

## UBS Investment Research

# China Market Strategy

### Where China shares are going? #3--Further re-rating in H-shares

#### ■ H-shares are rationally priced

Since the start of 2007, A-shares have gone up 50%, while H-share performance has stayed flat. We believe foreign fund managers are concerned over the A-bubble, and are being cautious about H-shares.

#### ■ Re-rating in H-shares is due

We highlight the positive effect of the 2005 non-tradable share reform and recent positive themes, such as earnings surprises, asset injection and industry/group consolidation. We believe a further re-rating could bring the H-index to a range of 10,000-13,000.

#### ■ We recommend buying H-shares

The discount of H- to A-shares for dual-listed issues has widened to 45% from a low of 20%. An expected gradual opening up of QDII flows could boost H-shares. We also suggest investors take a look at B-shares. We have done a screening based on large cap H-share companies with deep discounts and red chips that could tap mainland liquidity.

#### ■ H-shares to diverge from A-shares

On a three-month basis, A- and H-share correlations do not look high. H-shares are more correlated with Hong Kong and with US stocks than with A-shares. However, we note that after the 2001 A-share bubble peak, H-shares decoupled from A-shares.

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[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)**Henry Ho**Strategist  
henry.ho@ubs.com  
+852-2971 7537**Louis Shan**Analyst  
louis.shan@ubs.com  
+852-2971 7513This report has been prepared by UBS Securities  
Asia Ltd

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**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 12**

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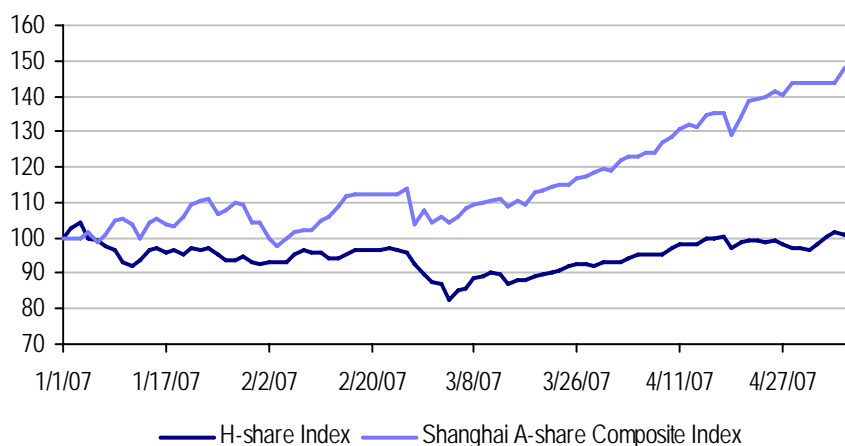
In the final report of this series, we recommend long-term investors buy H-shares, with a focus on large cap A- and H- dual-listed shares with deep discounts and selected red chips, as mainland liquidity overflows to the HK listings. Our suggested strategy is predicated on a downleg of the A-bubble.

## What is the valuation of H-shares now?

### (1) H-shares remain rationally valued

Since the start of 2007, A-shares have gone up 50%, while H-share performance has stayed flat (Chart 1). We have argued that H-shares are not in a bubble (see our series on “*Is today’s H-share index a bubble?*” #1-#5). At the beginning of this year, the Shanghai A-Composite index was at 2,675, 8% below the top end of our A-strategist’s fair value range of 2,900. Since then, liquidity has pushed A-shares into a bubble to yesterday’s close of 4,013. We believe H-shares today remain rationally valued. We believe the following is further support to our ‘rational H hypothesis’. On 30 April 2007, the Monday after a weekend announcement of a 50bp hike in reserve requirement, the H-index reacted rationally by falling 1%. On the other hand, the bubbly A-index went up by 2%.

