

What's Hot Today:

- ▶ **Digital China (861 HK) - company visit takeaways**

Corporate News Commentary / Reports Summary

- ▶ **Digital China (861 HK) - company visit takeaways** – As a leading distributor of foreign IT equipment in China, **Digital China (“DC”) (861 HK – HK\$6.93)** has been suffering from a structural change in the demand mix over the past few quarters. The situation seems to be stabilized in 1Q14 while the company expects a better 2H14 due to low base.

System business (30% of 1Q14 revenue; 35% of 1Q14 segmental profit) – Foreign brands still accounts for over 90% of the division's revenue. Although there is significant recovery in software sales, hardware sales will likely remain sluggish. Meanwhile, the company is looking to increase the proportion of local hardware brand, but the GPM will be much lower compared to imported equipment. Going forward, it is looking to partner with the foreign brands to produce some of the products locally in order to fulfill the localization requirement.

Distribution business (58% 1Q14 revenue; 45% 1Q14 segmental profit) – This segment is also experiencing a structural change where e-commerce channel is growing rapidly taking away market shares from the traditional bricks and mortar IT malls. The company is also taking advantage of the e-commerce platform such as TMall to propose the “Omni-Channel” marketing scheme to its product partners in order to enhance its over margins. For instance, instead of the brand owners giving further incentive to dispose their obsolete products, the company will collect all those products and conduct special sale on the internet. Apple's new iPhone will likely be the near-term catalyst for this division.

IT Services (10% 1Q14 revenue; 15% 1Q14 segmental profit) – The business is entirely conducted via A-share listed “Digital China Information Service Company” (000555 CH) (DCITS, 神州數碼信息服務股份). DCITS focuses mainly on banking, finance, taxation and telco clients providing full-range IT services. The counter is currently suspended pending to a M&A announcement. DC's 45.17% share holding in DCITS currently worth about HK\$5.4b.

Supply Chain Services (2% 1Q14 revenue; 5% 1Q14 segmental profit) – Although a small business unit, it is gradually developing into a third-party logistic play. Besides serving **Unicom (762 HK – HK\$13.00)** on handsets logistics and conducting service centers for handset brands, it is also the logistic partner for non-IT clients such as **BYD (1211 HK – HK\$48.80)** on auto parts and Kappa, the sportswear brand. It is also managing Taobao's warehouse in Shanghai. We believe the potential of third-party logistic in China is very strong and this could help the company to diversify its clientele.

Other new ventures – The recently established 60:40 JV with **HC Int'l (8292 HK – HK\$17.90)** on micro-credit internet financing business looks to be a very profitable business. Average interest rate charged to lenders is in the range of 16-17% with about 10% net margin. Largest loan size is RMB100k and thus the company believes the default risk is rather low. Phase one capital of about RMB225m has been devoted by DC giving the current loan book to about RMB375m. The JV is planned to have a total paid up capital of RMB1b. Moreover, DC continues to push forward its Sm@rt City initiative. Having launching three successful Integrated Citizen Service Platforms, it has recently signed up with Chongqing. In three years time, DC expects to cover at least 100 cities or half of the country's population.

The counter is trading at an undemanding 8.2x and 7.1x FY14 & 15 PE, respectively. Despite a slight increase in working capital cycle to around 29.8 days in 1Q14, we believe its strong operating cash flow can fully support its 30% pay-out ratio and its near-term CAPEX plan. (Howard Wong)

China & HK Indices	CLOSE	1D	YTD
HSI	23,520	-0.0%	0.9%
HSCEI	10,467	-0.1%	-3.2%
HSCCI	4,552	0.7%	-0.0%
CSI300	2,157	-0.6%	-7.4%
Shanghai A	2,152	-0.6%	-11.1%
Shanghai B	225	-0.2%	-11.1%
Shenzhen A	1,147	-0.6%	3.9%
Shenzhen B	878	-0.8%	1.2%

Key Int'l Indices	CLOSE	1D	YTD
Dow Jones	16,976	-0.9%	2.4%
S&P 500	1,958	-1.2%	5.9%
Nasdaq	4,363	-1.4%	4.5%
NIKKEI Index	15,142	-1.5%	-7.0%
FTSE Index	6,738	-0.7%	-0.2%
CAC Index	4,316	-1.2%	0.5%
DAX Index	9,753	-1.1%	2.1%

