

RESEARCH-WORKS

R&D Workshop May 10-14th 2010

Shenzhen	<i>Monday May 10th</i>	
9.00am	<i>R&D: China's Growing Competitive Edge</i> Hugh Peyman and Andrew Hall	
10.00am	<i>Stock Ideas</i> Andrew Hall, Anna Kieryk and Zhao Zhenyi	
	Company Visits: ZTE, Mindray, BYD	
9.00pm	Fly to Nanjing	ZH9865, arrive 11.10PM
Nanjing	<i>Tuesday May 11th</i>	
10.00am	Simcere	
1.00pm	China High Speed Transmission	
3.43pm	High Speed Train to Shanghai	Arrive 5.59PM
7.30pm Dinner	Zhuzhou CSR Times	
Shanghai	<i>Wednesday May 12th</i>	
	Company Visits: Zhenhua Heavy, Jinpan, Shanda, GE Research Centre	
6.40pm	Fly to Shenyang	CZ6502, arrive 8.50PM
Shenyang	<i>Thursday May 13th</i>	
	Company Visits: Sany Heavy Equipment, Sany Heavy, SmartHeat, Siasun	
6.45pm	Fly to Beijing	CA1636, arrive 8.10PM
Beijing	<i>Friday May 14th</i>	
	Companies: China Automation, China South Railway Locomotive	
Lunch	Tsinghua University, Geely University	
2.30pm	Wrap Up	

R&D: CHINA'S GROWING COMPETITIVE EDGE

The most overlooked investment case for China is its growing R&D strength. Sceptics may quip it is R&C (R & copying) but this ignores the facts. Huawei, a private Chinese company, registered the most patents globally in 2008 and ranked second only to Panasonic in 2009. China had a successful space walk and increasing numbers of world firsts. Its R&D intensity is already 60% of the way through its transformation. Only now are the results and stock winners emerging.

27 February 2010

China's Advantages: Scale, Policy, Cost

- 1,160 Research Institutes, Annually Produces 2mn Engineering and Science Graduates: 4X 2000, 5X US
- Mobilises Resources Rapidly
- Ruled By A Technocracy Believing in Science
- Already Reached Or Will Soon OECD Standards: German Government Report

Stocks: Sensibly Priced, Well Funded, Broad-based

- Increasingly Private Entrepreneur Driven
- Pure Plays Mainly: Focussed
- Top 3 Companies Come To Dominate Domestic Market Then..
- ..Leverage China Position to Go Global: Some Already Have
- Takeover Opportunities: New Trend For China Market
- Leaders Should Command a "R&D Premium"

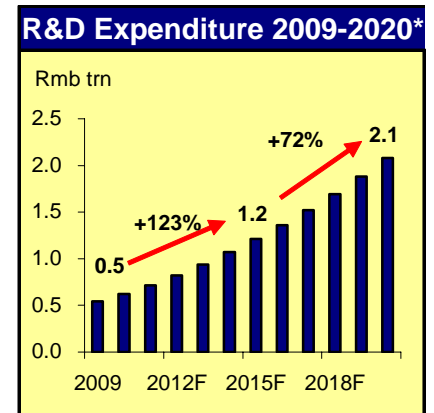
Recommendations: One-Year View : Leaders Already

- Sany Heavy Industry: China's Largest Private Manufacturer
- Sany Heavy Equipment: 50% of Roadheader Market By Value
- Zhuzhou CSR: China Leader in Train Electrical Systems
- Hollysys: Leader in Industrial Automation: 10.6% of Market
- AsialInfo: Dominates China's Telecom Software Market
- Guangxi Liugong: Export Success in Wheelloaders
- SmartHeat: Reducing Heat Loss from 40-50% to 10%
- Jinpan: Leading Supplier of Cast Resin Transformers

Two-Year View: As Earlier R&D Expansion Pays Off

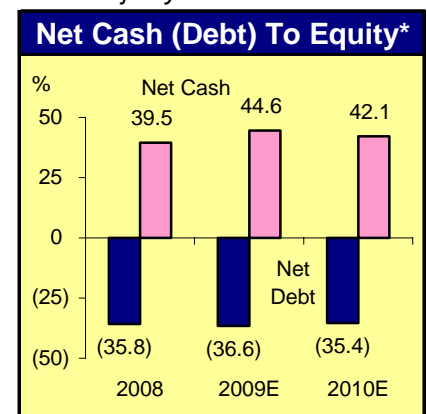
- China South Loco: Rail World's Largest Infrastructure Project
- ZTE: Ranked 23rd Globally For Patent Registration
- Zhenhua Heavy: Rebuilding Part of Bay Bridge, San Francisco
- Shanda Interactive: Tied as China's Number One Game Co

Quadrupling By 2020



* Real Source: Research-Works

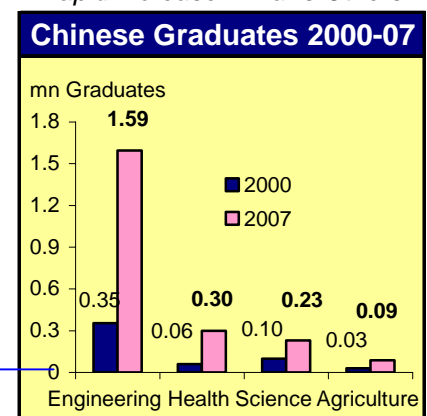
Majority 42% Net Cash



Source: Research-Works

* 20 Companies Average: 14 net cash, 6 net debt

Rapid Increase: Dwarfs Others



Source: CEIC

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