

Asia Hong Kong

Consumer Hotels/Leisure/Gaming

Deutsche Bank



1 November 2007

# Far East Consort.

Reuters: **0035.HK** Bloomberg: **35 HK** Exchange: **HSI** Ticker: **0035**

## Shanghai property sales better than expected; raise TP

Karen Tang, MA

Research Analyst  
(+852) 2203 6141  
karen.tang@db.com

### Raising earnings forecast

We are raising FY08 earnings forecast by 31% as Shanghai property sales are better than expected. Recent mortgage policy changes seem to have limited impact on California Garden. We are also more upbeat on hotel earnings, given new openings and double-digit RevPAR growth. Interim results should be a catalyst and highlight FEC's potential to deliver 45% earnings growth in FY08 (March). More Chinese hotel acquisitions may narrow NAV discount, currently at 46%. Raise TP to HK\$4.6, which is still undemanding on 10x FY08 PE; Buy.

### Double-digit RevPAR growth

California Garden seems resilient to mortgage policy changes, as the project mainly targets the middle class end-users rather than investment buyers. YTD, it has sold over 700 units with prices 15% higher than our expectations. In HK, FEC's 4-star & 3-star hotel portfolios are enjoying above-industry RevPAR growth of 14% and 7% respectively, as a result of its strategy to develop boutique hotels.

### Actively expanding hotel portfolio

Current pipeline indicates FEC will double its no. of rooms to 4,600 by FY10, with footprints in HK, China and Malaysia. YTD, FEC has acquired two Chinese 4-star hotels at attractive pricing. We expect FEC to step up acquisition efforts, resulting in narrower NAV discount. In Macau, management expects to make a decision on the potential JV by year-end, which could add HK\$0.9/shr to our base-case NAV.

### Trading at 46% discount to ex-Macau NAV

Our base-case NAV of HK\$6.6/shr is made up of hotels (HK\$5.2), China property (HK\$1.4) and investment property (HK\$0.8) less net debt. Our SOP target price is based on 30% discount to our base-case NAV, in line with property peers with heavy hotel portfolios. Key risks are visitation growth and Chinese policy changes.

### Forecasts and ratios

Year End Mar 31	2006A	2007A	2008E	2009E	2010E
Sales (HKDm)	684.1	875.2	<b>2,865.5</b>	3,101.6	4,167.5
Reported NPAT (HKDm)	335.1	538.9	<b>781.4</b>	1,004.1	1,213.4
Reported EPS FD(HKD)	0.21	0.32	<b>0.46</b>	0.59	0.71
DB EPS FD(HKD)	0.03	-0.02	<b>0.46</b>	0.59	0.71
OLD DB EPS FD(HKD)	0.27	0.35	<b>0.36</b>	0.61	0.00
% Change	-90.2%	-106.1%	<b>25.7%</b>	-3.3%	-
DB EPS growth (%)	217.8	-	-	28.5	20.8
PER (x)	115.1	-	<b>7.8</b>	6.1	5.0
Yield (net) (%)	2.6	2.4	<b>2.2</b>	2.2	2.2

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

## Target Price Revision

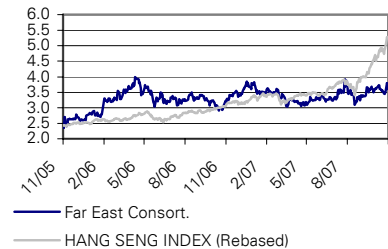
### Buy

Price at 31 Oct 2007 (HKD)	<b>3.59</b>
Price target - 12mth (HKD)	<b>4.60</b>
52-week range (HKD)	<b>3.92 - 3.03</b>
HANG SENG INDEX	<b>31,638</b>

### Key changes

Price target	3.70 to 4.60	↑	<b>24.3%</b>
Op prof margin (FYE)	38.9 to 42.5	↑	<b>9.3%</b>
Net profit (FYE)	595.3 to 781.4	↑	<b>31.3%</b>

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.6	-6.3	11.5
HANG SENG INDEX	16.6	36.5	72.7

### Stock data

Market cap (HKDm)	<b>5,269</b>
Market cap (USDm)	<b>680</b>
Shares outstanding (m)	<b>1,467.6</b>
Major shareholders	<b>Chiu family (31%)</b>
Free float (%)	<b>55</b>
Avg daily value traded (USDm)	<b>2.3</b>

### Key indicators (FY1)

ROE (%)	<b>17.9</b>
Net debt/equity (%)	<b>57.7</b>
Book value/share (HKD)	<b>3.19</b>
Price/book (x)	<b>1.1</b>
Net interest cover (x)	<b>19.4</b>
Operating profit margin (%)	<b>42.5</b>

### Upcoming events

Upcoming events	Date
1H Results	Mid Dec 2007

## Deutsche Bank AG/Hong Kong

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

Independent, third-party research (IR) on certain companies covered by DBSI's research is available to customers of DBSI in the United States at no cost. Customers can access this IR at <http://gm.db.com>, or call 1-877-208-6300 to request that a copy of the IR be sent to them.

DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

Model updated: 30 October 2007

**Running the Numbers****Asia Pacific****Hong Kong****Real Estate Management & Development****Far East Consort.**

Reuters: 0035.HK

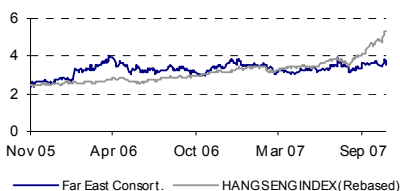
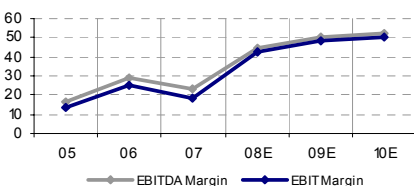
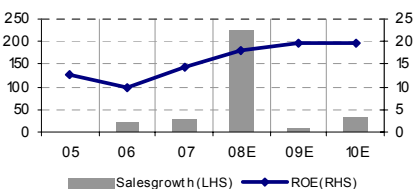
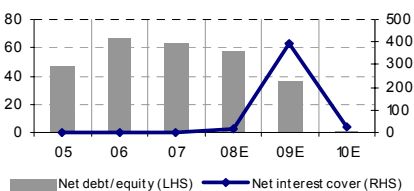
Bloomberg: 35 HK

**Buy**

Price (31 Oct 07)	HKD 3.59
Target price	HKD 4.60
52-week Range	HKD 3.03 - 3.92
Market Cap (m)	HKD 5,269 USD 680

**Company Profile**

Far East Consort. owns and manages a portfolio of 3 to 4-star hotels in Hong Kong. It is also developing a large residential property project, California Garden, in the suburbs of Shanghai. In Macau, it is a strategic partner of Las Vegas Sands in the Cotai Strip. It is building a resort with five hotels, a casino, retail and serviced apartments. It will sell the casino space to Las Vegas Sands for gaming operation. The Macau project is scheduled for completion by end-2007.