Commodities	CLOSE	1D	YTD
GOLD (US\$/oz.)	1,319	1.5%	9.7%
STEEL (US\$/oz.)	1,327	-0.3%	-3.8%
SILVER (US\$/oz.)	21	1.8%	8.7%
CRUDE OIL (US\$/bbl)	103	14.8%	5.4%
COPPER (US\$/oz.)	7,067	-0.9%	-4.0%
ALUMINIUM (US\$/oz.)	1,989	1.5%	10.5%
PLATINUM (US\$/oz.)	1,500	1.6%	9.5%
ZINC (US\$/oz.)	2,302	0.1%	12.0%
WHEAT (US\$/bu)	550	2.4%	-9.4%
CORN (US\$/bu)	387	0.1%	-14.1%
SUGAR (US\$/lb)	N/A	N/A	0.2%
SOYBEAN (US\$/bu)	1,094	-0.7%	-4.1%
PVC (US\$/t)	N/A	N/A	1.3%
CRB	297	0.6%	3.0%
BDI	738	-5.6%	-67.6%

Exchange Rates

	USD	HKD	EUR	JPY	CHF	RMB
USD		7.751	0.739	101.180	0.897	6.204
HKD	0.129		0.095	13.053	11.578	0.800
EUR	1.353	10.484		136.850	0.824	8.397
JPY	0.010	7.661	0.731		0.887	0.061
CHF	1.114	8.637	0.824	112.746		6.916
RMB	0.161	1.249	0.119	16.307	0.145	

Market Sentiment

	CURRENT	5D
CDS Monitor - USD SR 5Y		
Greece	N/A	N/A
Ireland	83	-2.4%
Italy	139	-0.6%
Portugal	207	-0.0%
Spain	108	0.3%
VIX	14	15.5%

Source: Bloomberg

Latest Research Reports

Date	Company	Analyst
7-Jul	Fuguiniao (1819 HK)	Howard Wong
26-Jun	Luk Fook (590)	Steve Chow
18-Jun	Chow Tai Fook (1929)	Steve Chow
28-May	Belle (1880)	Steve Chow
21-May	Man Wah (1999)	Helen Fung
17-Apr	Luk Fook (590)	Steve Chow
10-Apr	Chow Tai Fook (1929)	Steve Chow
2-Apr	International Housewares Retail (1373)	Steve Chow
31-Mar	Chu Kong Pipe (1938)	Howard Wong

Kingsway Events

Date	Company	Event
10-Apr	Zhongyu Gas (3633)	Company Visit
14-Apr	China Singyes (750)	Roadshow
16-Apr	China Suntien Green (956)	Company Visit
23-Apr	SAS Dragon (1184)	Company Visit
24-Apr	XFY (8135)	Roadshow
28-Apr	TSC Group (206)	Company Visit
20-May	Beautiful China (706)	Company Visit
26-Jun	Changshouhua Food (1006)	Company Visit
17-Jul	Digital China (861)	Company Visit

China Market News

- ▶ China market stayed weaker on renewed economic growth concerns after 2Q GDP data out, with investors kept shifting focus into upcoming IPOs as eleven of the 12 IPOs which were approved on Monday will start taking subscriptions next week.
- ▶ Property stocks remained out of favour amid gloomy sector outlook with broker's view about sluggish sales, elevated and rising inventory, and increasing financing difficulties kept weighed on sentiment.
- ▶ Banking stocks stayed cautious amid ongoing credit risk concerns.

