China Oriental

We raise our earnings estimates and price target

Overweight

HK$2.25

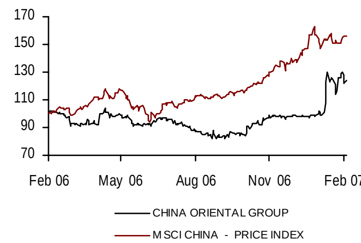
12 February 2007
Price Target: HK$3.30

Hong Kong
Steel

Feng Zhang[AC]
(852) 2800 8513
feng.zhang@jpmorgan.com

Emily Zhang
(852) 2800-8514
emily.y.zhang@jpmorgan.com

One-year relative performance



Source: Datastream.

- **We reiterate OW on China Oriental on attractive valuations:** We raise our FY06, FY07 and FY08 EPS forecasts for the company by 2%, 5% and 4% respectively on better product mix. We increase our PT to HK$3.3 from HK$2.7 as we believe the stock should trade above 1x book value during up-cycles. We expect 47% upside from the latest closing price of HK$2.25.
- **Investment drivers:** We expect strong earnings growth in 2007 (up by 29%) and 2008 (up by 17%) on improving product mix and higher steel prices. The newly completed H beam (high-end construction steel products) will likely contribute most of 2007's earnings growth. If we assume the gain from better product mix is a moderate Rmb230/t, realized steel prices would only need to go up by about 1% Y/Y in 2007 and 3% Y/Y in 2008 for the company to hit our earnings targets, other things being equal. China Oriental is in a net cash position, and we expect free cash flow to turn positive in 2006 and remain so in 2007 and 2008.
- **Valuations and risks to PT:** We derive our December 2007 PT of HK$3.3 by applying 1.2x P/BV to 2008E BVPS, with ROE of 23%. China Oriental is trading at only about 50% of global and China steel companies' average valuation multiples, with superior ROE. The main risk to our PT is lower-than-expected steel prices.

Reuters: 0581.HK, Bloomberg: 581 HK

Rmb in millions, year-end December

	2002	2003	2004	2005	2006E	2007E	2008E
Sales	2,571	5,278	9,119	9,183	10,974	11,524	12,750
NP	388	1,076	1,173	847	1,077	1,391	1,628
EPS (Rmb)	0.18	0.51	0.42	0.29	0.37	0.48	0.56
EPS (Y/Y) (%)	152	177	-17	-31	27	29	17
BPS (Rmb	0.16	0.45	1.40	1.58	1.87	2.26	2.71
DPS (Rmb)	0.18	0.23	0.23	0.05	0.07	0.10	0.11
PE	12.7	4.6	5.5	7.9	6.1	4.7	4.0
PB	14.5	5.2	1.7	1.4	1.2	1.0	0.8
EV/EBITDA	7.6	4.6	4.2	4.8	3.7	2.5	1.5
Dividend yield (%)	8	10	10	2	3	4	5
ROE (%)	115	168	49	20	21	23	23
Net debt/equity (%)	69	90	-27	-2	-6	-19	-31
Performance					1M	3M	12M
Absolute (%)					24.3	27.8	21.6
Relative to MSCI China (%)					19.6	7.4	-33.6

52-week range	1.49-2.37
Mkt cap (HK$ MM)	6,536
Mkt cap (US$ MM)	839
Free float (%)	28
AVG daily volume	3.2 mm
Shares outstanding(MM)	2,905
Index: MSCI China	52
Exchange rate (HK$/US$)	7.79

Source: Datastream, Company data, JPMorgan estimates.

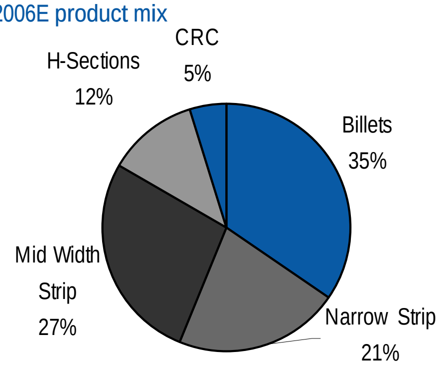
J.P. Morgan Securities (Asia Pacific) Limited

See page 12 for analyst certification and important disclosures, including investment banking relationships.

Earnings estimates raised

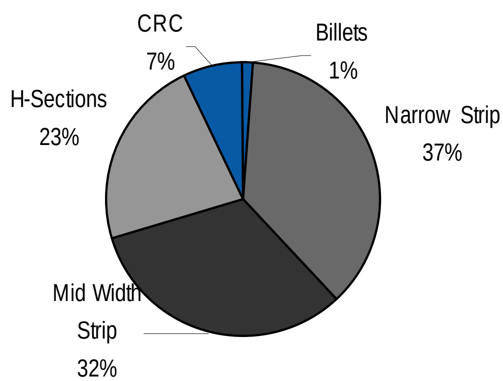
We raise our FY06, FY07, and FY08 EPS estimates by 2%, 5% and 4%, respectively, on slightly higher steel price assumptions and better product mix.