**Price Performance****Margin Trends****Growth & Profitability****Solvency**

Karen Tang

+852 22036141

karen.tang@db.com

Fiscal year end 31-Mar

	2005	2006	2007	2008E	2009E	2010E
<b>Financial Summary</b>						
DB EPS (HKD)	0.01	0.03	-0.02	0.46	0.59	0.71
Reported EPS (HKD)	0.31	0.21	0.32	0.46	0.59	0.71
DPS (HKD)	0.08	0.08	0.08	0.08	0.08	0.08
BVPS (HKD)	2.3	2.5	2.7	3.2	3.8	4.5

Weighted average shares (m)	1,251	1,420	1,450	1,468	1,468	1,468
Average market cap (HKDm)	2,833	4,400	4,899	5,269	5,269	5,269
Enterprise value (HKDm)	4,186	6,622	7,245	7,777	7,107	5,113

**Valuation Metrics**

P/E (DB) (x)	267.1	115.1	nm	7.8	6.1	5.0
P/E (Reported) (x)	7.4	15.1	10.7	7.8	6.1	5.0
P/BV (x)	1.47	1.46	1.20	1.12	0.95	0.79
FCF Yield (%)	nm	nm	nm	nm	14.9	40.1
Dividend Yield (%)	3.5	2.6	2.4	2.2	2.2	2.2
EV/Sales (x)	7.5	9.7	8.3	2.7	2.3	1.2
EV/EBITDA (x)	46.5	33.5	36.0	6.1	4.5	2.4
EV/EBIT (x)	54.9	38.6	45.6	6.4	4.7	2.4

**Income Statement (HKDm)**

<b>Sales revenue</b>	<b>560</b>	<b>684</b>	<b>875</b>	<b>2,866</b>	<b>3,102</b>	<b>4,167</b>
<b>Gross profit</b>	<b>90</b>	<b>198</b>	<b>201</b>	<b>1,277</b>	<b>1,570</b>	<b>2,175</b>
<b>EBITDA</b>	<b>90</b>	<b>198</b>	<b>201</b>	<b>1,277</b>	<b>1,570</b>	<b>2,175</b>
Depreciation	14	26	42	59	59	59
Amortisation	0	0	0	0	0	0
<b>EBIT</b>	<b>76</b>	<b>172</b>	<b>159</b>	<b>1,218</b>	<b>1,511</b>	<b>2,116</b>
Net interest income(expense)	-39	-53	-68	-63	-4	-77
Associates/affiliates	16	8	28	0	0	0
Exceptionals/extraordinaries	393	291	575	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
<b>Profit before tax</b>	<b>447</b>	<b>418</b>	<b>694</b>	<b>1,156</b>	<b>1,507</b>	<b>2,039</b>
Income tax expense	37	86	157	374	503	826
Minorities	5	-3	-3	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
<b>Net profit</b>	<b>405</b>	<b>335</b>	<b>539</b>	<b>781</b>	<b>1,004</b>	<b>1,213</b>
DB adjustments (including dilution)	-393	-291	-575	0	0	0
<b>DB Net profit</b>	<b>11</b>	<b>44</b>	<b>-36</b>	<b>781</b>	<b>1,004</b>	<b>1,213</b>

**Cash Flow (HKDm)**

<b>Cash flow from operations</b>	<b>-704</b>	<b>-268</b>	<b>-230</b>	<b>770</b>	<b>988</b>	<b>2,236</b>
Net Capex	449	-155	-163	-1,147	-200	-125
<b>Free cash flow</b>	<b>-255</b>	<b>-423</b>	<b>-394</b>	<b>-377</b>	<b>788</b>	<b>2,111</b>
Equity raised/(bought back)	1,242	4	6	0	0	0
Dividends paid	-37	-59	-78	-117	-117	-117
Net inc/(dec) in borrowings	673	440	584	57	-200	0
Other investing/financing cash flows	-1,050	1,350	613	331	0	0
<b>Net cash flow</b>	<b>573</b>	<b>1,313</b>	<b>732</b>	<b>-106</b>	<b>470</b>	<b>1,994</b>
Change in working capital	-768	-349	-395	-70	-75	964

**Balance Sheet (HKDm)**

Cash and other liquid assets	918	486	923	1,149	1,619	3,612
Tangible fixed assets	1,941	2,508	3,412	4,500	4,642	4,708
Goodwill/intangible assets	-23	0	0	0	0	0
Associates/investments	218	216	239	239	239	239
Other assets	3,237	3,899	4,138	3,877	3,952	2,988
<b>Total assets</b>	<b>6,291</b>	<b>7,110</b>	<b>8,712</b>	<b>9,765</b>	<b>10,451</b>	<b>11,547</b>
Interest bearing debt	2,457	2,897	3,481	3,870	3,670	3,670
Other liabilities	614	641	1,183	1,183	1,183	1,183
<b>Total liabilities</b>	<b>3,071</b>	<b>3,538</b>	<b>4,664</b>	<b>5,053</b>	<b>4,853</b>	<b>4,853</b>
Shareholders' equity	3,188	3,545	4,022	4,686	5,573	6,669
Minorities	32	27	26	26	26	26
<b>Total shareholders' equity</b>	<b>3,220</b>	<b>3,572</b>	<b>4,048</b>	<b>4,712</b>	<b>5,599</b>	<b>6,695</b>
Net debt	1,538	2,411	2,558	2,721	2,051	57

**Key Company Metrics**

Sales growth (%)	nm	22.2	27.9	227.4	8.2	34.4
DB EPS growth (%)	na	217.8	na	na	28.5	20.8
EBITDA Margin (%)	16.1	28.9	23.0	44.6	50.6	52.2
EBIT Margin (%)	13.6	25.1	18.1	42.5	48.7	50.8
Payout ratio (%)	24.7	33.9	21.5	15.0	11.7	9.7
ROE (%)	12.7	10.0	14.2	17.9	19.6	19.8
Capex/Sales (%)	31.6	24.3	18.7	40.0	6.4	3.0
Capex/depreciation (x)	12.9	6.3	3.8	19.5	3.4	2.1
Net debt/equity (%)	47.8	67.5	63.2	57.7	36.6	0.9
Net interest cover (x)	2.0	3.3	2.3	19.4	395.0	27.6

Source: Company data, Deutsche Bank estimates

## Shanghai property sales ahead of expectations

We are raising FY08 earnings forecast by 31% as Shanghai property sales have been better than expected. Recent mortgage policy changes seem to have limited impact on FEC's Shanghai property project, California Garden. According to our Chinese property analyst, Danny Bao, PBOC and CBRC recently released a set of regulations tightening lending policies for home buyers and developers. The most important mortgage policy changes are the down-payment requirement for second home buyers (raised to 40% from the original 30%) and minimum interest rate of 10% above benchmark rates. Our view is that these policies will substantially increase financing costs for investment buyers.

California Garden, with its price range of around Rmb7,000-12,000psm, primarily targets the middle-class end-users. Hence, we expect limited impact from the new policy changes.

After a long delay, FEC has finally commenced pre-sales on Phase 10C of California Garden in September 2007. Around 400 low-rise units were launched, with an average sales price of roughly Rmb7,000psm. These units would be completed by March 2008 and ready for profit booking in 2HFY08 (March year end). According to management, YTD FY08, they have already sold around 700 residential units, with average prices roughly 15% higher than our original conservative expectations. Our FY08 earnings forecast now assumes over 1,000 units would be sold and booked in FY08.