Chart 1: A-shares rallied 50%, H-shares did nothing in 2007



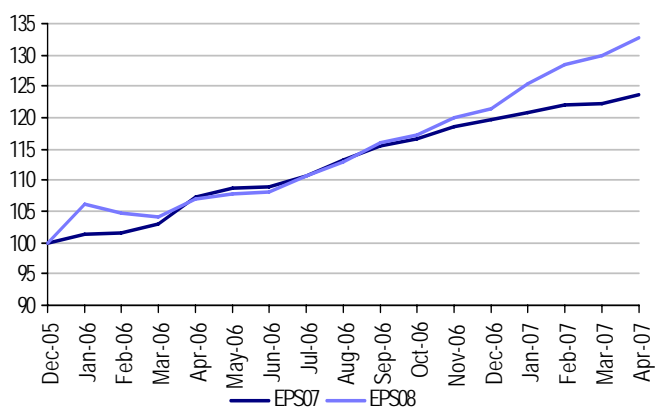
Note: Both indices rebased to 100

Source: Datastream, UBS

### (2) Support for further H-share re-rating

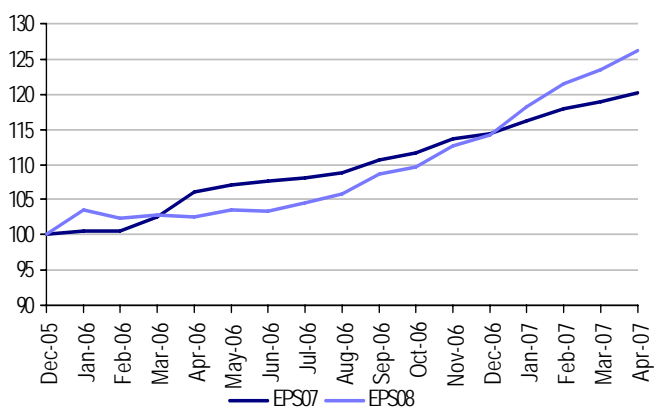
In June 2006, we postulated that H-shares were in a multi-year re-rating trend. We suggested three structural forces: rising/sustainable ROE, an Rmb appreciation trend and inclusion of good quality stocks in the index (“*Attractive valuation and significant upside potential*”, 8 June 2006). Earnings growth has surprised the market on the upside so far (Charts 2 and 3). The positive effect of the 2005 non-tradable share reform and recent positive themes to earnings/value creation (such as asset injection and industry/group consolidation) are supportive of a further re-rating, in our view.

**Chart 2: MSCI China EPS–revisions keep rising**



Source: Bloomberg, IBES, UBS estimates

**Chart 3: MSCI China EPS rising revisions (ex-energy)**

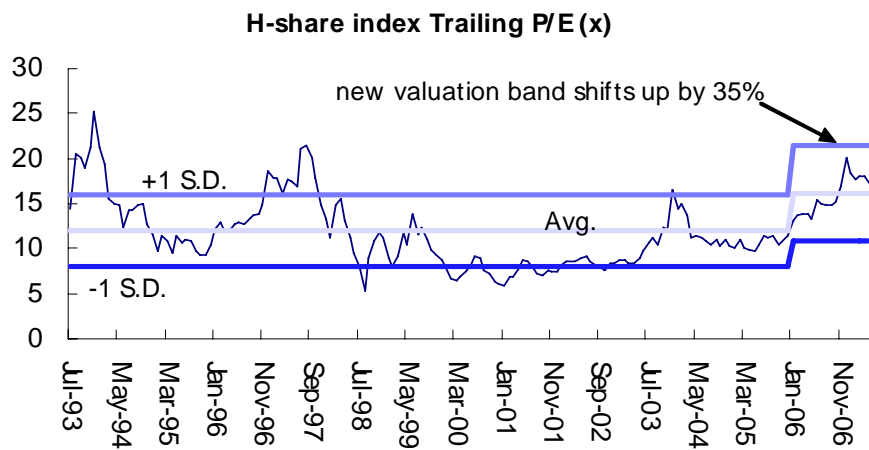


Source: Bloomberg, IBES, UBS estimates

**Re-rating our H-index valuation band**

Almost 12 months after our June 2006 re-rating (28% of full potential), and with the further positive supports described above, we believe H-shares justify the second stage of the re-rating. We are upgrading our valuation band by attributing to it 35% of the full re-rating potential (Chart 4). We estimate that H-shares are now within the mean to +1 standard deviation of our revised PE band, equivalent to an H-index range of 9,930-13,200.

**Chart 4: H-share index P/E valuation band shifts up by 35%**



Source: Bloomberg, Datastream, UBS estimates

## Would H-shares do well when A-shares fall?

### (1) Deflating the A-share bubble

Tough government action targeting the A-share bubble by broad-brush tightening measures (eg interest rate hikes) are likely only if the bubble threatens overall economic stability. We believe a more sensible strategy is stock market-specific measures. In our view, the government is prescribing the right cures for broadening the market via QFII, QDII, financial futures, listing of H-shares and red chips on the A-market. We welcome this diversion approach. However, a consensus- and gradualist-oriented implementation suggests these measures will take some time before their effect is felt.

### (2) A-share fall is an event trigger for H-shares re-rating

We believe H-shares would be beneficiaries of the diversion measures. Mainland funds would eventually find their way to H-shares, which are equal or better in quality and at relatively lower valuations. There could be short periods during which H-shares get dragged down by falling A-shares. As we have demonstrated, the perceived high correlation between A- and H-index returns have been rather spurious, often straddled with bursts of negative correlation (*"How would an A-index fall drive H-index"*, 27 February, 2007").