Figure 1: 2006E product mix



Source: JPMorgan estimates.

Figure 2: 2008E product mix



Source: JPMorgan estimates.

ASPs (average selling prices) in 2007 were raised as the mid-width strip and H beam will replace the billet (semi-finished products) sales, which will result in higher overall ASPs.

For 2008, we raise our tax rate to 25% from 15%. But this will be offset by higher volume sales as we expect de-bottlenecking to add production.

Table 1: What has changed

	2006E			2007E			2008E		
Volume sales ('000 tons)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Billets	1,460	1,460	0	280	74	-74	480	65	-86
Narrow width strip	900	900	0	1,500	1,500	0	1,500	1,600	7
Mid width strip	1,150	1,150	0	1,100	1,300	18	1,100	1,400	27
H beam	500	500	0	1,000	1,000	0	800	1,000	25
CRC	200	200	0	400	200	-50	400	300	-25
Total	4,210	4,210	0	4,280	4,074	-5	4,280	4,365	2
ASP (Rmb/t)	Old	New	Change	Old	New	Change	Old	New	Change
Billets	2,374	2,382	0	2,440	2,453	1	2,520	2,528	0
Narrow width strip	2,562	2,569	0	2,620	2,633	0	2,700	2,708	0
Mid width strip	2,640	2,648	0	2,695	2,708	0	2,775	2,783	0
H beam	2,765	2,773	0	3,040	3,053	0	3,120	3,128	0
CRC	3,510	3,510	0	3,820	3,833	0	3,900	3,908	0
ASP	2,600	2,607	0	2,850	2,829	-1	2,903	2,921	1
Cost (Rmb/t)									
Iron ore	629	629	0	665	665	0	619	619	0
Coke	969	969	0	1,025	1,025	0	1,025	1,025	0
COGS per ton	2,255	2,257	0	2,419	2,363	-2	2,397	2,355	-2
EPS (Rmb/share)	0.36	0.37	2	0.46	0.48	5	0.54	0.56	4

Source: JPMorgan estimates.

Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

While we assume ASP will go up by 8% Y/Y in 2007, much of the revenue gains are offset by raw material price increases. Earnings growth will mostly come from higher margins from product mix improvements.

Table 2: Major assumptions

	2003	2004	2,005	2006E	2007E	2008E
ASP (Rmb/t)	2,180	2,694	2,753	2,607	2,829	2,921
Change Y/Y (%)		24	2	-5	8	3
CRC (Rmb/t)			3,826	3,510	3,833	3,908
Change Y/Y (%)				-8	9	2
Volume sales('000 tons)	2,421	3,385	3,336	4,210	4,074	4,365
Change Y/Y (%)		40	-1	26	-3	7
COGS(Rmb/t)	1,671	2,307	2,386	2,257	2,363	2,355
Change Y/Y (%)		38	3	-5	5	0
Margin(Rmb/t)	509	387	367	350	465	566
Change Y/Y (%)		-24	-5	-5	33	22
Iron ore(Rmb/t)	418	710	735	629	665	619
Change Y/Y (%)		70	3	-14	6	-7
Coking coal (Rmb/t)	809	1,055	1,107	969	1,025	1,025
Change Y/Y (%)		30	5	-12	6	0

Source: Company data and JPMorgan estimates.

The company is in a net cash position. So we expect it to either make acquisitions or increase dividend payout.

Table 3: Summary of balance sheet statement

	2004	2005	2006E	2007E	2008E
Net debt (MM Rmb)	-1,046	-95	-304	-1,266	-2,456
Net debt/equity (%)	-27	-2	-6	-19	-31
Total debt/equity (%)	90	74	68	58	50

Source: Company and JPMorgan estimates

We expect free cash flow to turn positive in 2006 and remain so in 2007 and 2008.

Table 4: Summary of cash flow statement

Rmb in millions

	2004	2005	2006E	2007E	2007E
Operating cash flow	393	620	1,024	1,740	1,968
Capex	-401	-850	-600	-500	-500
Free cash flow	-57	-230	424	1,240	1,468

Source: Company and JPMorgan estimates.

Product mix improvement leading to earnings growth

China Oriental completed a one-million-ton H beam production line in 4Q06. This year production is likely to reach the full capacity of one million tons. So China Oriental will reduce further its sales in semi-finished products, billets, and increase the proportion of finished products such as H beams mainly used in construction.