**Figure 1: Shanghai property project earnings forecast**

	Units	GFA(sq m)	Units Sold			Completion	Sale price (RMB/sq m)	Margin
			FY08	FY09	FY10			
Ching Chu Xintiandi (P1)	89	12,300	-	-	-	Sep-06	15,000	69%
Ching Chu Xintiandi (P2)	96	15,100	58	-	-	Sep-06	15,000	68%
Phase 8/A (Parcel B4 - townhouse)	148	30,723	104	44	-	Jan-07	12,000	63%
Phase 8/A (Parcel B4 - low-rise)	96	10,883	67	29	-	Jan-07	7,000	36%
Phase 9/B (Parcel B2 - townhouse)	96	30,344	67	29	-	Jan-07	12,000	62%
Phase 9/B (Parcel B2 - low-rise)	144	16,019	101	43	-	Jan-07	7,000	35%
Phase 10/C (Parcel B1a - low-rise)	390	43,983	273	117	-	Mar-08	7,000	35%
Phase 11/D (Parcel B3 - townhouse)	40	8,322	28	12	-	Dec-07	12,000	66%
Phase 11/D (Parcel B3 - high-rise)	508	54,230	356	152	-	Dec-07	9,000	55%
Phase 17 (Parcel C3 - low-rise)	300	53,331	-	120	180	Dec-08	7,000	43%
Phase 17 (Parcel C4 - townhouse)	175	31,500	-	70	105	Dec-08	12,000	61%
Phase 16 (Parcel A1 - high-rise)	1,126	123,858	-	450	676	Feb-09	9,000	56%
Phase 18 (Parcel A2 - high-rise)	204	33,578	-	82	122	Feb-09	9,000	56%
Phase 14 (Parcel C5-C6 - high-rise)	800	94,380	-	-	400	Mar-10	9,000	56%
Phase 15 (Parcel C5-C6 - townhouse)	150	27,000	-	-	75	Mar-10	12,000	67%
Phase 13 (Parcel C7 - high-rise)	638	70,180	-	-	319	Jun-09	9,000	56%
Phase 13 (Parcel C7 - townhouse)	130	23,400	-	-	65	Jun-09	12,000	67%
Phase 12 (Parcel C8 - high-rise)	486	53,460	-	-	243	Jun-09	9,000	56%
Phase 12 (Parcel C8 - townhouse)	40	7,200	-	-	20	Jun-09	12,000	67%
			<b>1,053</b>	<b>1,149</b>	<b>2,205</b>			

Source: Deutsche Bank

Separately, FEC has three small residential and commercial projects with around 1,360 units currently under development in Guangzhou. They are scheduled to be completed over the next two years with profit booking likely in FY08 and FY09.

## Above industry RevPAR growth in Hong Kong

Year-to-September, FEC has seen 4-star hotels' RevPAR +14% yoy, driven by low-teens average daily rate (ADR) increase, and marginal improvement in occupancy. Meanwhile, 3-star hotel RevPAR growth was roughly +7% yoy, being somewhat constrained by its near-full occupancy. Overall, these RevPAR growth numbers are slightly ahead of the Hong Kong industry average of 12% and 4% respectively, according to the Hong Kong Tourism Board.

**Figure 2: FEC Hong Kong hotel metrics**

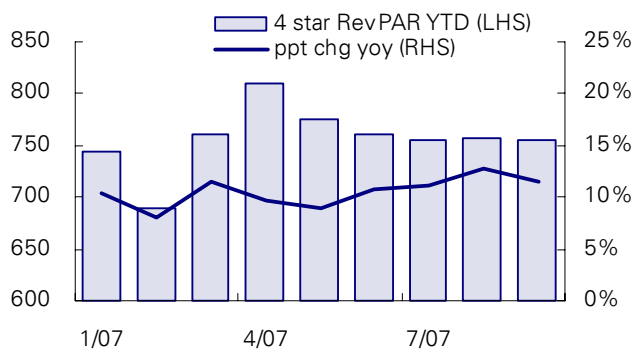
	4-star			3-star		
	Room rate (HK\$/night)	Occupancy	RevPAR (HK\$/night)	Room rate (HK\$/night)	Occupancy	RevPAR (HK\$/night)
2007 YTD	900	93-95%	846	450-470	99%	455
2006 YTD	800	92-94%	744	400-450	99%	425
<b>yoy growth</b>	<b>+13%</b>	<b>+100bps</b>	<b>+14%</b>	<b>+8%</b>	<b>+0bps</b>	<b>+7%</b>
<b>2007 no. of rooms</b>	<b>450 rooms</b>			<b>650 rooms</b>		

Source: Deutsche Bank

We see the above-industry RevPAR growth as a result of the company's strategy to develop niche boutique hotels, which can often command premium rates. For example, its Lan Kwai Fong Hotel averaged HK\$1,100-1,300 per room night, or 30% over normal 4-star hotels.

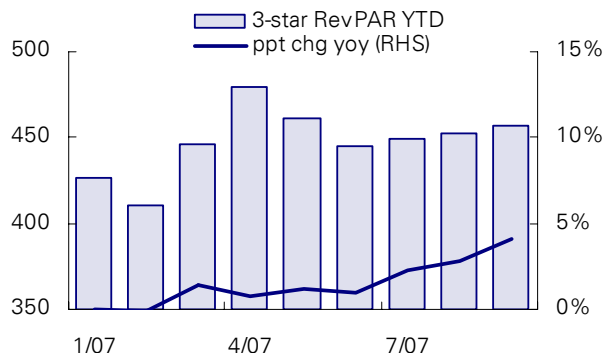
Our current valuation assumes HK\$2.9m per room for the Hong Kong portfolio, based on a 6.0% cap rate on EBITDA. Our valuation is conservative as it is at a 10% discount to the professional property valuation.

**Figure 3: Hong Kong market – 4-star hotel room rates**



Source: HK government

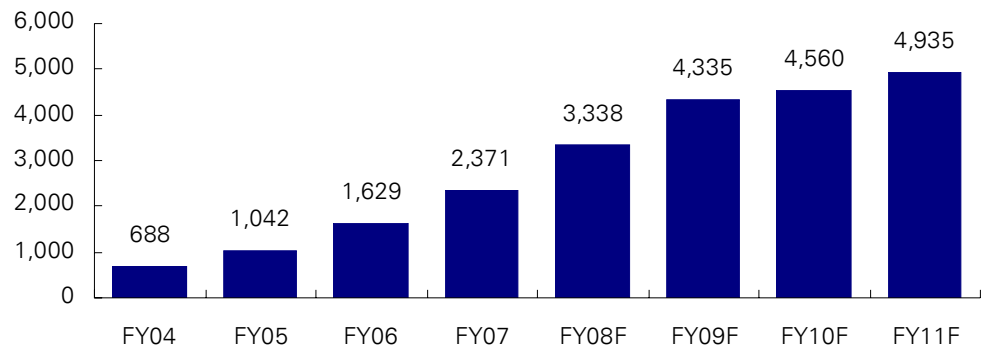
**Figure 4: Hong Kong market – 3-star hotel room rates**



Source: HK government

## Expanding hotel portfolio in key markets

FEC's current pipeline indicates that it will double its no. of rooms to 4,600 by FY10, with footprints in HK, China, and Malaysia. YTD, FEC has acquired two Chinese 4-star hotels at attractive pricing. We expect the company to step up its acquisition efforts, which should narrow NAV discount.