### (3) H-index bull case of 10,000-13,000

With the potential of mainland funds diverting to H-shares, we think the H-index could justifiably stay within the bullish mean to +1 standard deviation of our revised PE band over the next 12 months, similar to what we saw in the 2003 rally. This is equivalent to 16.3-21.2x 2007 forecast EPS (see valuation metrics in Table 1). **In an optimistic scenario, a successful diversion of A-share liquidity means (i) an A-share fall without a reversal in the ongoing shift into equities, (ii) no need for aggressive macro tightening and (iii) the H-index could hit the 13,200 level.**

Table 1: High double-digit EPS growth forecast for 2007

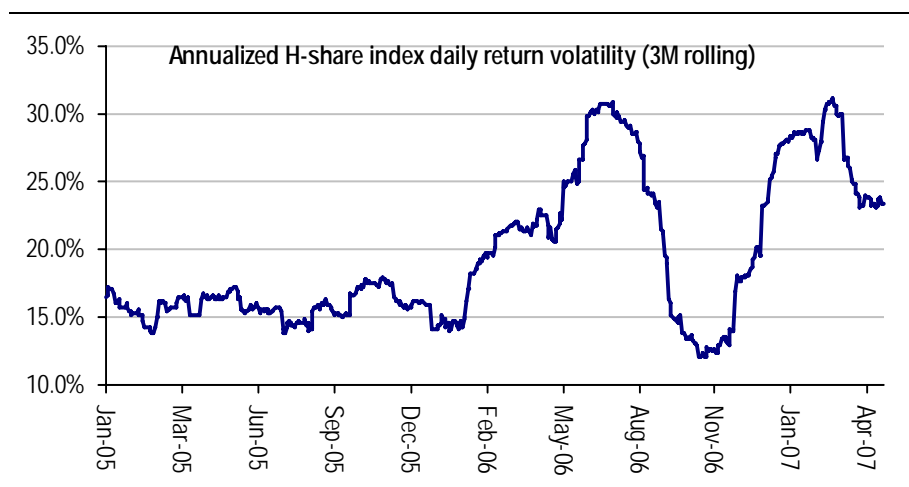
Index	Valuation Parameters	2006	2007E	2008E
H-share Index	EPS Growth (%)	13.9%	23.6%	16.0%
	P/E (x)	21.2	17.1	14.7
	PBV (x)	3.2	2.7	2.4
	Yield (%)	1.5%	2.0%	2.4%
H-Share Index (Ex-energy)*	EPS Growth (%)	9.7%	31.5%	22.8%
	P/E (x)	26.4	20.0	16.3
	PBV (x)	3.3	2.8	2.5
	Yield (%)	1.2%	1.7%	2.1%

Note: \*Ex-energy means excluding PetroChina and Sinopec. 2006 valuation is based on Dec 31, 2006 closing price.  
Source: Bloomberg, Datastream, IBES, UBS estimates

## What are the risks?

While we believe H-shares have further upside over the next 12 months, return volatility could rise again (Chart 5). We argue that an A-share correction would trigger H-shares to re-rate, but short-term volatility could rise due to (i) an expected rise in volatility of A-shares and (ii) a short-term return correlation between H- and A-shares. Other key risks for H-shares are associated with the possibility of a drastic and direct government crackdown on A-shares, or a bad global equity environment. We highlight these three: (1) a higher-than-expected rate hike in China of over 100bp over the next six months; (2) a warning statement by a public opinion leader plus a set of coordinated market-cooling measures; and (3) a contraction in global liquidity for equities, or hike in perceived risk.

Chart 5: Daily return volatility on H-shares could rise again



Source: Bloomberg, Datastream, UBS

## Recommended strategy

### (1) Buy H-shares, and B- shares too

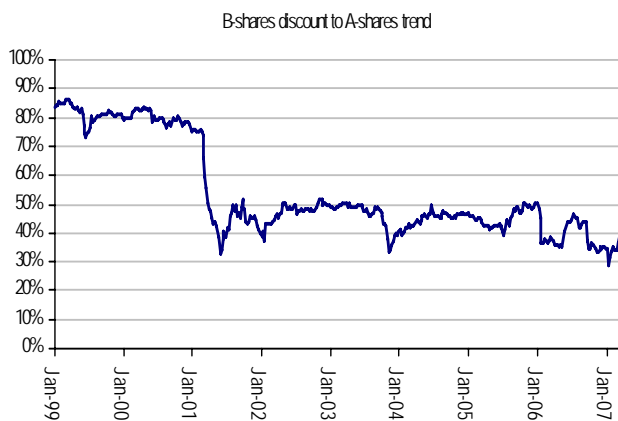
We recommend buying H-shares, as we find strong fundamentals supporting a further re-rating. Moreover, **the discount of H-shares to A- for the dual-listed issues widened to 45% during the recent A-rally from a low of 20% (Chart 6). A gradual opening up of QDII flows could boost these H-shares (Table 2).** We also suggest investors take a look at B-shares, as they are cheaper than A-shares and there is the potential of a privatisation as part of share market reform (*"Time to re-visit B-shares"*, 23 January 2007). As an indication, dual listed B- and A-share discounts show that B-shares are 44% cheaper than A-shares (Chart 7).