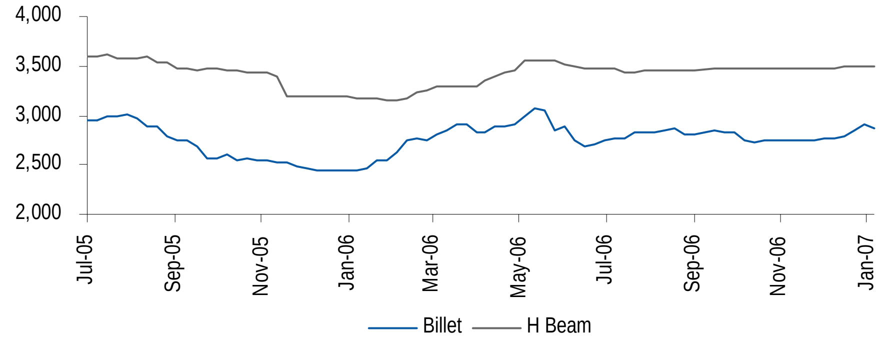
The H beam is a high-end construction steel product that is widely used in commercial and residential building. According to Mr. Liu Lei, H beams account for about 40% of construction steel products used in the US, compared to only 5% in China, implying huge upside in terms of demand growth.

Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

According to our estimates, H beams normally sells about Rmb500/t higher than billets, with only about Rmb200/t in cost increases. So the value added is about Rmb300/t including VAT. Excluding VAT and 15% tax, this translates into about Rmb230/t contribution to the bottomline in 2007. One million tons of production would add about Rmb230 million in net profit.

Figure 3: Spot prices—Billet vs. H-beam

Rmb/t, Incl VAT



Source: *www.mysteel.com*.

For 2007, we expect total profit of Rmb1.39 billion, Rmb314million higher than 2006's estimated net profit. If H beams can contribute about Rmb230 million additional profit to the bottom line, steel prices, on average, will only need to go up by Rmb28/t (VAT included) for the company to hit our 2007 earnings estimate. This is not an aggressive assumption, in our view.

In 2008, on average steel prices will only need to go up by Rmb78/t (including VAT before tax) to achieve our earnings target. This is equivalent to a 3% increase in steel prices, other things being equal. We do not think this assumption is aggressive either.

Deep discount to global and Chinese comps

We raise our price target by 22% to HK$3.3 from HK$2.7, applying 1.2x FY08E P/BV to FY08E BVPS. We feel that the company should trade above 1x P/BV during up-cycles. 1.2x P/E is about a 10% premium to China Oriental's historical P/BV.

China Oriental is trading at only about 50% in terms of valuation multiples such as P/E, P/BV and EV/EBITDA. But China Oriental's ROE is actually even higher than that of its larger counterparts such as Baosteel and Maanshan.

In our view, the valuation gap between China Oriental and companies such as Maanshan should narrow. In our opinion, China Oriental is very undervalued.

Table 5: Global comps

	EV/EBITDA			P/E			P/BV		
	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
ArcelorMittal	17.1	6.3	5.3	9.6	8.8	7.4	6.4	1.7	1.4
BlueScope Steel	6.6	7.5	6.2	9.0	11.7	10.4	2.0	2.1	1.8
CSN	5.4	6.7	5.3	10.4	13.5	10.1	3.1	2.7	2.5
OneSteel	8.8	8.2	6.7	16.5	15.0	11.6	1.9	1.9	1.8
Smorgon Steel	8.5	8.1	7.8	18.9	15.0	13.5	1.7	1.8	1.7
Steel Dynamics	8.5	5.3	5.2	17.2	10.0	9.6	4.3	3.1	1.9
Ternium	4.1	3.1	3.1	4.4	5.7	5.3	2.8	1.4	1.1
US Steel Corp	5.2	4.2	3.9	12.6	7.7	7.2	3.0	2.3	1.8
Usiminas	3.6	4.8	4.0	5.0	6.6	5.2	2.2	1.8	1.5
Voestalpine	9.0	7.3	5.4	19.1	13.2	8.6	3.5	2.9	2.3
Simple average	7.7	6.2	5.3	12.3	10.7	8.9	3.1	2.2	1.8
Weighted average	12.0	6.1	5.1	10.5	9.5	7.8	4.8	1.9	1.6

Source: Company, Bloomberg, JPMorgan estimates. Note: Valuations are as of 9 February 2007.

Table 6: China—Steel companies comps

	EV/EBITDA			P/E			P/BV			ROE
	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E	2007E
Angang New Steel	10.2	6.4	5.9	17.4	11.2	9.6	3.3	2.7	2.4	26%
Baoshan Iron & Steel	5.4	6.1	4.7	12.0	12.5	9.8	2.0	1.9	1.7	18%
Maanshan Iron and Steel	6.8	8.2	6.4	10.6	14.9	10.4	1.8	1.7	1.5	16%
Simple average	7.4	6.9	5.6	13.4	12.9	9.9	2.4	2.1	1.8	20%
Weighted average	6.4	6.4	5.1	12.7	12.6	9.8	2.2	2.0	1.8	19%
China Oriental	4.8	3.7	2.5	7.9	6.1	4.7	1.4	1.2	1.0	23%
China Oriental's discount to China's major steel players (%)	26	42	51	38	52	52	35	40	44	-4

Source: Company data, JPMorgan estimates. Note: Valuations are as of 12 February 2007.

Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

China steel market: Positive steel prices outlook

We expect China's steel prices will increase by 5% Y/Y in 2007 and 2% Y/Y in 2008 on improving fundamentals. We expect:

1. Strong demand growth;
2. China's crude steel capacity growth to slow down to below 10% Y/Y in 2006-08 from about 20%+ Y/Y in 2003-05;
3. Industry consolidations to gather speed;
4. The government to enforce the shutting down of inefficient capacity.

Table 7: China steel supply and demand

Million tons

	Crude capacity	Change (%)	Crude production	Change (%)	Utilization rate (%)	Net import	Apparent consumption	Change (%)	HRC price (US$/t)	Change (%)	Inventory change
2002	230		180		78	24	203		280		
2003	286	24	219	22	77	36	255	26	340	21	Up
2004	356	24	269	23	76	13	283	11	470	38	Down
2005	432	21	348	29	81	0	348	23	440	-6	Up
2006	469	9	422	21	90	-34	387	11	425	-3	Down
2007E	510	9	480	14	94	-25	455	17	445	5	Up
2008E	550	8	520	8	95	-10	510	12	455	2	Flat

Source: JPMorgan estimates.

Steel demand in China is mainly driven by construction and industrial production, with construction accounting for 50% of steel demand and industrial activity accounting for the remaining 50%. China's industrial production (IP) growth is a good indicator of demand from the machinery, general industrial and transportation sectors.

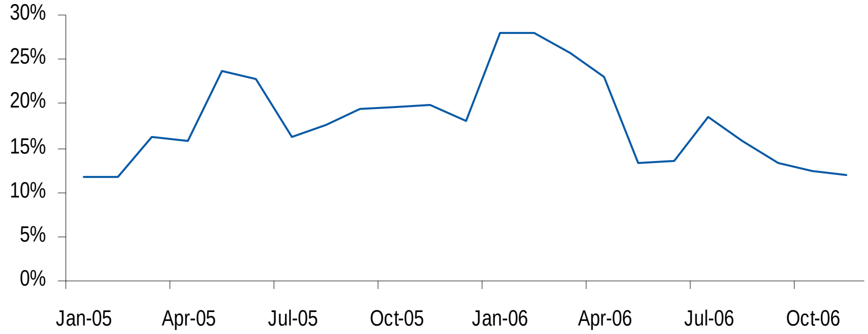
China's apparent steel demand growth was 12% Y/Y in 2006. We think that the real consumption must be stronger than 12% as:

1. Inventory has been falling at warehouses in consuming areas, such as Shanghai.
2. China's power generation grew by 15% Y/Y in 2006, IP growth was up by 15% Y/Y, and floor space under construction was up by 15% Y/Y in 2006. As a result, real steel demand growth is unlikely to grow by less than 15%.

JPMorgan expects China's industry production to grow by 14% Y/Y and floor space under construction to grow by 15% in the next two years. As a result, China's real steel demand is likely to continue growing at a robust pace. We expect the company's apparent demand growth to be 17% Y/Y in 2007 and 14% Y/Y in 2008. The real demand growth, however, might be lower than 17% in 2007 as we expect an inventory build-up in China. We also expect real demand to grow by the same rate as apparent demand in 2008.

Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

Figure 4: Floor space under construction Y/Y change



Source: CEIC.

Figure 5: Industrial production growth
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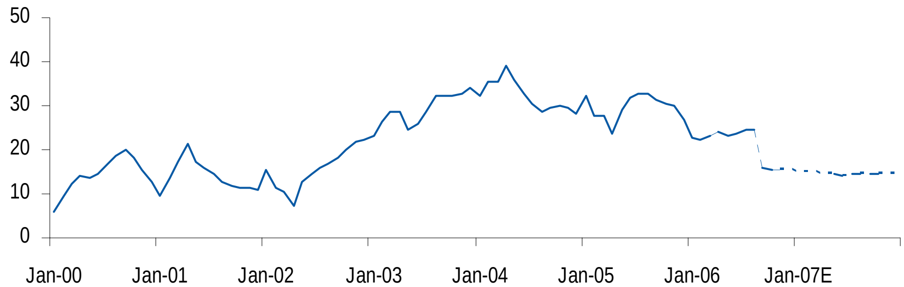


Source: CEIC, JPMorgan estimates.

Crude steel capacity growth is slowing down. This can be seen from the fixed asset investment in China's steel industry. In the first 11 months of 2006, the growth of China's fixed asset investment in steel was flat, implying a slowdown in capacity growth.

Industry consolidation will likely gather speed

We expect industry consolidation will gather speed in 2007. We feel that the government is likely to push for further industry consolidation. We have already seen positive moves by industry leaders such as Baosteel, Angang and Wugang.

Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

Table 8: Mergers and acquisitions in China's steel industry

Date	Name of plants	Location	Types	Total capacity (million tons)			
				FY04	FY05	FY06	FY07E
Jan-07	Baosteel Group	Shanghai	Acquisition.	18	22	22	25
	Bayi Steel Group	Xingjiang		3	3	4	5
Jul-06	Angang New Steel	Liaoning	Pending	12	15	17	
	Fujian Sangang	Fujian		3	3	4	
Aug-06	Jianlong Holdings	Beijing	Jianlong Holdings acquired Fushun Xinfugang in Sep 05,		8	10	14
	Fushun Xinfugang	Guangdong	Shuangyashan Jianlong in Aug 2006.		2	2	
	Yangfan Ship building	Zhejiang					
Jun-06	Jinan Iron & Steel	Shandong	Merge/ pending for SASAC (state-owned asset supervision admin	8	12	12	12
	Laiwu Iron & Steel	Shandong	commission) approval	7	12	12	12
Jun-06	Sha Steel	Jiangsu	Sha Steel paid US$250 million for 90.5% of Huaigang	10	12	12	12
	Huaigang	Jiangsu		2	2	3	3
May-06	Maanshan Iron & Steel	Anhui	To form Maanshan(Hefei) Iron& steel with an investment of Rmb 355	10	10	10	10
	Hefei Iron & Steel	Anhui	million from Maanshan(71%), 29% hold by Hefei Industry hold co.	1	1	1	1
Mar-06	Tangshan Iron and Steel	Hebei	Transfer of major shareholder's stake and three plants all under the	8	12	14	15
	Chengde Iron & Steel	Hebei	name of Tangshan	2	3	3	3
	Xuanhua Iron & Steel	Hebei		4	4	4	4
				14	19	21	22
Dec-05	Wuhan Iron & Steel	Hubei	To form a new Wugang-Liugang Iron & Steel Group with a total	14	14	17	19
	Liuzhou Iron & Steel	Guangxi	investment of Rmb12.7 billion (51% held by Wuhan Iron & Steel and 49% by Liuzhou Iron & Steel	5	6	6	6
Other major changes in shareholders:							
Oct-06	Baosteel		Baosteel and associates hold 0.53% of total share capital	18	22	22	24
	Baotou Iron & Steel			7	7	7	7
Jun-06	Tanggang		Tanggang and associates hold 4.99% of total share capital	8	12	14	
	Shaoguan Iron&Steel			4	5	5	
Mar-06	Baosteel		Baosteel and associates hold 1.8% of total share capital	18	22	22	24
	Laiwu Iron & Steel			7	12	12	12
Mar-06	Baosteel		Baosteel and associates hold 3.5% of total share capital	18	22	22	24
	Jinan Iron & Steel			8	12	12	12
Mar-06	Baosteel		Baosteel and associates hold 0.7% of total share capital	9	10	10	10
	Jinan Iron & Steel			10	10	10	10
May-06	Baosteel	Shanghai	Baosteel and associates hold 5.0% of total share capital, suggesting potential acquisition	18	22	22	24
	Handan Iron & Steel	Hebei		7	8	9	9
Sep-05	Valin Steel Tube		Mittal acquiring 36.67% interest in Valin Steel Tube (diluted to 29.5% after CB exercise in Jan-06)	9	10	10	10
Strategic alliance							
Jul-06	Baosteel	Shanghai	Corporation agreement: begun with Zhanjiang project with a total	18	22	22	24
	Shaoguan Iron & Steel	Guangdong	capacity of 20 million tons. Potential acquisition	4	5	5	5
Jun-06	Shanghai Fuxing	Shanghai	Corporation agreement				
	Shagang	Jiangsu		10	12	12	12
Mar-06	Handan Iron & Steel	Hebei	Strategic alliance formed: initially for synergy on raw material purchase	7.2	8.0	9.0	9.0
	Wenfeng Iron & Steel	Hebei	and planning for further consolidation in later stage	2.0	2.0	2.0	2.0
	Delong Iron & Steel, Xingtai	Hebei		1.2	1.4	1.4	1.4
				10.4	11.4	12.4	12.4
Jan-06	Baosteel	Shanghai	Strategic alliance formed: mainly on technology development, potential	18	22	22	24
	Maanshan Iron & Steel	Hebei	synergy on raw material purchase and market development	10	10	10	10
	Xinjiang Bayi, Xinjiang	Xinjiang		3	3	4	5
Aug-06	Angang	Liaoning	Corporation agreement	12	15	17	
	Bengang	Liaoning		6	8	10	

Source: Company.

Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

Chinese government set to shut down small steel mills

The China National Development and Reform Committee announced that steel mills with a 200-cubic meter blast furnace and 20-ton converters must be shut down by the end of 2007. This represents about 50 million tons of crude steel capacity and 10% of existing crude steel capacity. We have not factored this into our supply and demand model as we expect that the capacity lost will be offset by incremental capacity growth from larger steel mills. We also have some concerns over the effectiveness of the closure.

