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The Asia Investigator

Falling US Import Prices and US Import Growth Put ROE at Risk

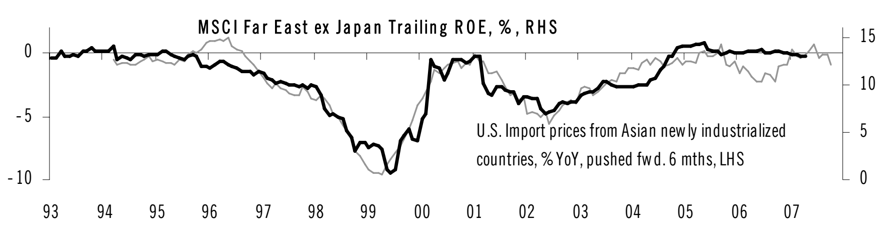
- Asia ex: April US import prices from Asia have fallen sharply — April US import prices are off 0.9% yoy in US$ terms. They should be up given the strength of Asian currencies. No pricing power here. Input cost continue to rise, up 31.2% over the past 24 months. Yet some analysts expect EBIT margin to rise this year from a 16-year low. This looks increasingly like hope over reality, in our view. US non-oil import growth at an average of 5% yoy over the past three months has been the weakest since 2003. Page 3

- Asia ex: A telco today brings surplus cash your way — Telecoms has carried out more capital management than any other sector. The mix of strong FCF, 8.2% free cashflow yield and limited investment opportunities has led to great capital management focus. Singapore, Malaysia and now Taiwan telcos are all returning cash to shareholders. This should be positive for stock performance. Page 14

- Asia ex: 6 out of 10 countries in Asia ex appear expensive on P/BV — Six of the 10 in Asia ex now trade at more than 1 standard deviation above their 17-year averages based on P/BV. Interestingly, the ROE counterpart shows a shortfall in the case of Hong Kong and Indonesia where P/BV multiples are above ROEs. Page 21

- China: Further details on QDII announced by CBRC — We believe that when QDII flows come to Hong Kong, they will invest in three categories of stocks: 1) Dual-listed H-shares that trade at substantial discounts, in particular the mid-cap names; 2) China concept stocks that are not available on the domestic market, in particular, telecom and energy names; and 3) Blue-chip Hong Kong companies that offer global exposure, such as HSBC and Hutchison. Page 24

US import prices (Asian export prices) and ROE for the region have been exceedingly highly correlated



Source: CEIC, MSCI, Citigroup Investment Research

Markus Rosgen[1]
+852-2501-2752
markus.rosgen@citigroup.com

Australia Strategists
Adrian Blundell-Wignall[2]
Alison Tarditi[2]

China Strategist
Lan Xue[1]

Hong Kong Strategist
Anil Daswani[1]

India Strategist
Ratnesh Kumar[3]

Indonesia Strategist
David Fergusson[4]

Korea Strategist
Michael S Chung[5]

Malaysia Strategist
Wai Kee Choong[6]

Singapore Strategist
Jit Soon Lim, CFA[7]

Taiwan Strategist
Peter Kurz[8]

Quant Strategist, Asia Pacific
Paul Chanin[7]

Chief Economist, Asia Pacific
Yiping Huang[1]

See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets Asia; [2]Citigroup Pty Limited; [3]Citigroup Global Market India Private Limited; [4]PT Citigroup Securities Indonesia; [5]Citigroup Global Markets Korea Securities Ltd; [6]Citigroup Global Markets Malaysia SDN BHD; [7]Citigroup Global Markets Singapore PTE LIMITED; [8]Citigroup Global Markets Inc - Taipei Branch