Chart 6: H-shares' discount to A-shares has widened to 45%



Source: Bloomberg, Datastream, UBS

Chart 7: B-shares are 44% cheaper than A-shares



Source: Bloomberg, Datastream, UBS

**(2) Recommended stocks**

Our stock selection is biased towards large-cap dual-listed H-shares that have reasonable discounts to A-prices. We also think the beneficiaries are large and good quality H-shares and red chips, which have the potential to be listed in the A-market. Finally, in a buoyant primary market we believe insurance companies will continue to enjoy strong gains from public listings of their unlisted investments. **Companies that we believe could benefit from this trend are China Life and Ping An Insurance.**

The results of a screen based on an over 25% A&H discount and US\$1bn market cap for H-shares are in Table 3. **Among the 16 H-shares that look interesting from our screen, those that UBS rated as Buy are Jiangxi Copper, Datang Power, Bank of China, Yanzhou Coal, Sinopec Shanghai PetroChem and Guangshen Railway.**

We also perform a screen on red chips based on PEs less than 25x 2006 PE and market cap above US\$1bn. The results are in Table 4. **Among the 20 red chips that look interesting from our screen, companies that UBS rated as Buy are China Mobile, CNOOC, Citic Pacific, Denway Motors, Shanghai Industrial, ICBC (Asia), Bank of China (HK), CNPC (HK) and Shenzhen Investment.**