However, we believe this represents another potential positive for China's steel market. In the end, with upcoming government pressure to close, China's crude steel capacity is unlikely to grow explosively, even if we see a pick-up in steel prices.

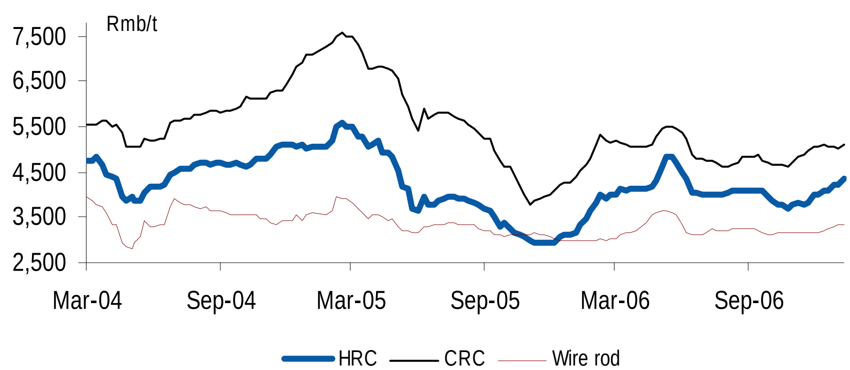
Spot prices are going up

China's steel prices have gone up strongly on exports, low inventory, and year-end maintenance at steel plants. We expect spot steel prices to remain strong in 1Q07, and come under some pressure in 2Q07 and 3Q07, before picking up again in 4Q07.

We expect steel prices to come under pressure in 2Q07 and 3Q07 as the government is likely to further cut finished steel export VAT rebate to 5% from 8% (and 11% for some products) and raise the export tariff on billets and slabs to 15% from 10%. This obviously will lead to increased supply in the domestic steel market and put pressure on steel prices.

However, as domestic demand growth (plus re-stocking) is likely to exceed supply growth, China spot steel prices might pick up again in 4Q07 and continue to go up in 2008.

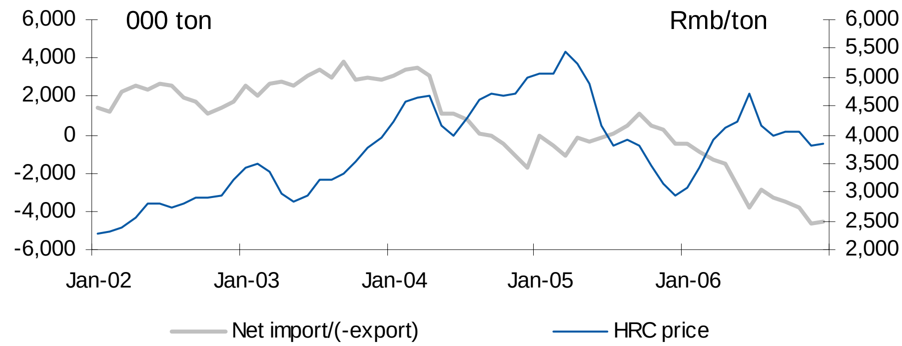
Figure 6: China—Weekly steel prices
Rmb/t incl. VAT



Source: *www.mysteel.com*.

Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

Figure 7: China—Steel net exports and steel prices

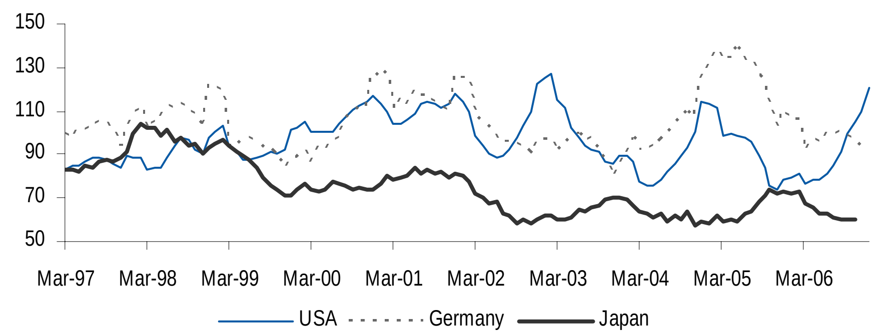


Source: *www.mysteel.com*.

International steel prices fell in December 2006 due to rising exports from China, more noticeably so in the US. But, steel prices in the EU and Japan have been holding up well.