**Figure 5: Hotel portfolio (no. of hotel rooms)**

Source: Deutsche Bank

**Hong Kong**

Currently FEC has seven hotels up and running in Hong Kong, with a diversified spread over the 3-star, 4-star and boutique segments. Despite a slight gap in the development schedule in 2007, three more projects are in the pipeline, with one each to be delivered over the next three years.

**Figure 6: FEC Hong Kong hotel portfolio**

Properties in operation	Type	Commencement date	Rooms
Dorsett Seaview	3 star	Dec 2000	268
Cosmopolitan	4 star	Dec 2004	454
Dorsett Olympic	3 star	Apr 2005	141
Central Park	Boutique	Apr 2005	142
Cosmo	Boutique	Oct 2005	142
Lan Kwai Fong	Boutique	Mar 2006	162
Dorsett Far East	3 star	Oct 2006	240
<b>Total</b>			<b>1,549</b>
Properties under development			
Dorsett Kowloon	3 star	2008	297
Dorsett Hong Kong	4 star	2009	225
Dorsett Kwun Tong	3 star	2010	375
<b>Total</b>			<b>897</b>

Source: Company data

**Mainland China**

FEC is continuing to extend its reach into the Chinese market. The company will target investment opportunities, both residential developments and hotels, in Shenyang, Dailin, Tinjing and Guangzhou. On China hotels, FEC will focus on the 4/5 star segment where margins are higher. The company has no intention of entering the budget hotel space because they feel that local operators may have cost advantages.

**Figure 7: Mainland China hotel projects**

Property	Location	Rooms	Type	Commencement date	Acquisition cost (Rmb)	Comments
Cosmopolitan Chengdu	Chengdu	600	4 star	2008	279m	42-storey building to be converted into to 600 room hotel with 7 floors of retail space
Cosmopolitan Wuhan	Wuhan	400	4 star	2007	420m	19-storey building to be converted into 400 room hotel.

Source: Company data

- **Chengdu:** The company's first project in China is a 4-star hotel in Chengdu. In April 2007, FEC bought a partially completed building in Chengdu for Rmb279m, or at Rmb4,000psm. We estimated that all-in-costs, including conversion, were relatively low at Rmb0.6m per room given the property was bought at a distressed asset sale. The company will convert the 42-storey building into a 600-room hotel with seven floors of retail space. The hotel will be marketed under its 4-star Cosmopolitan brand. Given the tight demand, we expect Chengdu hotel to command RevPAR of around Rmb320, despite new supply. This implies the project will add HK\$0.22/shr, or 3% to NAV, and contribute roughly 4% of 2009F EBITDA.

There is currently a shortage of 4-5 star hotels in most second-tier cities, including Chengdu. FEC's niche in converting existing buildings into hotels allows it a fast-to-market approach. For example, it expects to open the Chengdu hotel in 6-9 months, much faster than greenfield development projects which could take 2-3 years. That said, we note that there is a pipeline of high-end supply in Chengdu with Jin Jiang and Shangri-la both looking to open 4-5 star hotels in the next 18 months.

- **Wuhan:** In July 2007, FEC bought a 67,307sm GFA hotel and retail complex in Wuhan for Rmb420m or at Rmb6,240psm. The complex is a 19-storey building, with 10 floors already rented out as office and retail space, and five floors designed to be used as hotel space. The hotel is already in operation with around 300 rooms. FEC plans to convert the property over the next 12 months to increase room inventory to over 400. The hotel will be marketed under its 4-star Cosmopolitan brand. In the first year of operations, we expect the hotel to generate a moderate RevPAR of Rmb320. This implies the project would add HK\$0.17/share or 3% to NAV, and contribute roughly 3% of 2009F EBITDA.

While earnings and NAV enhancement from these two transactions is relatively small, we view this as a signal that FEC is pursuing growth in a new direction. We expect the company to seek more Chinese hotel development opportunities over the next 12 months.

### Malaysia

FEC currently operates three hotel properties in Malaysia which are geographically spread across the country. The properties are:

- **Dorsett Regency:** The property, located in Kuala Lumpur, was the company's first hotel project in Malaysia; operations started in 1998. According to the management, the hotel maintained a healthy occupancy rate of 80% and ADR of RM160 in 1Q07. FEC hopes to raise ADR to around Rm180 by end 2007. The hotel is currently undergoing an RM5m refurbishment.
- **Sheraton Subang:** In Aug 2006, FEC purchased the Sheraton Subang Hotel & Towers from Jeram Bintang, a SPV for the liabilities of the Faber Group. The acquisition cost was HK\$253m (RM120m). The 502-room, 5-star property which began operations in February 2007 will be renovated over the next 12 months.
- **Dorsett Penang:** Following the Sheraton Subang acquisition, FEC took over the management contract for the Sheraton Penang in April 2007. The property was then rebranded under the Dorsett name. According to the management, they plan to test the Penang market for around one year before they consider buying the 237-room hotel and the 20-floor Penang Plaza commercial building, which is valued at around RM60m. FEC aims to make Dorsett the 4-star market leader in Penang and achieve 75% occupancy and ADR of around RM173 by end 2007. This is the first hotel property that FEC is managing and does not own.

**Figure 8: Malaysian hotel portfolio**

Property	Location	Rooms	Type	Commencement date
Dorsett Regency	Kuala Lumpur	320	4 star	Apr 1998
Sheraton Subang	Subang Jaya	502	5 star	Feb 2007
Dorsett Penang	Penang	237	5 star	Apr 2007

Source: Company data

Looking at FEC's Malaysian hotel development pipeline, the company acquired Jade River Profits Ltd, an investment holding company, in Jan 2007 for HK\$331.5m. The principal assets of Jade River included the May Tower Sale Parcels and Berkeley Court Sale Parcels located in Kuala Lumpur and Johor Bahru respectively. Jade River was previously owned by Mr. David Chiu, CEO and Deputy Chairman of FEC.

**Figure 9: Malaysian hotel development pipeline**

Property	Location	Rooms	Type	Commencement date
May Tower	Kuala Lumpur	179	Boutique	2H07
Berkeley court	Johor Bahru	310	Boutique	2H07

Source: Company data

FEC will convert the two serviced apartment properties into hotels over the next 12 months. The two properties combined will offer 489 hotel rooms (May Tower 179 rooms and Berkley Court 310 rooms). May Tower was valued at HK\$164.6m and Berkley Court at HK\$166.8m, according to an independent valuer. FEC expects to commence hotel operations on the properties by end 2007. Over the medium term, we expect FEC will further grow its hospitality business in Malaysia via further acquisitions.

### **Sum-of-parts fair value of HK\$4.6, without Macau option**

We believe sum-of-the-parts as the best valuation methodology for Far East Consortium, given its diversified business portfolio ranging from hotels to development and investment properties. We estimate FEC's 2008F NAV at HK\$6.61. Ascribing a 30% fair value discount which is in line with property peers with heavy hotel portfolios, we set our target price at HK\$4.6, which is still undemanding in terms of valuation on 10x FY08 PE. Should the Macau JV be finalized, the deal may add HK\$0.9/shr option value.