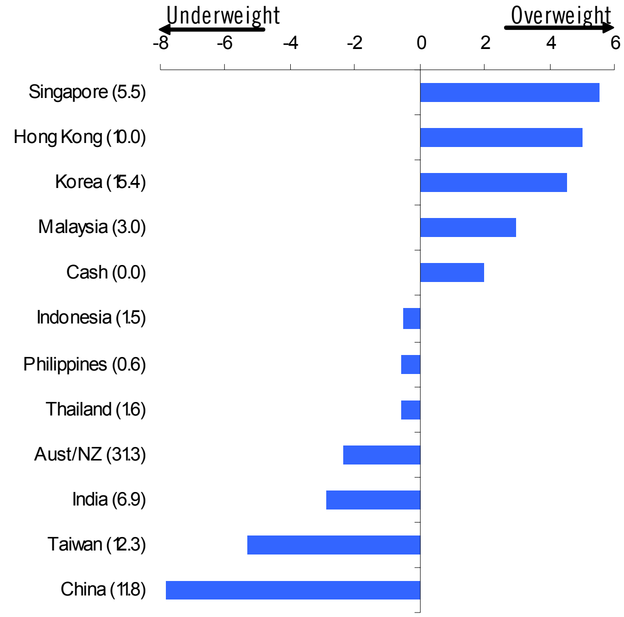
Asia Pacific Strategy Overview

FRESH MONEY IDEAS

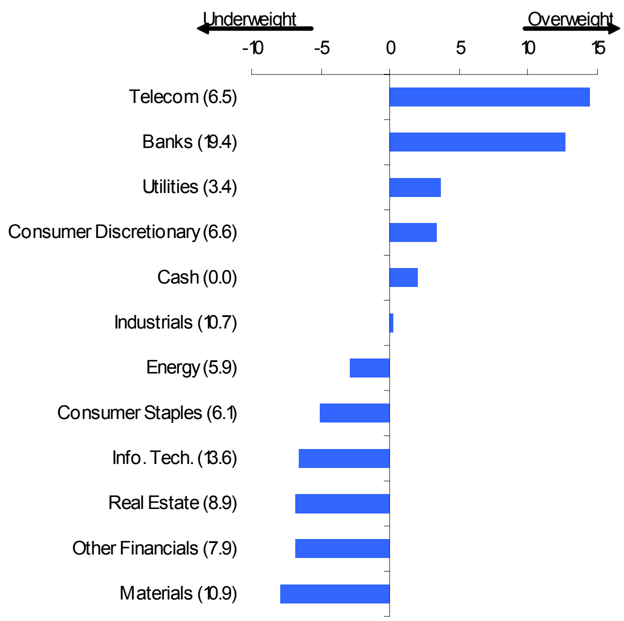
	Bloomberg code	Rating	Price 11-May-07	Target Price	ETR (%)
Buy					
Hyundai Mobis	012330 KS	1L	W79,600.00	W134,000.00	70.2
Noble Group	NOBL SP	1H	S$1.67	S$2.28	38.0
CITIC Pacific	267 HK	1L	HK$30.50	HK$36.70	24.6
Ping An	2318 HK	1L	HK$44.45	HK$50.56	14.7
Huadian Power Intl	1071 HK	1L	HK$3.90	HK$4.00	4.2
Sell					
Cosco Corp	COS SP	3L	S$2.65	S$2.58	-0.7
Unitech	UT IN	3M	Rs458.35	Rs430.00	-6.1
BYD Company	1211 HK	3M	HK$44.85	HK$43.00	-2.9
CapitaLand	CAPL SP	3L	S$8.15	S$7.00	-13.1
Sino Land	83 HK	3L	HK$17.36	HK$10.68	-36.2

Source: Company Reports

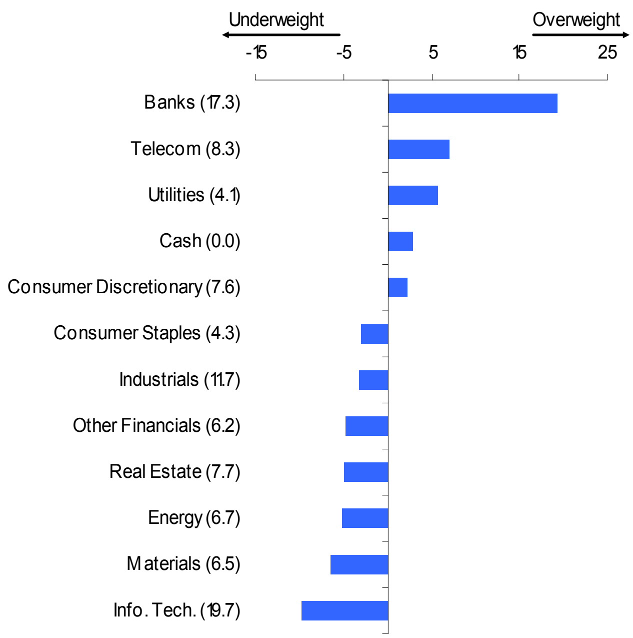
Model Portfolio (Asia/Pacific ex-Japan ex-Pakistan) Percentage Weighting Over / Under MSCI Benchmark*



