded value						
Adjusted net worth	159,948	144,655	110,266	139,593	157,369	136,286
Value of in-force	149,387	183,008	215,608	241,554	266,945	232,639
Cost of solvency margin	(24,106)	(29,564)	(33,020)	(32,614)	(34,571)	(34,598)
Embedded value	285,229	298,099	292,854	348,533	389,743	334,326
Vnb (long term)	17,713	19,839	20,199	20,399	20,855	12,494
Multiplier	10	9	9	10	10	
New business value (long term)	175,344	179,381	187,849	197,817	208,354	
Appraisal value	460,573	477,480	480,703	546,351	598,097	
EV movement analysis						
Opening embedded value	240,088	285,229	298,099	292,854	348,533	292,854
Expected return						
- SHF's	7,580	8,797	7,650	6,065	7,678	4,944
- In-force	13,519	16,433	20,131	23,717	26,571	9,234
Value of new business (VNB)	17,713	19,839	20,199	20,399	20,855	12,494
Inv't r var + Mkt val adj	15,307	(11,234)	(40,839)	12,000	(5,000)	19,429
Capital raising & dividends	(6,500)	(19,785)	(11,306)	(6,501)	(6,894)	(6,501)
OpEx var, model chg & others	(2,478)	(1,180)	(1,080)	-	(2,000)	1,872
Closing embedded value	285,229	298,099	292,854	348,533	389,743	334,326
EVPS (HK\$)	11.45	12.57	12.61	15.17	17.24	14.55
AVPS (HK\$)	18.49	20.13	20.71	23.78	26.45	
PEV implied	1.61	1.60	1.64	1.57	1.53	
VNB (HK\$)	0.71	0.84	0.87	0.89	0.92	
VNB implied (x)	9.90	9.04	9.30	9.70	9.99	
EV contributions 1 (%)						
Expected return on beg EV	9%	9%	9%	10%	10%	10%
IRV + MVA contribution to beg EV	6%	-4%	-14%	4%	-1%	13%
VNB contribution to beg EV	7%	7%	7%	7%	6%	9%
VNB contribution to beg VIF	14%	13%	11%	9%	9%	
EVPS (HK\$) growth	19%	10%	0%	20%	14%	
EV contributions 2 (%)						
Beginning EV	84%	96%	102%	84%	89%	88%
Expected return						
- SHF's	3%	3%	3%	2%	2%	1%
- In-force	5%	6%	7%	7%	7%	3%
Inv't r var + mkt val adj	5%	-4%	-14%	3%	-1%	6%
Value of new business (VNB)	6%	7%	7%	6%	5%	4%
Capital raising & dividends	-2%	-7%	-4%	-2%	-2%	-2%
OpEx var, model chg & others	-1%	0%	0%	0%	-1%	1%
Ending EV	100%	100%	100%	100%	100%	100%