**Figure 10: NAV valuation**

	Stake	(HK\$m)	(HK\$/share)	% of EV	NAV assumptions
Hotels in operation - HK	100%	4,536	2.52	34%	HK\$2.9m/room, or 6.0% cap rate on EBITDA
Hotels under development - HK	100%	1,724	0.96	13%	HK\$2.9m/room less construction costs
Hotels in operation - Malaysia	100%	1,874	1.04	14%	HK\$1.2m/room, or 6.0% cap rate on EBITDA
Hotels in operation - China	100%	1,267	0.70	9%	HK\$1.3m/room, or 6.0% cap rate on EBITDA
<b>Hotels</b>		<b>9,401</b>	<b>5.22</b>	<b>70%</b>	
Investment property - HK	100%	1,040	0.58	8%	Book value as per annual report
Investment property - overseas	Various	332	0.18	2%	Book value as per annual report
<b>Investment property</b>		<b>1,372</b>	<b>0.76</b>	<b>10%</b>	
Development property - HK	100%	97	0.05	1%	DCF with 10% discount rate
Development property - China	100%	2,582	1.43	19%	DCF with RMB7,000-12,000psm on 10.5% discount rate
<b>Development property</b>		<b>2,679</b>	<b>1.49</b>	<b>20%</b>	
<b>Gross asset value</b>		<b>13,452</b>	<b>7.47</b>	<b>100%</b>	
Net debt		(2,721)	(1.51)		FY08 net debt
Excluding CBs in debt		1,170	0.65		
<b>NAV (f.d.)</b>		<b>11,900</b>	<b>6.61</b>		
<b>Fair NAV discount</b>		<b>-30%</b>			
<b>Target price</b>		<b>4.63</b>			

Source: Deutsche Bank

**Hotels (70% of EV)**

- **Hotels in operation –HK (34% of EV)** – FEC has three 3-star hotels, one 4-star hotel and 3 boutique hotels in Hong Kong with a total of 1,549 rooms. We value Hong Kong hotel rooms at HK\$2.9m/room using a 6.0% blended cap rate on 2008F pro forma EBITDA.
- **Hotels under development – HK (13% of EV)** – FEC has three hotels under development under its Dorsett brand with room stock of 897, with one hotel to be unveiled in each of the coming three years. We estimate the value of these three hotels to be HK\$1.7bn, based on HK\$2.9m/room capital value less construction cost of HK\$1m/room.
- **Hotels in operation - Malaysia (14% of EV)** – FEC's hotel portfolio in Malaysia includes one 4-star hotel, two 5-star hotels (one owned and one under management contract) and 2 boutique hotels (acquired in Jan 2007) with a total of 1,548 rooms. We value hotel rooms in Malaysia at HK\$1.2m/room based on 6.0% cap yield on 2008F EBITDA.
- **Hotels in operation –China (9% of EV)** - FEC has two 4-star hotels with 1,000 rooms, which were acquired in 1H07. We value hotel rooms in China at HK\$1.3m/room using a 6.0% cap yield on 2008F and 2009F pro forma EBITDA respectively.

**Investment property (10% of EV)**

- **Investment property – HK (8% of EV)** – FEC has 0.4m sf office, retail and residential properties in Hong Kong. We value these investment properties based on their book values stated in the annual report.
- **Investment property – overseas (2% of EV)** - FEC has 0.7m sf of investment properties in Singapore, China and Malaysia. We value these properties based on their book values stated in the annual report.

**Development property (20% of EV)**

- **Development property – HK (1% of EV)** – FEC has three small-scale residential projects in Hong Kong with a total of 200 units. We value these projects at HK\$97m using DCF at a 10% discount rate.
- **Development property – China (19% of EV)** - The California Garden project in Shanghai is FEC's primary residential development in China. The project involves 18 phases with more than 5,000 residential units over 0.7m sqm of GFA. Additionally, FEC has three residential projects under development in Guangzhou with 1,360 units. We forecast sales price of RMB7,000psm for the low-rise apartments and Rmb12,000psm for town houses for the China development properties. We value California Garden and the three Guangzhou projects at HK\$2,582m, using DCF on a 10.5% discount rate.

### Macau JV project may add HK\$0.9 option value

FEC is still in discussions with Las Vegas Sands (LVS.N, US\$144, Buy) on their 50:50 JV project to co-own and co-develop hotels on Site #3 of LVS's Cotai land bank. The matters relating to the final project design from LVS and the estimated total investment for parcel #3 are still pending. The management hopes to reach a final decision by end-2007.

**Figure 11: Macau project – option value**

		Net asset value		
	Stake	(HK\$m)	(HK\$/share)	Assumptions
Dorsett	3-star	50%	249	0.14 HK\$600 ADR, 80% occ, 7% cap rate
Cosmopolitan	4-star	50%	400	0.22 HK\$1,200 ADR, 75% occ, 7% cap rate
Holiday Inn	4-star	50%	423	0.23 HK\$1,200 ADR, 75% occ, 7% cap rate
Inter-Continental	5-star	50%	339	0.19 HK\$1,500 ADR, 75% occ, 7% cap rate
Conference hotel	4-star	50%	694	0.39 HK\$1,200 ADR, 75% occ, 7% cap rate
Retail mall		50%	1,365	0.76 HK\$80psf/moth rent, 7% cap rate
Casino floor		0%	400	0.22 Expected to sell to Venetian near cost
Service apartments		50%	642	0.36 DCF: HK\$4,000psf sale price, 10% disc rate
Less construction cost			(2,462)	(1.37)
<b>Macau NAV at end-FY10</b>			<b>2,049</b>	<b>1.14</b>
Discount rate for 2 years		10.0%		
<b>Macau NAV at end-FY08</b>			<b>1,693</b>	<b>0.94</b>

Source: Deutsche Bank

We have revised our model to reflect the new assumptions which include:

**Higher capex** – Given that LVS and FEC will each contribute 50% of the total budget, we believe FEC's contribution to the total project cost could be around HK\$2.5bn, as LVS is likely to prefer higher-end furnishings and more landscaping. This implies a total project cost of around HK\$5.0bn, exceeding our previous HK\$4.0bn estimate.

**Higher room rates on hotels** – Previously, we only factored in HK\$400/night for the 3-star Dorsett hotel and HK\$600/night for the 4-star Cosmopolitan and Holiday Inn hotels. This was broadly in line with Hong Kong 3- and 4-star room rates. However, given the relatively scarcity of quality 3- and 4-star properties in Macau compared to the heavy 5-star pipeline, we believe FEC should be able to command higher rates. We are now factoring in HK\$600/night and HK\$1,200/night for the 3- and 4-star segments respectively. Further, we now assume FEC will also operate the 5-star Inter Continental hotel rather than selling it to LVS. We assume a rate of HK\$1,500/night for a 5-star room, which is at a discount to Venetian hotel rates.

**Sale of casino space at/near construction cost to LVS** – Given that LVS is one of the gaming concession holders with the right to operate casinos in Macau, it is likely that FEC

will sell the casino space at its hotels to LVS. We assume the sale would be at or near construction costs at around HK\$400m.