Model Portfolio (Asia/Pacific ex-Japan ex-Pakistan) Percentage Weighting Over / Under MSCI Benchmark*



Model Portfolio (Asia ex-Japan ex-Pakistan) Percentage Weighting Over / Under MSCI Benchmark*



* Numbers in brackets show neutral weights within MSCI AC Asia Pacific ex Japan and Pakistan US$ Index as at 9 Feb 2007
Consumer Staples includes food & staples retailing, food beverage & tobacco, household products, health care equipment & services, and pharmaceutical & biotechnology.
Industrials include capital goods, commercial services & supplies and transportation.
Information Technology includes technology hardware & equipment, semiconductors and semiconductor equipment, software & services.
Other Financials include diversified financials and insurance
Source: MSCI, Citigroup Investment Research.

Markus Rosgen
+852-2501-2752
markus.rosgen@citigroup.com

Chris W Leung, CFA
+852-2501-2741
chris.w.leung@citigroup.com

Elaine Chu
+852-2501-2768
elaine.chu@citigroup.com

Asia ex Japan

Falling US Import Prices and US Import Growth Puts ROE at Risk

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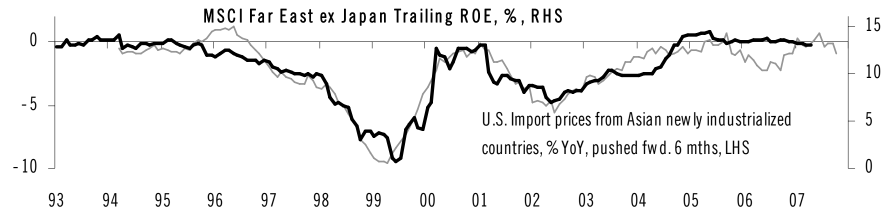
- Export prices and ROE are like twins. They stick together — To use export prices to forecast the direction of ROE has worked a treat in Asia ex. As Asian export growth slows, so export prices fall and hence the knock on to ROE. Current export prices suggest EPS growth may be 2 full percentage points too high. This would push region-wide EPS growth well and truly to single digits. Exporters with consumer angle are most at risk.

- Market undervaluing cash flows. Buy cash flow/income streams — As we've highlighted before, asset-based companies now look expensive vs. cash flow-based companies, and investors are still underweight the domestic sector bar real estate, which is a large consensus overweight. We recommend telecoms, consumers, utilities and banks.

US import prices (Asian export prices) and ROE for the region have been exceedingly highly correlated

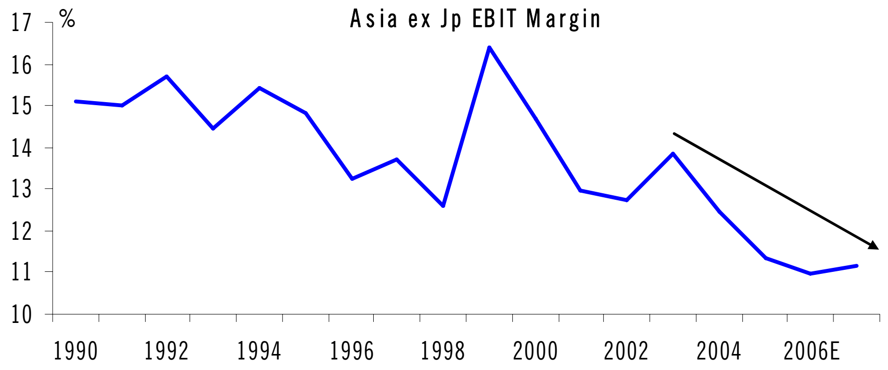


Source: CEIC, MSCI, Citigroup Investment Research

Forecasts of higher margins to prove overly optimistic

The forecasts by ours and the consensus analysts are for margins (EBIT) to improve over the course of 2007. This is doubly important as it would mark the first year of margin improvement since 2003 for Asia ex and secondly, it would scrape EBIT margins off their 16-year low (Figure 1). What drives margins are: input costs decline and margins expand, productivity increases i.e., cost come down, or thirdly, ex factory prices begin to rise.