Source: Company data, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

China Life

China Life Financial Statements

Profit & loss (Rmb mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
GWP & policy fees	318,229	318,252	314,338	333,198	353,190	Gross written premium growth	15.3%	0.0%	-1.2%	6.0%	6.0%
(-) Premiums to reinsurers	177	232	280	431	457	Net earned premium growth	15.6%	0.1%	-2.3%	6.0%	6.0%
NWP & policy fees	318,052	318,020	314,058	332,767	352,733	Claims/benefits - of NEP	25.1%	34.3%	34.5%	31.5%	31.5%
Chg. in unearned premium res.	(36)	(256)	3,169	3,278	3,475	Div to PH & net inc. in PH res. of NEP	62.8%	57.1%	56.6%	60.5%	60.5%
NEP & policy fees	318,088	318,276	310,889	329,489	349,258	Ttl. claim/PH benefits to NEP	87.9%	91.3%	91.1%	92.0%	92.0%
Investment income	64,993	49,851	58,031	80,844	91,718	Claims/benefits - of total revenue	20.7%	29.4%	28.8%	25.1%	24.8%
Other income	2,757	2,772	3,039	3,190	3,350	Net inc. in PH res. - of total revenue	51.7%	49.0%	47.3%	48.2%	47.6%
Total revenue	385,838	370,899	371,959	413,524	444,326	Ttl. claim/PH benefits to total revenue	72.5%	78.4%	76.1%	73.3%	72.3%
Claims, surrenders, annuities/maturities	(95,151)	(117,294)	(117,062)	(121,911)	(129,226)	Commission cost ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Div. & int. to PH & net inc. in PH res.	(199,655)	(181,579)	(175,919)	(199,341)	(211,301)	General & admin. cost ratio	6.4%	6.8%	6.4%	6.8%	6.8%
Ttl. claims/PH benefits	(294,806)	(298,873)	(292,981)	(321,252)	(340,527)	Other exp. & stat. levy ratio	1.3%	1.5%	1.8%	1.6%	1.6%
Commission expenses	0	0	0	0	0	Operating expense ratio	7.7%	8.3%	8.2%	8.4%	8.4%
U/W & policy acq. expense	(27,256)	(27,434)	(27,184)	(30,012)	(31,813)	Gross investment yield	5.2%	3.5%	3.6%	4.3%	4.3%
General & administrative expense	(20,285)	(21,549)	(19,905)	(22,444)	(23,790)	Solvency ratio	212.0%	170.1%	220.3%	205.2%	196.2%
Other expense	(4,254)	(4,743)	(5,625)	(5,291)	(5,609)						
Total expenses	(51,795)	(53,726)	(52,714)	(57,747)	(61,212)						
Net profit before tax	39,237	18,300	26,263	34,525	42,588	Balance sheet (Rmb mn)					
Associate/JV - Profits/losses	1,771	2,213	2,669	2,936	3,230		2010	2011	2012E	2013E	2014E
Tax expense	(7,197)	(2,022)	(4,855)	(7,492)	(9,164)	Cash	47,854	55,985	93,303	106,033	119,825
Net profit after tax	33,811	18,491	24,078	29,969	36,654	Investments	1,288,391	1,438,984	1,662,199	1,888,985	2,134,683
Minority interest	(185)	(160)	(249)	(300)	(367)	Receivables	7,274	8,253	15,974	17,611	19,416
NP to China Life shareholders	33,626	18,331	23,828	29,669	36,288	Deferred acquisition costs	0	0	0	0	0
						Fixed assets	18,946	20,231	20,321	20,321	20,321
						Other assets	48,114	60,454	72,010	72,010	72,010
						Total assets	1,410,579	1,583,907	1,863,807	2,104,960	2,366,254
Financial summary						Policyholder benefits	1,070,963	1,245,741	1,424,884	1,639,052	1,866,070
	2010	2011	2012E	2013E	2014E	Policyholder deposits	70,171	69,797	68,051	71,346	74,839
EPS (HK\$)	1.42	0.79	1.04	1.31	1.69	Unearned premiums	1,880	3,719	5,363	8,641	12,116
<i>EPS growth (%)</i>	7.4%	-44.3%	31.3%	26.5%	29.2%	Claim reserves	0	0	0	0	0
PER (x)	15.8	28.4	21.6	17.1	13.2	Payables	8,275	3,719	2,879	3,174	3,500
PBV (x)	2.55	2.72	2.31	2.10	1.80	Repo	22,660	13,000	42,529	42,529	42,529
PEV (x)	1.78	1.78	1.48	1.30	1.10	Borrowings	0	29,990	57,982	57,982	57,982
VNB multiple (x)	11.75	11.25	8.15	5.60	2.08	Statutory insurance fund	194	146	192	192	192
Dividend per share (HK\$)	0.48	0.28	0.30	0.30	0.30	Other liabilities	25,961	24,407	37,203	38,246	39,359
Yield (%)	2.9%	1.7%	1.8%	1.8%	1.8%	Total liabilities	1,200,104	1,390,519	1,639,084	1,861,162	2,096,586
Payout ratio (%)	33.6%	35.5%	28.9%	22.9%	17.7%	Net assets	210,475	193,388	224,723	243,798	269,668
Return on equity (%)	15.9%	9.1%	11.4%	12.7%	14.1%	Minority interests	1,765	1,858	2,056	2,356	2,723
Return on assets (%)	2.6%	1.2%	1.4%	1.5%	1.6%	Net equity to shareholders	208,710	191,530	222,666	241,442	266,946
Tax rate (%)	17.6%	9.9%	16.8%	20.0%	20.0%						

Source: Company data, ABCI Securities estimates



Disclosures

Analyst Certification

I, Chan Wing Fu (Francis Chan), being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index.

Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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