**Higher rental for shopping centre** – Previously, we only factored in HK\$50psf/mth rental, in line with Fisherman’s Wharf shopping center. However, since LVS has been able to lease out a significant portion of its Venetian shopping center in Cotai at over HK\$95psf/mth, we believe the JV can leverage LVS’s relationships with the luxury brands and achieve much higher rentals. We are now factoring in HK\$80psf/mth rental, still at a significant discount to the Venetian mall.

**Macau project at HK\$0.94 per share** – Applying a 7% cap rate to the hotels and retail, we arrive at our new valuation of HK\$0.95 per share for FEC’s share of the Macau project under our new assumptions.

According to the management, if FEC and LVS fail to reach an agreement on their Macau JV by year-end, the company may seek to develop other hotel projects in Macau or shift its focus on investment opportunities in other growth markets such as Mainland China.

---

### Key risks

The risks to our call are related to: (1) Hong Kong hotels – disruptions to travel hampering tourist arrivals in Hong Kong; (2) Macau – unexpected changes in terms and conditions with regard to the partnership arrangements with Las Vegas Sands in Macau, or the failure in reaching a final definitive agreement; (3) China property - policy given the Chinese government’s foremost concerns regarding housing issues, (4) a potential reversal in the economic growth trend leading to a loss in confidence.

The author of this report wishes to acknowledge the contributions made by Ruvani Fernando, and Thilan Sampath, employees of Amba Research, a third-party provider to Deutsche Bank of offshore research support services.”

# Appendix A - Financials

**Figure 12: Earnings forecast (HK\$m)**

Year to March	FY05	FY06	FY07	FY08F	FY09F	FY10F
<b>Turnover</b>						
Property sale	318.5	270.0	339.4	2,078.9	2,085.7	2,994.7
Property rental	68.9	53.5	57.1	83.0	91.0	99.8
Hotel operation	121.5	274.2	412.2	658.3	880.4	1,029.3
Treasury management	26.2	68.9	60.4	40.6	40.6	40.6
Others	24.6	17.5	6.1	4.9	3.9	3.1
<b>Turnover</b>	<b>559.7</b>	<b>684.1</b>	<b>875.2</b>	<b>2,865.5</b>	<b>3,101.6</b>	<b>4,167.5</b>
Property sale	26.1	16.6	49.3	996.1	1,174.0	1,709.8
Property rental	43.3	37.2	36.6	58.1	63.7	69.9
Hotel operation	76.5	144.1	209.6	342.3	475.6	564.9
Treasury management	13.1	68.9	60.4	40.6	40.6	40.6
Other operation & revenue	50.5	19.3	20.6	20.6	20.6	20.6
Unallocated expenses	(133.2)	(114.6)	(217.7)	(239.5)	(263.4)	(289.8)
<b>EBIT</b>	<b>76.3</b>	<b>171.5</b>	<b>158.8</b>	<b>1,218.2</b>	<b>1,511.1</b>	<b>2,116.0</b>
Finance costs	(38.7)	(52.8)	(67.9)	(62.7)	(3.8)	(76.7)
Associates & JV	15.6	8.2	28.2	-	-	-
Exceptionals	393.4	291.2	574.7	-	-	-
<b>Pre-tax profit</b>	<b>446.5</b>	<b>418.1</b>	<b>693.8</b>	<b>1,155.6</b>	<b>1,507.2</b>	<b>2,039.3</b>
Tax	(36.8)	(85.9)	(157.4)	(374.1)	(503.1)	(825.9)
Minority Interests	(5.1)	2.9	2.5	-	-	-
<b>Net profit</b>	<b>404.6</b>	<b>335.1</b>	<b>538.9</b>	<b>781.4</b>	<b>1,004.1</b>	<b>1,213.4</b>
yoy change	171%	-17%	61%	45%	28%	21%
<b>Net profits (core)</b>	<b>11.2</b>	<b>44.0</b>	<b>(35.8)</b>	<b>781.4</b>	<b>1,004.1</b>	<b>1,213.4</b>
yoy change	NA	NA	-181%	-2284%	28%	21%
<b>EBITDA (core)</b>	<b>90.0</b>	<b>197.7</b>	<b>201.3</b>	<b>1,276.9</b>	<b>1,569.8</b>	<b>2,174.7</b>
yoy change	-54%	120%	2%	534%	23%	39%
<b>Headline EPS (wtg avg)</b>	<b>0.32</b>	<b>0.24</b>	<b>0.37</b>	<b>0.53</b>	<b>0.68</b>	<b>0.83</b>
yoy change	126%	-27%	57%	43%	28%	21%
<b>EPS (f.d.)</b>	<b>0.31</b>	<b>0.27</b>	<b>0.28</b>	<b>0.46</b>	<b>0.59</b>	<b>0.71</b>
yoy change	NA	-11%	0%	66%	28%	21%

Source: Deutsche Bank, company data

**Figure 13: Margin trend**

Property sale	8%	6%	15%	48%	56%	57%
Property rental	63%	70%	64%	70%	70%	70%
Hotel operation	63%	53%	51%	52%	54%	55%
Treasury management	50%	100%	100%	100%	100%	100%
<b>EBIT margin</b>	<b>14%</b>	<b>25%</b>	<b>18%</b>	<b>43%</b>	<b>49%</b>	<b>51%</b>