Table 2: Companies with dual listed A- and H-shares

Company name	A-share code	Price (Rmb)	H-share code	Price (HK\$)	H-share price discount to A-share (%)	H-Share Mkt. Cap. (US\$,m)	A-Share Mkt. Cap. (US\$ m)	H-Share Avg. Daily T/O (3M (US\$,m)
Luoyang Glass	600876.SS	9.41	1108.HK	0.87	-90.8%	28	298	n/a
Guangdong Kelon Elect.	000921.SZ	8.03	0921.HK	0.89	-88.9%	52	541	n/a
Sinopec Yizheng Chm.	600871.SS	13.25	1033.HK	3.08	-76.8%	553	4,361	13.62
Nanjing Panda Elt.	600775.SS	11.72	0553.HK	2.78	-76.3%	86	613	1.08
Shandong Xinhua Pharm.	000756.SZ	10.24	0719.HK	2.60	-74.6%	50	398	0.35
Beiren Printing Mch.	600860.SS	10.16	0187.HK	2.64	-74.0%	34	414	0.38
Beijing North Star	601588.SS		0588.HK	3.43	-66.1%	311	3,404	2.51
Northeast Elec.Dev.	000585.SZ	7.70	0042.HK	2.65	-65.6%	88	600	5.28
Sinopec Shai.Petrochem.	600688.SS	13.62	0338.HK	4.91	-64.0%	1,467	8,396	23.35
China Eastern Airl.	600115.SS	7.48	0670.HK	2.81	-62.4%	565	3,125	6.88
Guangzhou Pharm.	600332.SS	15.16	0874.HK	5.80	-61.7%	164	1,134	0.68
Huadian Power Intl.	600027.SS	8.79	1071.HK	3.55	-59.6%	651	5,107	6.25
Tianjin Cap.Env.Protc.	600874.SS	9.89	1065.HK	4.00	-59.6%	174	1,321	2.30
China Southern Airl.	600029.SS	9.48	1055.HK	3.85	-59.4%	580	3,840	4.69
Jingwei Textile Mch.	000666.SZ	10.39	0350.HK	4.69	-54.9%	109	556	1.62
Jiangxi Copper	600362.SS	24.97	0358.HK	11.38	-54.4%	2,024	4,765	49.73
Jiaoda Kunji Hi-Tech	600806.SS	17.86	0300.HK	8.64	-51.6%	83	470	0.60
Aluminum Corp.Of China	601600.SS	19.40	2600.HK	9.72	-49.9%	4,915	968	25.73
Datang Intl.Pwr.Gnrtn	601991.SS	18.70	0991.HK	9.56	-48.9%	1,865	10,018	12.56
Shenzhen Expressway	600548.SS	10.39	0548.HK	5.81	-44.1%	557	1,885	2.60
China Citic Bank	601998.SS	11.46	998.HK	6.43	-43.9%	10,224	38,739	353.82
Air China	601111.SS	9.94	0753.HK	5.65	-43.2%	3,191	9,872	21.38
Guangshen Railway	601333.SS	9.60	0525.HK	5.78	-39.8%	1,061	6,869	7.38
Sinopec	600028.SS	12.08	0386.HK	7.30	-39.6%	15,705	106,918	116.63
China Life Insurance	601628.SS	40.89	2628.HK	25.15	-38.5%	23,993	107,781	255.70
Huaneng Power Intl.	600011.SS	13.41	0902.HK	8.27	-38.3%	3,239	15,277	19.67
Anhui Expressway	600012.SS	10.00	0995.HK	6.37	-36.3%	403	1,475	2.77
Bank of China	601988.SS	6.10	3988.HK	3.91	-35.9%	38,108	137,303	123.98
Dongfang Elect.Mch.	600875.SS	51.02	1072.HK	33.30	-34.7%	726	1,808	3.82
Maanshan Iron & Stl.	600808.SS	8.62	0323.HK	5.83	-32.4%	1,295	5,153	15.45
Ping An Insurance	601318.SS	65.72	2318.HK	44.70	-32.0%	14,663	39,818	53.67
Yanzhou Coal Mining	600188.SS	12.17	1171.HK	8.58	-29.5%	2,154	4,560	21.29
Weichai Power	000338.SZ	62.00	2338.HK	44.95	-27.5%	729	70,183	3.91
ZTE	000063.SZ	49.00	0763.HK	36.25	-26.0%	744	4,958	7.81
Jiangsu Expressway	600377.SS	10.09	0177.HK	7.48	-25.9%	1,172	4,874	5.52
Indl.& Coml.Bk.Of China	601398.SS	5.78	1398.HK	4.31	-25.4%	45,894	183,615	177.06
China Shipping Dev.	600026.SS	20.88	1138.HK	16.18	-22.5%	2,688	5,365	17.03
Tsingtao Brewery	600600.SS	19.03	0168.HK	14.80	-22.2%	1,243	1,573	1.80
Guangzhou Ship.Intl.	600685.SS	33.81	0317.HK	28.10	-16.9%	567	1,443	4.54
Anhui Conch Cement	600585.SS	40.50	0914.HK	35.20	-13.1%	1,955	4,217	6.80
Angang Steel	000898.SZ	18.83	0347.HK	16.98	-9.8%	1,937	12,020	14.25
China Merchants Bank	600036.SS	21.73	3968.HK	20.55	-5.4%	7,013	33,122	67.37

Source: Bloomberg, Datastream, UBS

Table 3: Screening on large cap H-shares with over a 25% discount

Company Name	H-share price discount to A-share (%)	H-share mkt. cap. (US\$m)
Sinopec Shai Petrochem.	-64.0%	1467
Jiangxi Copper	-54.4%	2024
Aluminum Corp.Of China	-49.9%	4915
Datang Intl.Pwr.Gnrtn	-48.9%	1865
China Citic Bank	-43.9%	10224
Air China	-43.2%	3191
Guangshen Railway	-39.8%	1061
Sinopec	-39.6%	15705
China Life Insurance	-38.5%	23993
Huaneng Power Intl.	-38.3%	3239
Bank of China	-35.9%	38108
Maanshan Iron & Stl.	-32.4%	1295
Ping An Insurance	-32.0%	14663
Yanzhou Coal Mining	-29.5%	2154
Jiangsu Expressway	-25.9%	1172
Indl.& Coml.Bk.Of China	-25.4%	45894

Source: Bloomberg, Datastream, UBS

Table 4: Screening on large cap. Red Chips with less than 25x 2006 P/E

Company Name	2006 PE	MV (US\$ m)
China Mobile	21.7	187357
CNOOC	10.1	38595
BOC HK	14.6	26364
China Netcom	11.7	16363
China Resources Enterprise	23.5	8526
CITIC Pacific	8	8461
China Resources Power	24.1	7399
COSCO Pacific	20	5899
CITIC Intl Financial	19.1	4884
Guangdong Investment	17.4	3406
Denway Motors	11	3198
Shanghai Industrial	17.1	2764
ICBC (ASIA)	15.3	2444
CNPC (HK)	10.2	2285
China Everbright	19.1	2172
Shenzhen Investment	16	1854
China Power Intl'	17.8	1835
China Insurance Intl'	24	1654
Guangzhou Inv.	17.4	1621
TPV Tech.	9	1406

Source: Bloomberg, Datastream, UBS



## The skeptical fund manager

Below we present some issues that might puzzle a foreign fund manager.