Kingsway coverage list

Name	Ticker	Market Cap (HK\$'m)	Price (HK\$)	1D (%)	Rec.	TP (HK\$)	Upside (%)	PER (X)*			Dividend		Absolute performance			Latest report date
								Hist	FY1	FY2	FY2	50%	1M%	3M%		
HANG SENG INDEX	HSI		23,520.87	(0.0)				11.0	11.0	10.1	3.9%	1.2	1.5	3.3		
HANG SENG CHINA ENT INDX	HSCEI		10,467.06	(0.1)				7.7	7.3	6.7	4.7%	1.0	0.2	3.8		
CSI 300 INDEX	ISZ300		2,157.07	(0.6)				9.9	8.7	7.5	3.5%	0.7	(0.1)	(3.0)		
BELLE INTERNATIO	1880 HK	74,306	8.81	0.5	HOLD	8.10	(8.1)	13.2	13.1	12.7	2.3%	0.2	7.4	4.0	28-May-14	
BOSSINI	592 HK	1,123	0.69	1.5	BUY	1.40	102.9	17.8	9.9	7.3	56.5%	3.0	13.1	(1.4)	24-Mar-14	
CHINA LILANG LTD	1234 HK	6,211	5.17	(1.0)	HOLD	6.10	18.0	9.6	9.3	8.5	7.5%	(0.4)	2.4	(6.1)	13-Mar-14	
CHINA SINGYES SOLAR	750 HK	7,943	11.44	(5.9)	BUY	16.20	41.6	12.2	9.2	7.5	0.3%	(8.2)	(6.2)	(2.1)	31-Mar-14	
CHINA STATE CONS	3311 HK	52,937	13.60	0.1	BUY	12.60	(7.4)	19.1	15.0	11.9	1.8%	1.0	2.1	(0.1)	12-Apr-13	
CHOW SANG SANG	116 HK	13,741	20.30	(0.2)	BUY	25.40	25.1	11.3	10.8	9.3	3.4%	2.7	3.6	7.6	2-Jan-14	
CHOW TAI FOOK	1929 HK	112,400	11.24	(1.2)	BUY	13.00	15.7	15.5	14.7	12.7	3.6%	(0.5)	(3.6)	1.6	18-Jun-14	
CHU KONG PETROLE	1938 HK	2,690	2.66	(0.4)	HOLD	2.30	(13.5)	52.2	23.4	11.1	3.8%	0.4	(3.3)	(0.4)	31-Mar-14	
DAPHNE INTERNATI	210 HK	5,096	3.09	(3.4)	HOLD	2.90	(6.1)	15.5	12.0	10.4	7.4%	(1.3)	12.4	(10.7)	14-Apr-14	
FUTURE BRIGHT	703 HK	2,569	3.70	0.5	BUY	4.50	21.6	8.9	14.3	11.2	1.4%	5.4	0.0	(2.4)	31-Mar-14	
COMTEC SOLAR	712 HK	1,767	1.27	(1.6)	SELL	1.05	(17.3)	N/A**	23.6	13.2	0.0%	(2.3)	(0.8)	(4.5)	27-Mar-14	
DORSETT HOSPITALITY INTL	2266 HK	2,895	1.38	(0.72)	BUY	1.61	16.7	7.4	11.0	8.6	N/A**	1.5	1.5	(3.5)	26-Jun-14	
GCL POLY ENERGY	3800 HK	39,335	2.54	(2.3)	HOLD	3.60	41.7	N/A**	N/A**	12.5	N/A**	(6.3)	3.3	(1.6)	14-Mar-14	
LUK FOOK HLDGS	590 HK	13,844	23.50	0.0	BUY	30.50	29.8	7.4	8.5	7.6	4.9%	1.3	13.0	3.1	26-Jun-14	
MAN WAH HOLDINGS	1999 HK	12,020	12.62	1.1	BUY	14.80	17.3	11.8	11.5	10.1	2.0%	0.6	(1.3)	(4.2)	21-May-14	
NEWOCEAN ENERGY	342 HK	8,767	5.91	1.5	BUY	10.60	79.4	10.7	9.4	7.5	1.0%	4.0	(0.2)	5.7	14-Mar-14	
SUNNY OPTICAL	2382 HK	11,738	10.70	(2.6)	BUY	12.53	17.1	19.4	15.5	12.4	N/A**	(0.2)	4.1	22.3	25-Jun-14	
TIANNENG POWER	819 HK	3,269	2.94	(2.3)	BUY	4.00	36.1	19.3	7.4	4.7	N/A**	(1.3)	2.1	4.3	18-Mar-14	
TONGDA GROUP HLD	698 HK	6,449	1.18	0.0	BUY	0.65	(44.9)	15.8	12.7	10.0	N/A**	12.4	11.3	21.6	21-Aug-13	
TRINITY LTD	891 HK	3,466	2.00	0.5	SELL	1.20	(40.0)	11.2	13.3	11.8	N/A**	3.6	11.7	(2.0)	15-Jul-14	
XINYI GLASS HOLD	868 HK	19,255	4.91	0.6	BUY	9.50	93.5	5.8	8.7	7.1	5.3%	5.1	4.0	(21.8)	27-Feb-14	
YGM TRADING	375 HK	2,869	17.30	0.3	HOLD	16.00	(7.5)	13.1	N/A**	N/A**	N/A**	1.3	(6.2)	2.6	8-Jul-14	
Zhongyu Gas	3633 HK	6,136	2.43	(1.2)	BUY	2.90	19.3	25.3	18.7	17.4	N/A**	(0.8)	(5.1)	16.3	14-Mar-14	