Source: Deutsche Bank

**Figure 14: Balance sheet (HK\$m)**

Year to March	2005	2006	2007	2008F	2009F	2010F
Issued share capital	141.4	144.1	146.8	146.8	146.8	146.8
Retained profits	788.9	1,010.5	1,433.4	2,097.4	2,984.1	4,080.1
Other reserves	2,258.1	2,389.9	2,441.8	2,441.8	2,441.8	2,441.8
<b>Shareholders funds</b>	<b>3,188.5</b>	<b>3,544.5</b>	<b>4,021.9</b>	<b>4,686.0</b>	<b>5,572.7</b>	<b>6,668.7</b>
Minorities	31.8	27.3	26.1	26.1	26.1	26.1
Bank loans	1,076.5	982.1	1,403.3	1,400.0	1,000.0	1,000.0
CBs(Fianacial liabilities FV through P&L)	765.1	914.7	838.3	1,169.7	1,169.7	1,169.7
Other long term liabilities	47.2	46.8	56.7	56.7	56.7	56.7
Deferred tax	50.1	124.4	188.2	188.2	188.2	188.2
<b>Capital employed</b>	<b>5,159.2</b>	<b>5,639.7</b>	<b>6,534.6</b>	<b>7,526.8</b>	<b>8,013.5</b>	<b>9,109.5</b>
Investment properties	801.0	1,297.4	1,371.7	1,564.0	1,564.0	1,564.0
Property, plant & equipment	1,140.2	1,210.8	2,040.7	2,936.3	3,077.6	3,143.9
Intangible assets	-	-	-	-	-	-
Associates	1,941.2	2,508.3	3,412.4	4,500.3	4,641.6	4,707.9
Other investments	(23.1)	-	-	-	-	-
<b>Long-term assets</b>	<b>217.5</b>	<b>216.3</b>	<b>238.9</b>	<b>238.9</b>	<b>238.9</b>	<b>238.9</b>
Cash	1,431.7	1,706.6	1,820.6	1,820.6	1,820.6	1,820.6
Property under development	3,567.3	4,431.2	5,471.9	6,559.9	6,701.2	6,767.5
Completed properties for sale	471.7	197.9	517.6	742.9	1,213.1	3,206.8
Deferred compensatration cost	1,349.3	1,729.1	1,428.1	1,498.5	1,573.8	609.8
Loan receivables	197.2	181.0	710.9	379.5	379.5	379.5
Debtors & deposits	-	-	-	-	-	-
Securities investments	2.6	3.7	1.0	1.0	1.0	1.0
Others	238.8	241.4	138.3	138.3	138.3	138.3
<b>Current assets</b>	<b>446.5</b>	<b>288.4</b>	<b>405.6</b>	<b>405.6</b>	<b>405.6</b>	<b>405.6</b>
Bank loans	17.6	36.9	39.0	39.0	39.0	39.0
Amounts due to related parties	2,723.6	2,678.4	3,240.4	3,204.8	3,750.2	4,779.9
Other current liabilities	615.0	1,000.2	1,239.8	1,300.0	1,500.0	1,500.0
Customers' deposits received	78.4	103.1	210.6	210.6	210.6	210.6
Creditors, deposits & accruals	56.4	33.5	2.7	2.7	2.7	2.7
Tax provision	19.1	14.5	171.8	171.8	171.8	171.8
<b>Current liabilities</b>	<b>306.7</b>	<b>285.5</b>	<b>401.2</b>	<b>401.2</b>	<b>401.2</b>	<b>401.2</b>
<b>Total assets</b>	<b>56.1</b>	<b>33.1</b>	<b>151.7</b>	<b>151.7</b>	<b>151.7</b>	<b>151.7</b>
Book value per share	2.25	2.46	2.74	3.19	3.80	4.54
Net debt - CB as debt	1,538.5	2,410.7	2,558.2	2,721.2	2,051.1	57.3
<b>Net gearing - CB as debt</b>	<b>48%</b>	<b>68%</b>	<b>64%</b>	<b>58%</b>	<b>37%</b>	<b>1%</b>
<b>Net gearing - CB as equity</b>	<b>31%</b>	<b>40%</b>	<b>44%</b>	<b>35%</b>	<b>20%</b>	<b>-9%</b>
ROE	12.7%	9.5%	13.4%	16.7%	18.0%	18.2%

Source: Deutsche Bank, company data

**Figure 15: Cash flow statements (HK\$m)**

Year to March	FY05	FY06	FY07	FY08F	FY09F	FY10F
Profit before interest and tax	411.9	402.8	700.7	1,218.2	1,511.1	2,116.0
Depreciation	13.7	26.2	42.5	58.7	58.7	58.7
Working capital	(768.2)	(349.3)	(395.3)	(70.5)	(75.3)	964.0
Dividend from associates	6.6	9.4	5.6	-	-	-
Other adjustments	(350.9)	-	-	-	-	-
<b>Operating cash flow</b>	<b>(693.5)</b>	<b>(233.1)</b>	<b>(155.6)</b>	<b>1,206.4</b>	<b>1,494.5</b>	<b>3,138.7</b>
Net interest paid	15.8	0.2	(55.6)	(62.7)	(3.8)	(76.7)
Dividends to minorities	-	-	-	-	-	-
<b>Cash earnings</b>	<b>(704.1)</b>	<b>(267.8)</b>	<b>(230.3)</b>	<b>769.7</b>	<b>987.5</b>	<b>2,236.1</b>
Capex	(177.0)	(166.3)	(163.3)	(1,146.6)	(200.0)	(125.0)
Proceeds from disposals	625.8	11.2	0.1	-	-	-
Associates & subsidiaries	(245.8)	(0.4)	(251.9)	-	-	-
Other investments	(383.9)	(74.6)	297.5	-	-	-
<b>Investing cash flow</b>	<b>(181.0)</b>	<b>(230.1)</b>	<b>(117.6)</b>	<b>(1,146.6)</b>	<b>(200.0)</b>	<b>(125.0)</b>
Issue of shares & CBs	1,242.0	3.8	5.7	-	-	-
Dividend paid	(37.0)	(58.9)	(77.5)	(117.4)	(117.4)	(117.4)
Minorities	18.0	(0.1)	2.4	-	-	-
<b>Financing cash flow</b>	<b>1,223.1</b>	<b>(55.1)</b>	<b>(69.4)</b>	<b>(117.4)</b>	<b>(117.4)</b>	<b>(117.4)</b>
Other cash flow	(438.2)	1,425.2	564.8	331.4	-	-
<b>Change in net cash</b>	<b>(100.1)</b>	<b>872.2</b>	<b>147.5</b>	<b>(163.0)</b>	<b>670.1</b>	<b>1,993.7</b>

Source: Deutsche Bank, company data

# Appendix 1

## Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Far East Consort.	0035.HK	3.63 (HKD) 31 Oct 07	6,8

\*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

## Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See "Important Disclosures Required by Non-US Regulators" and Explanatory Notes.

6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.
8. Deutsche Bank and/or its affiliate(s) expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.

## Important Disclosures Required by Non-U.S. Regulators

Please also refer to disclosures in the "Important Disclosures Required by US Regulators" and the Explanatory Notes.

6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.

**For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com>.**

## Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Karen Tang

**Historical recommendations and target price: Far East Consort. (0035.HK)**

(as of 10/31/2007)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1. 7/6/2006: Buy, Target Price Change HKD3.70      2.

**Equity rating key**

**Buy:** Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.

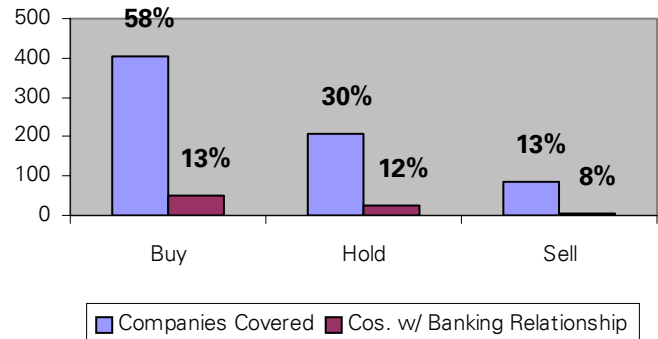
**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

**Notes:**

1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
  - Buy: Expected total return (including dividends) of 10% or more over a 12-month period
  - Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
  - Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

**Equity rating dispersion and banking relationships**



Asia-Pacific Universe

## Regulatory Disclosures

### SOLAR Disclosure

For select companies, Deutsche Bank equity research analysts may identify shorter-term trade opportunities that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. This information is made available only to Deutsche Bank clients, who may access it through the SOLAR stock list, which can be found at <http://gm.db.com>

### Disclosures required by United States laws and regulations

See company-specific disclosures above for any of the following disclosures required for covered companies referred to in this report: acting as a financial advisor, manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/comanaged public offerings in prior periods; directorships; market making and/or specialist role.

### The following are additional required disclosures:

**Ownership and Material Conflicts of Interest:** DBSI prohibits its analysts, persons reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage.