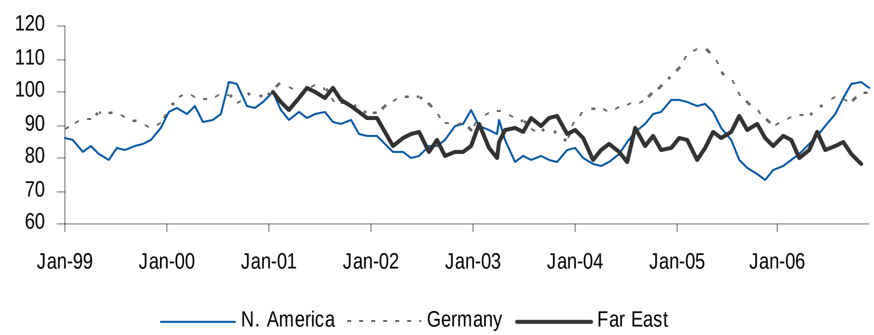
The inventory/shipment ratio has risen in the US but is falling in Japan and Germany.

Figure 8: Global flat sheets inventory/shipment ratio



Source: CRU.

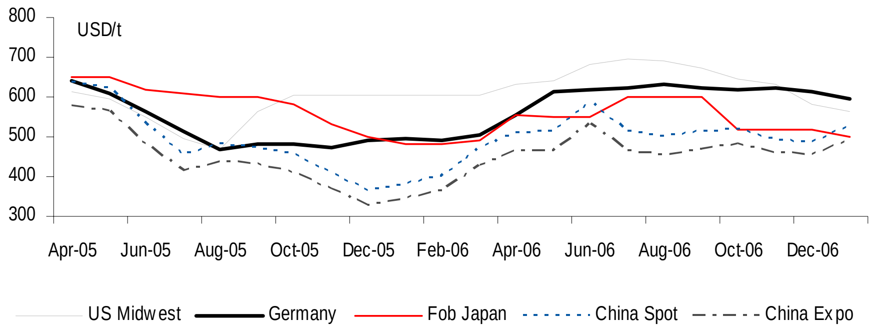
Figure 9: Global finished steel inventories
Indexed (January 2001 = 100)



Source: CRU.

Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

Figure 10: Global steel prices
US$/t

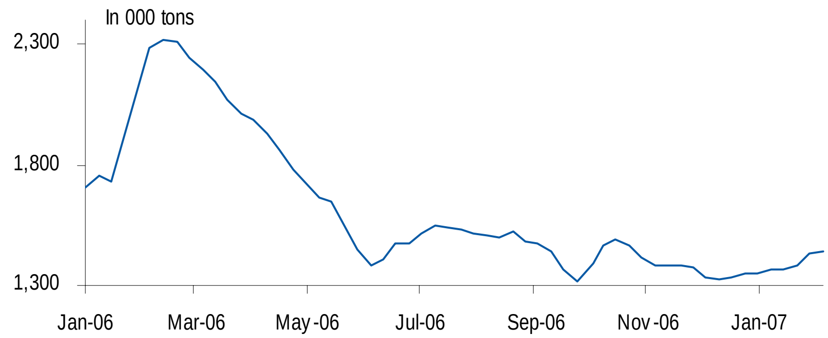


Source: CRU.

Low inventory in China is a positive

Although picking up in recent weeks, the inventory is on average low compared to the beginning of last year. The low inventory should further support steel prices. We think Shanghai's inventory level is a good proxy of national steel inventory.

Figure 11: Shanghai—Steel inventory



Source: *www.mysteel.com*.

Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

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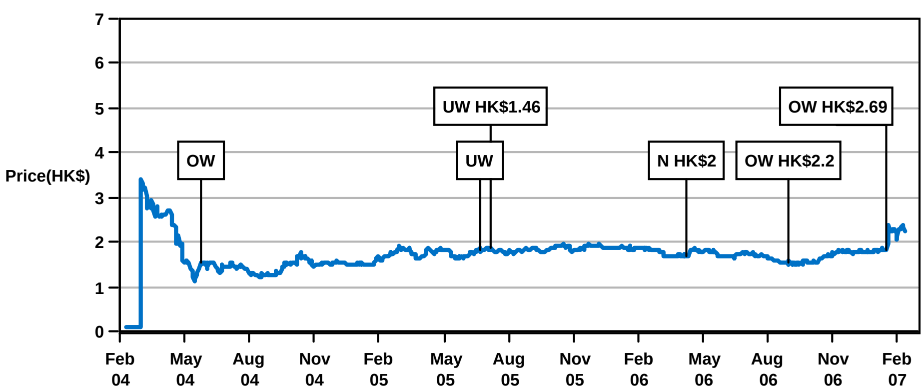
China Oriental (0581.HK) Price Chart



Date	Rating	Share Price (HK$)	Price Target (HK$)
24-May-04	OW	1.53	-
23-Jun-05	UW	1.82	-
10-Apr-06	N	1.68	2.00
30-Aug-06	OW	1.52	2.20

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Initiated coverage May 24, 2004. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. As of Aug. 30, 2002, the firm discontinued price targets in all markets where they were used. They were reinstated at JPMSI as of May 19th, 2003, for Focus List (FL) and selected Latin stocks. For non-JPMSI covered stocks, price targets are required for regional FL stocks and may be set for other stocks at analysts' discretion.
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Feng Zhang
(852) 2800 8513
feng.zhang@jpmorgan.com