* Calculated by Sunwah Kingsway Research.

** PER is not available, due to :

- (1) the company went public only recently, or
- (2) no consensus earnings estimate, or
- (3) net loss, etc.

Radar Screen issued during past 12 months

Name	Ticker	Market Cap (HK\$'m)	Price (HK\$)	1D (%)	Price on report issue date (HK\$)	Performance since report issued (%)	PER (X)*			Dividend		Absolute performance			Latest report date
							Hist	FY1	FY2	FY2	50%	1M%	3M%		
BOLINA	1190 HK	2,814	2.78	0.0	3.23	-13.93	10.4	10.3	8.6	25.2%	(4.5)	(4.1)	(4.8)	10-Jun-13	
FREETECH	6888 HK	2,147	1.99	1.0	3.40	-41.47	N/A**	6.2	N/A**	2.6%	(13.5)	(20.1)	(10.0)	15-Jul-13	
SINOMEDIA	623 HK	3,641	6.44	(2.7)	6.67	-3.45	7.8	7.1	6.3	0.8%	0.8	5.7	2.6	25-Jul-13	
PERFECT SHAPE	1830 HK	2016.74	1.780	1.71	0.77	131.17	21.4	N/A**	N/A**	39.3%	(6.8)	(20.5)	(0.6)	13-Sep-13	
KA SHUI	822 HK	992	1.11	(1.8)	2.87	-61.32	16.3	N/A**	N/A**	4.7%	(0.9)	5.7	(13.3)	23-Sep-13	
YESTAR	2393 HK	2,554	5.47	(1.4)	1.75	212.57	N/A**	N/A**	N/A**	12.8%	7.5	35.1	N/A**	04-Nov-13	
TRADELINK	536 HK	1,600	2.020	(0.49)	1.88	7.45	19.3	N/A**	N/A**	34.7%	3.1	4.7	2.0	12-Nov-13	
UNITED PV	686 HK	4,375	1.01	(1.0)	1.90	-46.84	N/A**	N/A**	30.6	69.3%	(1.0)	12.2	40.3	15-Nov-13	
VICTORY CITY	538 HK	1,801	1.03	(1.0)	1.11	-7.21	N/A**	N/A**	N/A**	68.0%	0.0	(1.9)	(8.8)	17-Jan-14	
CT ENVIRONMENTAL	1363 HK	7,795	5.64	(3.1)	5.20	8.46	N/A**	22.7	17.1	0.9%	0.9	(0.4)	11.9	14-Feb-14	
RM GROUP	8185 HK	876	1.70	(0.6)	1.85	-8.11	N/A**	21.3	19.4	11.8%	(0.6)	7.6	(10.5)	11-Mar-14	
MAN YUE	894 HK	1,002	2.090	(5.00)	2.67	-21.72	16.4	N/A**	N/A**	33.5%	(17.1)	(27.9)	(15.7)	19-Mar-14	
INTERNATIONAL HOUSEWARES RETAIL	1373 HK	2,257	3.12	1.0	3.94	-20.81	N/A**	14.6	14.0	12.5%	3.3	2.3	(20.6)	02-Apr-14	

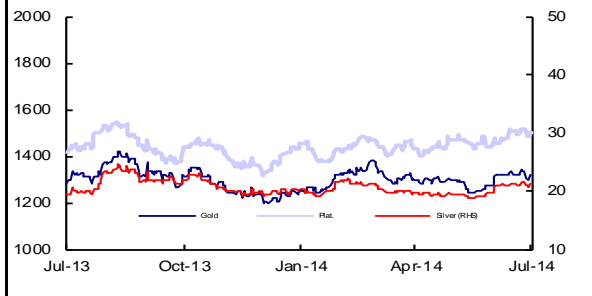
* Calculated by Sunwah Kingsway Research.