**Analyst compensation:** Analysts are paid in part based on the profitability of DBSI, which includes investment banking revenues.

**Analyst as Officer or Director:** DBSI policy prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage.

**Distribution of ratings:** See the distribution of ratings disclosure above.

**Price Chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the DBSI website at <http://gm.db.com>.

### Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, in addition to those already made pursuant to United States laws and regulations.

**Analyst compensation:** Analysts are paid in part based on the profitability of Deutsche Bank AG and its affiliates, which includes investment banking revenues

**Australia:** This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

**EU:** A general description of how Deutsche Bank AG identifies and manages conflicts of interest in Europe is contained in our public facing policy for managing conflicts of interest in connection with investment research.

**Germany:** See company-specific disclosures above for (i) any net short position, (ii) any trading positions (iii) holdings of five percent or more of the share capital. In order to prevent or deal with conflicts of interests Deutsche Bank AG has implemented the necessary organisational procedures to comply with legal requirements and regulatory decrees. Adherence to these procedures is monitored by the Compliance-Department.

**Hong Kong:** See <http://gm.db.com> for company-specific disclosures required under Hong Kong regulations in connection with this research report. Disclosure #5 includes an associate of the research analyst. Disclosure #6, satisfies the disclosure of financial interests for the purposes of paragraph 16.5(a) of the SFC's Code of Conduct (the "Code"). The 1% or more interests is calculated as of the previous month end. Disclosures #7 and #8 combined satisfy the SFC requirement under paragraph 16.5(d) of the Code to disclose an investment banking relationship.

**Japan:** See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

**Russia:** The information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a licence in the Russian Federation.

**South Africa:** Publisher: Deutsche Securities (Pty) Ltd, 3 Exchange Square, 87 Maude Street, Sandton, 2196, South Africa. Author: As referred to on the front cover. All rights reserved. When quoting, please cite Deutsche Securities Research as the source.

**Turkey:** The information, interpretation and advice submitted herein are not in the context of an investment consultancy service. Investment consultancy services are provided by brokerage firms, portfolio management companies and banks that are not authorized to accept deposits through an investment consultancy agreement to be entered into such corporations and their clients. The interpretation and advices herein are submitted on the basis of personal opinion of the relevant interpreters

and consultants. Such opinion may not fit your financial situation and your profit/risk preferences. Accordingly, investment decisions solely based on the information herein may not result in expected outcomes.

**United Kingdom:** Persons who would be categorized as private customers in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this research in conjunction with prior Deutsche Bank AG research on the companies which are the subject of this research.

## Deutsche Bank AG/Hong Kong

### Asia-Pacific locations

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Level 55  
Cheung Kong Center  
2 Queen's Road Central  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Equities India Pte Ltd

DB House, Ground Floor  
Hazarimal Somani Marg  
Fort, Mumbai 400 001  
India  
Tel: (91) 22 5658 4600

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6701

#### Deutsche Bank (Malaysia) Berhad

Level 18-20  
Menara IMC  
8 Jalan Sultan Ismail  
Kuala Lumpur 50250  
Malaysia  
Tel: (60) 3 2053 6760

In association with  
**Deutsche Regis Partners, Inc.**  
Level 23, Tower One  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines  
Tel: (63) 2 894 6600

#### Deutsche Securities Korea Co.

17th Floor, YoungPoong Bldg.,  
33 SeoRin-Dong,  
Chongro-Ku, Seoul (110-752)  
Republic of Korea  
Tel: (82) 2 316 8888

#### Deutsche Bank AG Singapore

One Raffles Quay  
South Tower  
Singapore 048583  
Tel: (65) 6423 8001

#### Deutsche Securities Asia Ltd

Taiwan Branch  
Level 6  
296 Jen-Ai Road, Sec 4  
Taipei 106  
Taiwan  
Tel: (886) 2 2192 2888

In association with  
**TISCO Securities Co., Ltd**  
TISCO Tower  
48/8 North Sathorn Road  
Bangkok 10500  
Thailand  
Tel: (66) 2 633 6470

#### In association with PT Deutsche Verdhana Indonesia

Deutsche Bank Building,  
6th Floor, Jl. Imam Bonjol No.80,  
Central Jakarta,  
Indonesia  
Tel: (62 21) 318 9541

### International locations

#### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500

#### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

#### Deutsche Bank AG

Große Gallusstraße 10-14  
60272 Frankfurt am Main  
Germany  
Tel: (49) 69 910 0

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Level 55  
Cheung Kong Center  
2 Queen's Road Central  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6701

## Global Disclaimer

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). The information herein is believed by Deutsche Bank to be reliable and has been obtained from public sources believed to be reliable. With the exception of information about Deutsche Bank, Deutsche Bank makes no representation as to the accuracy or completeness of such information.

This published research report may be considered by Deutsche Bank when Deutsche Bank is deciding to buy or sell proprietary positions in the securities mentioned in this report.

For select companies, Deutsche Bank equity research analysts may identify shorter-term opportunities that are consistent or inconsistent with Deutsche Bank's existing, longer-term Buy or Sell recommendations. This information is made available on the SOLAR stock list, which can be found at <http://gm.db.com>.

Deutsche Bank may trade for its own account as a result of the short term trading suggestions of analysts and may also engage in securities transactions in a manner inconsistent with this research report and with respect to securities covered by this report, will sell to or buy from customers on a principal basis. Disclosures of conflicts of interest, if any, are discussed at the end of the text of this report or on the Deutsche Bank website at <http://gm.db.com>.

Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, except if research on the subject company is withdrawn. Prices and availability of financial instruments also are subject to change without notice. This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction or as an advertisement of any financial instruments.

Derivative transactions involve numerous risks including, among others, market, counterparty default and illiquidity risk. The appropriateness or otherwise of these products for use by investors is dependent on the investors' own circumstances including their tax position, their regulatory environment and the nature of their other assets and liabilities and as such investors should take expert legal and financial advice before entering into any transaction similar to or inspired by the contents of this publication. Trading in options involves risk and is not suitable for all investors. Prior to buying or selling an option investors must review the "Characteristics and Risks of Standardized Options," at <http://www.optionsclearing.com/publications/risks/riskchap1.jsp>. If you are unable to access the website please contact Deutsche Bank AG at +1 (212) 250-7994, for a copy of this important document. Furthermore, past performance is not necessarily indicative of future results. Please note that multi-leg options strategies will incur multiple commissions.

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from, the financial instrument, and such investor effectively assumes currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Furthermore, past performance is not necessarily indicative of future results.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. In the U.S. this report is approved and/or distributed by Deutsche Bank Securities Inc., a member of the NYSE, the NASD, NFA and SIPC. In Germany this report is approved and/or communicated by Deutsche Bank AG Frankfurt authorised by Bundesanstalt für Finanzdienstleistungsaufsicht. In the United Kingdom this report is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange and regulated by the Financial Services Authority for the conduct of investment business in the UK and authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). This report is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this report is approved and/or distributed by Deutsche Securities Inc. The information contained in this report does not constitute the provision of investment advice. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10) Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published by any person for any purpose without Deutsche Bank's prior written consent. Please cite source when quoting.