### (1) Why should I stay away from A-shares and buy H-shares, when the A-bubble is still running?

As we argued in earlier reports, liquidity could push A-shares higher in this bubble. The Shanghai A-Composite index could hit 4,600, as in previous peak valuation. However, investors have no way to protect themselves in the event of a fall in A-shares. One cannot short, buy put options or sell index futures on A-shares, at least not now. It is not inconceivable that the index could come back to below our fundamental value by going below 2,900 in four days if the index went limit down (10% each day) consecutively. Investors should be hawkish on downside risk when riding the A-bubble. On the other hand, we see the downside risk in H-shares as relatively low.

### (2) When A-shares fall, can H-shares go up?

Admittedly, the one-week return correlation between A-shares and H-shares has been rising and looks high now at 55% (Chart 8). We highlight three observations: (1) year-to-date, the H-index has been flat while the A-index has shot up 50%. During this time, the one-week correlation has looked high. Why? Because the correlation only reflects weekly price movements and not the structural trend of an A-share liquidity rally. Let us look at the correlation over a longer time horizon. **Using a three-month correlation, A- and H-share correlation comes down to an average below 40%** (Chart 9); (2) the effect of A-shares on H-shares is in fact weaker than two other factors, using three months as the measurement period. **H-shares are more correlated with HK stocks than A-shares (Chart 10). H-shares even correlate more with US stocks than with A-shares (Chart 11)**; (3) What about the hypothesis of A-shares dragging down the global markets, and then H-shares, as we saw earlier this year? Short term, that may be. In the medium term, we believe that is still a moot point. **A-shares' correlation with HK stocks and US stocks is very low and unstable** (Charts 12 & 13). Moreover, the hypothesis relies on the A-share index as a good indicator of the Chinese economy. As we have argued throughout this report series, A-shares have largely been liquidity-driven since 2006.

### (3) Is this a consensus or contrarian call?

Evidence of foreign fund managers' concern can be seen in the NAV discount of 8.5% on the FTSE Xinhua A-50 index fund listed in HK. We believe this concern has dragged recent H-share performance in 2007, despite the stream of earnings upgrade. In our view, the concern is mostly 'in the price', suggesting the possibility that when A-shares fall, H-shares will rise.

**(4) Aren't A- and H-shares the same thing? Why is their correlation low/unstable?**

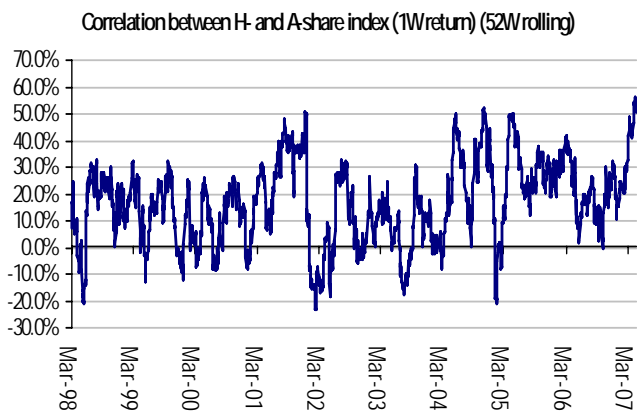
Let us look back to the 2001 A-share bubble peak. **H-shares decoupled from A-shares during the post-2001 bubble bursting, when A-shares fell. By Q402, the correlation between A- and H-shares fell to zero on a one-month return basis, and to below 10% on a three-month return basis.** We have three explanations: (1) while there are some dual-listed A- and H-shares, they are not an exact a one-to-one image. The A-market cap of dual-listed shares accounts for only 39% of total A-shares (Table 5); (2) even for dual-listed shares, their price and divergence fluctuates significantly (Chart 6); and (3) while their fundamentals may be close, the drivers of their supply/demand and liquidity are different, due to China's close capital account. Restrictions on cross-border equity flows, ie QFII and QDII, are only starting to be relaxed.