Figure 1. 2007 could mark the first year of margin improvement since 2003

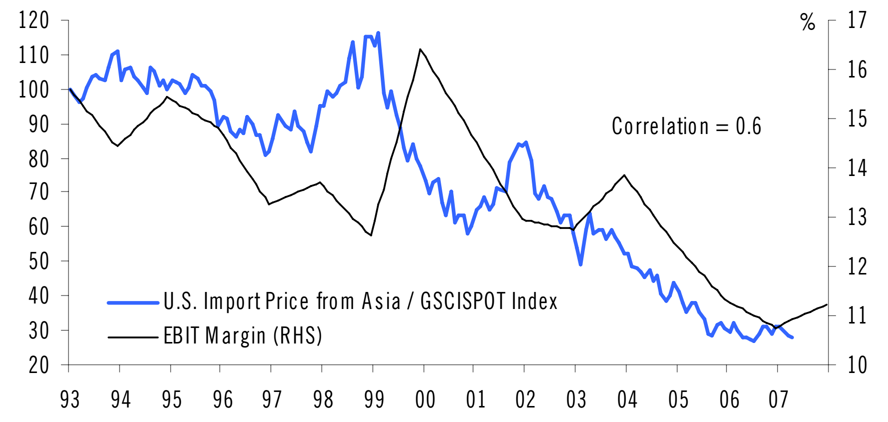


Source: Worldscope, MSCI, Citigroup Investment Research estimates

Our forecasts are for margins to rise in 2007 for the first time in 4 years and scrape off their 16-year low

The input /output price stories are the easier of the three to analyse. On the input side of things, the Goldman Sachs commodity price index is up 6.7% ytd and up 31.2% over the course of the last 24 months. Add on rising labor cost (see Figure 2) and our conclusion is that prices on the input side of the equation are rising, not falling.

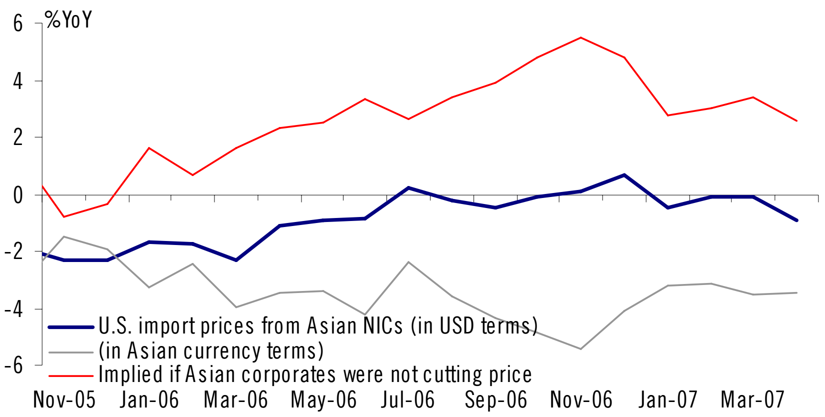
Figure 2. Add on rising labor cost means that prices on the input side of the equation are rising



Source: Bloomberg, CEIC, Citigroup Investment Research

In terms of the output side, the latest US import prices for the month of April show that import prices from the Newly Industrialized Countries (NICs) are falling by 0.9% on a yoy basis vs. 0.3% for the month of March (Figure 3). Even stepping outside of the NICs, the figures do not make for pleasant reading, ASEAN down 1.3% yoy (March –0.9%) and for China down 0.4% yoy. All US import prices are in US$, and so the fact that prices in US$ are declining is doubly bad. On a trade-weighted basis, Asian currencies are up 1.7% ytd and up 2.4% yoy. So in US$ terms, Asian export prices from a currency perspective alone should be up, let alone wishing to recoup some of that lost EBIT margin over the course of the prior 16 years, see Figure 1. Given the price weakness of US$ import prices alone from Asia ex, we can conclude that margins are unlikely to rise due to pricing power.

Figure 3. Asian export prices are still negative yoy in both US$ and Asian currency terms



Source: Bloomberg, CEIC, Citigroup Investment Research estimates

US import prices from Asia ex are off 0.9% yoy in US$ terms when they should be up 2.6% given the stronger Asian currencies

Productivity is thus the remaining variable that can swing the margin improvement to the positive. We have looked at sales per employee rather than turn to official data, which is patchy and often outdated by the time it is released. The picture here is a mixed one. Based on the 2000-05 change in sales per employee, Taiwan has been a real laggard with sales per employee down 9.4% p.a. followed by Thailand with a mere 0.6% improvement and in third place China at +3% p.a. Indonesia at 14.5% (partly due to currency effect), India at a 14.2% increase p.a. and Malaysia at a 9.3% p.a. have all outperformed the region when it comes to productivity improvements. In aggregate, productivity on a simple average has risen by 5.8% p.a. Not bad, but not exactly a productivity revolution either.