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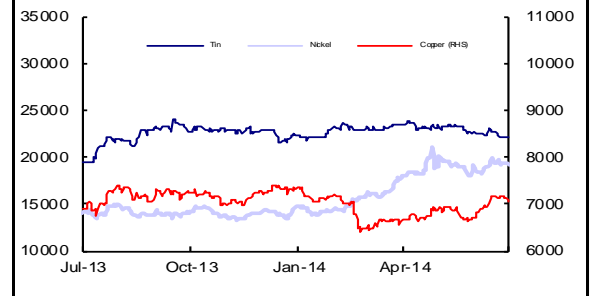
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Market Watch – Major Commodities and Currencies

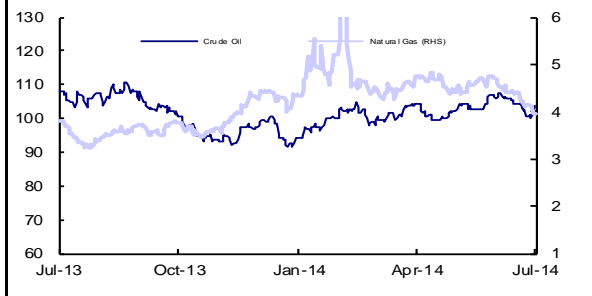
		QTD%	YTD%	YoY%
Gold (US\$ / oz)	1319.30	(0.2)	9.7	2.7
Platinum (US\$ / oz)	1503	1.5	9.6	6.3
Silver (US\$ / oz)	21.09	0.4	9.0	8.8



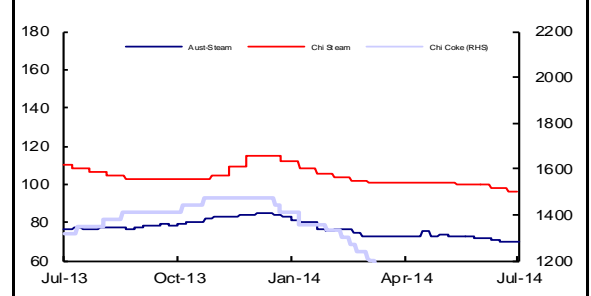
		QTD%	YTD%	YoY%
Copper (US\$ / t)	7,068	0.7	(4.0)	2.4
Nickel (US\$ / t)	19,200	0.8	38.1	37.1
Tin (US\$ / t)	22,125	(1.9)	(1.0)	13.2



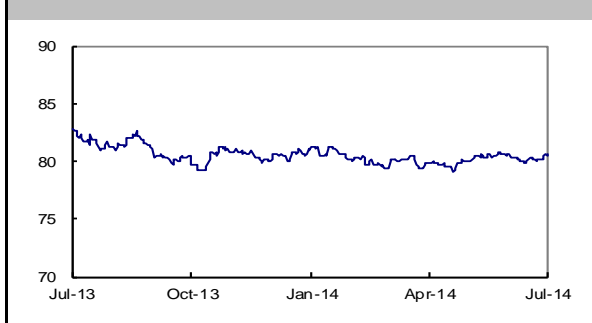
		QTD%	YTD%	YoY%
Crude Oil (US\$ / bbl)	103.73	(1.6)	5.4	(4.0)
Natural Gas (US\$ / M Mbtu)	3.96	(11.2)	(6.4)	3.9



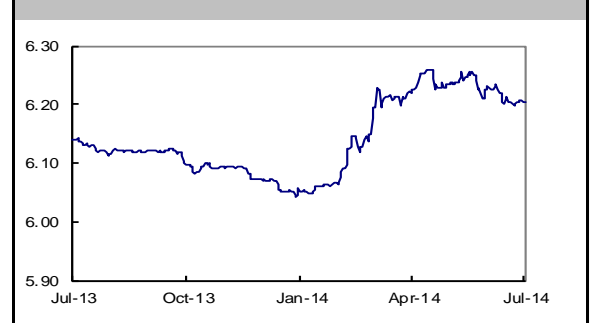
		QTD%	YTD%	YoY%
Coal				
Chi Coke (Rmb / t)	1110	0.0	(24.5)	(15.9)
Chi Steam (US\$ / t)	96.17	(2.1)	(16.2)	(12.7)
Aust Steam (US\$ / t)	69.65	(1.0)	(17.7)	(8.8)