**Table 5: Market capitalisation of China shares**

	(US\$,bn)
Total market cap. of A-shares	2183
Dual listed H-share market cap.	193
Dual listed A-share market cap.	849
Red Chips market cap.	401
% of dual listed A-share market cap. as % of total A-share market cap.	38.8%
% of dual listed H-share market cap. as % of total H-share market cap.	44.5%

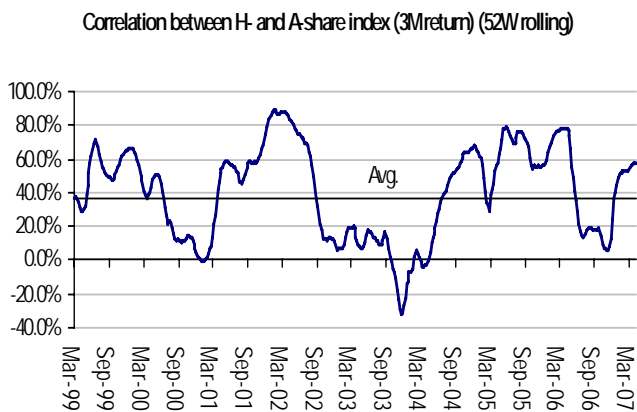
Source: CEIC, Datastream, UBS

**Chart 8: 1W return correlation between A&H shares looks high**



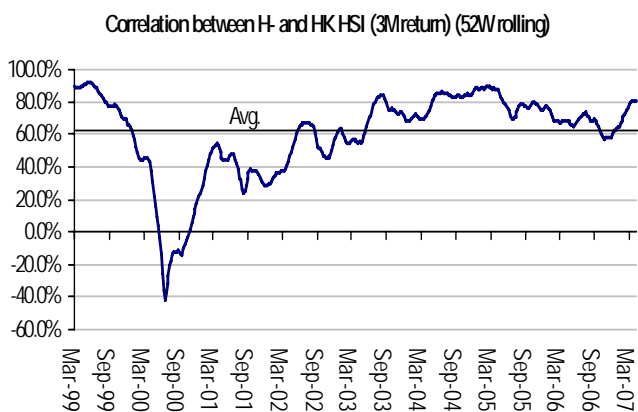
Source: Bloomberg, Datastream, UBS

**Chart 9: 3M return correlation between A&H shares not high**



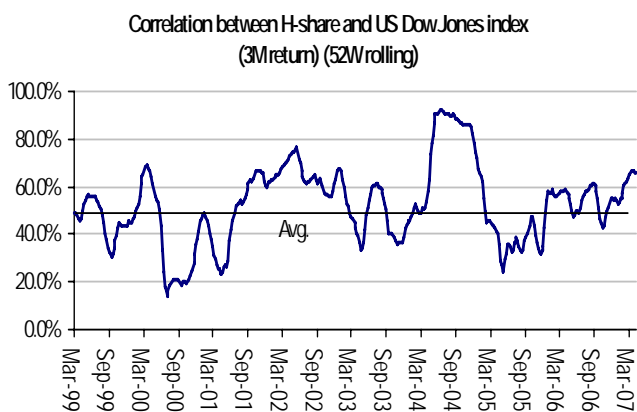
Source: Bloomberg, Datastream, UBS

**Chart 10: H-shares have a high correlation with HK stocks**



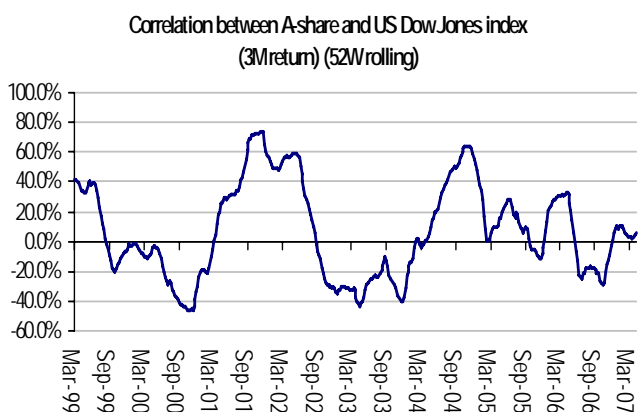
Source: Bloomberg, Datastream, UBS

**Chart 11: H-shares also correlate well with US stocks**



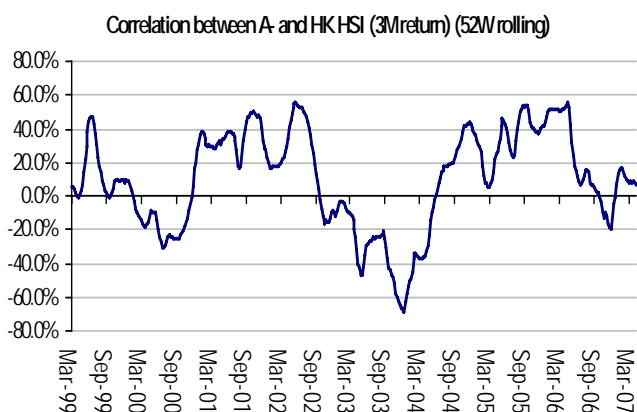
Source: Bloomberg, Datastream, UBS

**Chart 12: A-shares' correlation with US stocks is low**



Source: Bloomberg, Datastream, UBS

**Chart 13: A-shares' correlation with HK stocks also low**



Source: Bloomberg, Datastream, UBS

**Recent related research:**

- 1) "Where China shares are going? #1—A-shares liquidity", 6 May 2007
- 2) "Where China shares are going #2—A-shares bubble", 6 May 2007