JPMorgan

China Oriental: Summary of financials

Rmb in millions, year-end December

Profit and Loss statement					
CNY in millions, year-end Dec	FY04A	FY05A	FY06E	FY07E	FY08E
Revenues	9,119	9,183	10,974	11,524	12,750
% change Y/Y	72.8	0.7	19.5	5.0	10.6
Gross Margin (%)	14.4	13.3	13.4	16.4	19.4
EBITDA	1,378	1,378	1,670	2,086	2,673
% change Y/Y	9.1	0.0	21.2	24.9	28.1
EBITDA Margin (%)	15.1	15.0	15.2	18.1	21.0
EBIT	1,229	1,081	1,338	1,723	2,280
% change Y/Y	5.3	-12.0	23.7	28.8	32.3
EBIT Margin (%)	13.5	11.8	12.2	15.0	17.9
Net Interest	-64	-74	-82	-82	-82
Earnings before tax	1,171	1,005	1,254	1,639	2,196
% change Y/Y	2.5	-14.2	24.8	30.7	34.0
Tax	30	157	188	246	549
as % of EBT	2.6	-15.6	-15.0	-15.0	-25.0
Net Income (Reported)	1,173	847	1,077	1391	1628
% change Y/Y	9.0	-27.8	27.1	29.2	17.0
Shares Outstanding	2770	2905	2905	2905	2905
EPS (reported)	0.424	0.292	0.371	0.479	0.560
% change Y/Y	-17.4	-31.2	27.1	29.2	17.0

Cash flow statement					
CNY in millions, year-end Dec	FY04A	FY05A	FY06E	FY07E	FY08E
EBIT	1,229	1,081	1,338	1,723	2,280
Depreciation & amortisation	150	297	333	363	393
Change in working capital	-469	269	-386	-13	-52
Taxes	30	-157	-188	-246	-549
Cash flow from operations	393	620	1,024	1,740	1,968
Capex	-401	-850	-600	-500	-500
Disposal/ (purchase)	0	0	0	0	0
Net Interest	-64	-74	-82	-82	-82
Free cash flow	-8	-230	424	1,240	1,468
Equity raised/ (repaid)	2,107	0	0	0	0
Debt raised/ (repaid)	-500	-249	0	0	0
Other	186	-585	0	0	0
Dividends paid	-625	-136	-215	-278	-278
Beginning cash	153	2,925	1,725	1,934	2,896
Ending cash	2,925	1,725	1,934	2,896	4,086
DPS	0.226	0.047	0.074	0.096	0.112

Balance sheet					
CNY in millions, year-end Dec	FY04A	FY05A	FY06E	FY07E	FY08E
Cash and cash equivalents	2,925	1,725	1,934	2,896	4,086
Accounts receivable	828	714	853	896	992
Inventories	900	1,103	1,317	1,335	1,425
Others	412	253	302	317	351
Current assets	5,065	3,796	4,407	5,444	6,854
LT investments	0	0	0	0	0
Net fixed assets	2,349	4,236	4,504	4,641	4,748
Total assets	7,482	8,153	9,293	10,476	11,971
Liabilities					
ST loans	1,420	1,336	1,336	1,336	1,336
Payables					
Others	1,577	1,929	1,927	1,987	2,143
Total current liabilities	2997	3112	3416	3484	3657
Long term debt	459	294	294	294	294
Other liabilities	25	15	0	0	0
Total liabilities	3481	3421	3710	3778	3951
Shareholders' equity	3885	4593	5444	6559	7881
BVPS	1.403	1.581	1.874	2.258	2.713

Ratio Analysis					
%, year-end Dec	FY04A	FY05A	FY06E	FY07E	FY08E
EBITDA margin	15.1	15.0	15.2	18.1	21.0
Operating margin	13.5	11.8	12.2	15.0	17.9
Net profit margin	12.9	9.2	9.8	12.1	12.8
SG&A/sales	15.1	15.0	15.2	18.1	21.0
Sales per share growth	72.8	0.7	19.5	5.0	10.6
Sales growth	72.8	0.7	19.5	5.0	10.6
Net profit growth	9.0	-27.8	27.1	29.2	17.0
EPS growth	-17.4	-31.2	27.1	29.2	17.0
Interest coverage (x)	21.4	18.6	20.5	25.6	32.8
Net debt to total capital	-14.2	-1.2	-3.3	-12.2	-20.8
Net debt to equity	-26.9	-2.1	-5.6	-19.3	-31.2
Sales/assets	173.0	117.5	125.8	116.6	113.6
Assets/equity	192.6	177.5	170.7	159.7	151.9
ROE	48.6	20.0	21.5	23.2	22.5
ROCE	31.9	18.0	20.1	22.6	25.8

Source: Company data and JPMorgan estimates.