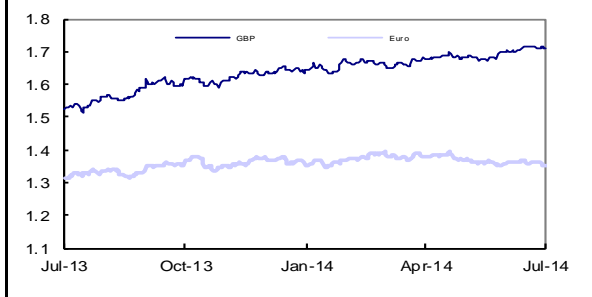
		QTD%	YTD%	YoY%
US\$ Index	80.548	1.0	0.6	(2.7)



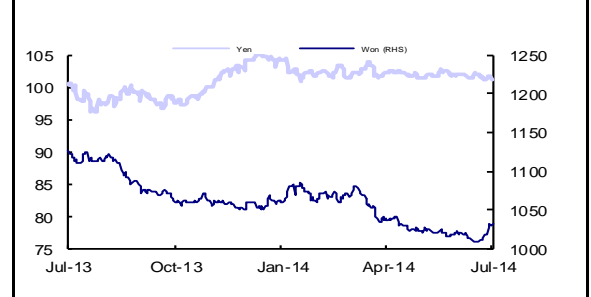
		QTD%	YTD%	YoY%
RMB	6.204	(0.0)	(2.4)	(1.0)



		QTD%	YTD%	YoY%
Euro	1.352	(1.2)	(1.6)	3.2
Pound	1.709	(0.1)	3.2	12.2



		QTD%	YTD%	YoY%
Yen	101.27	0.1	4.0	(0.8)
Won	1032.42	(2.0)	1.7	9.1



Source: Bloomberg

US Economic Calendar

Indicators	Freq	Obs Date	Expected Release Date
Initial Jobless Claims	WoW		17-Jul-14
Housing Starts / Building Permits	MoM		17-Jul-14
Existing Home Sales	MoM		22-Jul-14
CPI	MoM		22-Jul-14
New home Sales	MoM		24-Jul-14
Durable Goods Orders	MoM		25-Jul-14
Consumer Confidence	MoM		29-Jul-14
GDP	QoQ		30-Jul-14
Employment Report	MoM		1-Aug-14
ISM Manufacturing PMI	MoM		1-Aug-14
Auto Sales	MoM		1-Aug-14
Personal Income & Spending	MoM		1-Aug-14
Factory Orders	MoM		5-Aug-14
Trade Balance	MoM		6-Aug-14
Wholesale Inventories	MoM		8-Aug-14
Business Inventories	MoM		13-Aug-14
Retail Sales	MoM		13-Aug-14
Industrial Production	MoM		15-Aug-14
PPI	MoM		

China Economic Calendar

Indicators	Freq	Obs Date	Expected Release Date
PMI Manufacturing	MoM		1-Aug-14
Trade Balance	MoM		8-Aug-14
PPI	MoM		9-Aug-14
CPI	MoM		9-Aug-14
Money Supply - M2	MoM		10-Aug-14
Industrial Production	MoM		13-Aug-14
Retail Sales	MoM		13-Aug-14
Foreign Exchange Reserves	QoQ		10-Oct-14
GDP	YoY		21-Oct-14

Hong Kong Economic Calendar

Indicators	Freq	Obs Date	Expected Release Date
CPI	MoM		21-Jul-14
Trade Balance	MoM		24-Jul-14
Retail Sales	MoM		31-Jul-14
Money Supply - M2	MoM		31-Jul-14
PMI	MoM		5-Aug-14
Foreign Currency Reserve	MoM		7-Aug-14
GDP	QoQ		15-Aug-14
Unemployment Rate	MoM		18-Aug-14
Composite Interest Rate	MoM		19-Aug-14
Industrial Production	QoQ		12-Sep-14
Producer Prices Index	QoQ		12-Sep-14

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