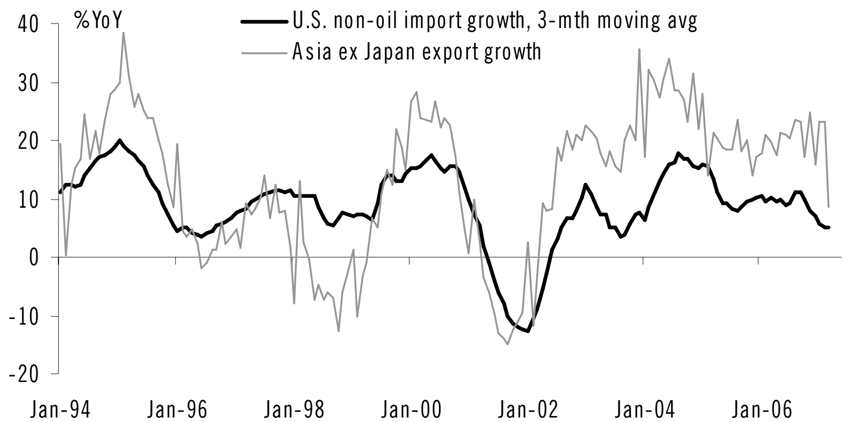
If it is not margin that has driven ROE, it must be volume

As per Figure 1, margins may well be at a 16-year low but asset turn is doing well. In that respect, the region has been fortunate to have enjoyed a strong increase in export growth over the course of the past five years. Since export growth troughed in late 2001, export volume has grown by 19.3% p.a. compounding. This and a more conservative capex rollout has given asset turn a real boost and kept ROEs at 14% over the course of the past two years.

Asset turn has done the lifting in this cycle, not margins

The concerning aspect of the reliance on volume (i.e., asset turn) to generate ROE is that US import growth has taken a turn for the worse over the course of the quarter, see Figure 4. And for all the talk of Asian de-coupling, Asian ex export growth appears to have followed the US import growth slowdown within the blink of an eye. If the US import growth slowdown is a blip, we need not worry. If it is more than a blip, ROE in Asia appears at risk.

Figure 4. US non-oil import growth now the weakest since 2003 at average of 5% yoy



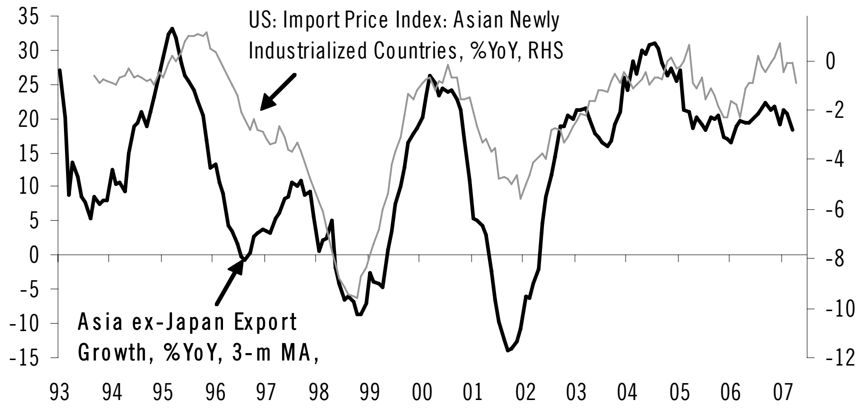
Source: CEIC, Citigroup Investment Research

As with equity markets, export volumes generally lead prices

Changes in export volumes lead to changes in export prices. Prices have never risen when volumes fall, or vice versa

It is worth remembering that as with equity markets where "volume leads prices" this dictum also works in the world of trade. Figure 5 highlights the relationship between export growth in Asia ex and US import prices (i.e., Asian export prices). The surprise is that over the course of the past 14 years, very little has changed, export growth slows, prices fall. Export growth rises, export prices rise. This was the case in the mid-1990s, the early 2000 period and the 2005 period.