**■ Statement of Risk**

In our view, risks include a hard landing, a sharp rise in the US dollar, weak corporate governance amidst a tightening macro scenario, worse-than-expected global growth, cross-straits tension, a property market correction and a fragile domestic broking industry.

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UBS rating	Definition	UBS rating	Definition	Rating category	Coverage <sup>1</sup>	IB services <sup>2</sup>
<b>Buy 1</b>	FSR is > 6% above the MRA, higher degree of predictability	<b>Buy 2</b>	FSR is > 6% above the MRA, lower degree of predictability	<b>Buy</b>	47%	37%
<b>Neutral 1</b>	FSR is between -6% and 6% of the MRA, higher degree of predictability	<b>Neutral 2</b>	FSR is between -6% and 6% of the MRA, lower degree of predictability	<b>Hold/Neutral</b>	42%	36%
<b>Reduce 1</b>	FSR is > 6% below the MRA, higher degree of predictability	<b>Reduce 2</b>	FSR is > 6% below the MRA, lower degree of predictability	<b>Sell</b>	12%	28%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 31 March 2007.

### KEY DEFINITIONS

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Predictability Level** The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

### EXCEPTIONS AND SPECIAL CASES

**US Closed-End Fund ratings and definitions are:** Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

## Companies mentioned

Company Name	Reuters	Rating	Price	Price date/time
<b>Bank of China</b> <sup>2b,4a,8,13,16a,16b,22</sup>	3988.HK	Buy 2	HK\$3.92	10 May 2007 23:40 HKT
<b>BOCHK</b> <sup>2b,4a,16a,16b,22</sup>	2388.HK	Buy 2	HK\$19.50	10 May 2007 23:40 HKT
<b>China Life</b> <sup>2a,4a,16a,16b,22</sup>	2628.HK	Neutral 1	HK\$25.10	10 May 2007 23:40 HKT
<b>China Mobile</b> <sup>4b,16a,16b,22</sup>	0941.HK	Buy 2	HK\$71.95	10 May 2007 23:40 HKT
<b>CNOOC Ltd</b> <sup>2c,4a,16a,16b,22</sup>	0883.HK	Buy 1	HK\$6.91	10 May 2007 23:40 HKT
<b>CNPC (HK)</b> <sup>13,20</sup>	0135.HK	Buy 1 (CBE)	HK\$3.66	10 May 2007 23:40 HKT
<b>Citic Pacific</b> <sup>4a,16a</sup>	0267.HK	Suspended	HK\$31.10	10 May 2007 23:40 HKT
<b>Datang Int'l Power</b> <sup>2a</sup>	0991.HK	Buy 2	HK\$9.64	10 May 2007 23:40 HKT
<b>Denway Motors</b> <sup>16b</sup>	0203.HK	Buy 2	HK\$3.28	10 May 2007 23:40 HKT
<b>Guangshen Railway</b> <sup>16a</sup>	0525.HK	Buy 2	HK\$5.86	10 May 2007 23:40 HKT
<b>ICBC (Asia)</b> <sup>13,22</sup>	0349.HK	Buy 2	HK\$17.06	10 May 2007 23:40 HKT
<b>Jiangxi Copper</b> <sup>16a,16b,20</sup>	0358.HK	Buy 2 (CBE)	HK\$11.38	10 May 2007 23:40 HKT
<b>Ping An Insurance</b> <sup>16b,22</sup>	2318.HK	Neutral 2	HK\$45.75	10 May 2007 23:40 HKT
<b>Shanghai Industrial</b>	0363.HK	Buy 2	HK\$22.50	10 May 2007 23:40 HKT
<b>Shenzhen Inv. Ltd</b> <sup>13</sup>	0604.HK	Buy 2	HK\$5.12	10 May 2007 23:40 HKT
<b>Shanghai Petrochem</b> <sup>16a</sup>	0338.HK	Buy 2	HK\$5.10	10 May 2007 23:40 HKT
<b>Yanzhou Coal Mining</b> <sup>16a</sup>	1171.HK	Buy 2	HK\$8.83	10 May 2007 23:40 HKT

Source: UBS. HKT: Hong Kong time.

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