Figure 5. Slowing export growth in Asia ex followed by falling US import prices



Source: CEIC, Citigroup Investment Research

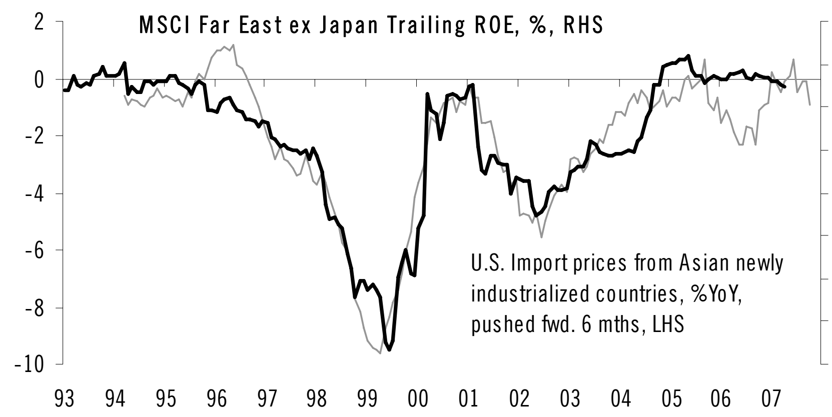
US non-oil import growth now the weakest since 2003 at an average of 5% yoy over the past 3 months. This bodes poorly for Asian export growth

With US import volumes dropping, see Figure 4, it is only a matter of time before the Asian export growth numbers begin to slow. As export growth slows so we should expect to see further weakness in the export price component. This would not bode well for earnings forecasts and ROE.

ROE and exports prices are like twins, they hate being apart

In Asia ex, US import prices (Asian export prices) and ROE for the region have been exceedingly highly correlated, see Figure 6, over the course of the past 14 years. The reason behind this as we saw in Figure 5 is that prices and volume tend to move together. So lower prices, lower volume and vice versa. The good news for investors is that the US import price data leads ROE due to monthly price data being available vs. quarterly/half yearly ROEs being made available.

Figure 6. US import prices (Asian export prices) and ROE for the region have been highly correlated



Source: CEIC, MSCI, Citigroup Investment Research

Export prices lead ROE: lower prices lead to weaker ROE, better prices lead to stronger ROE

Over the course of the past 14 years , there have been two periods of disconnect, the first in the mid-1990s when export prices continued to rally but ROE was already declining, and the second between mid-2005 to mid-2006. The latest decoupling was led by two sectors, oil and materials. During mid-2005 to mid-2006, commodity prices kept rallying and so did the ROEs of these two sectors. Energy ROEs went from 18% to 24% and material ROEs went from 16% to 23%. The increase in the ROE of these two sectors was sufficient to mitigate the negative impact of declining margins within the export sectors. Our forecast for 2007 is lower ROEs in the energy sector and flat margins with the materials.

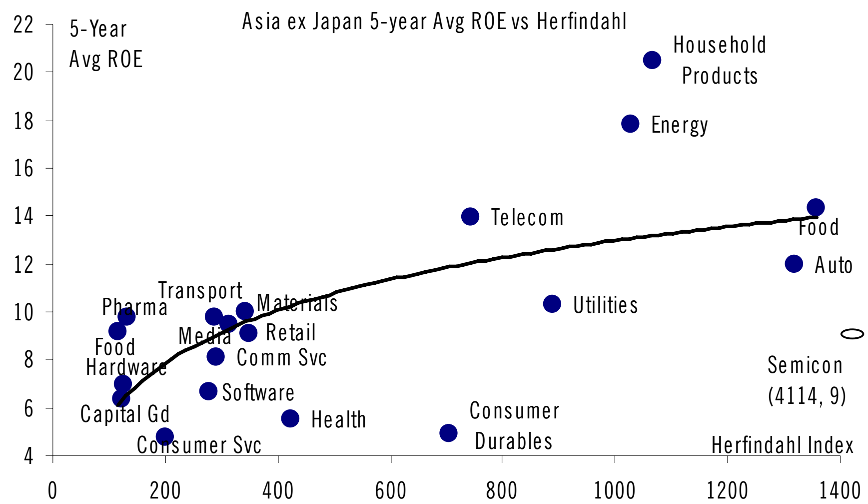
As we have said before, if we are witnessing a one- or two-month blip in US import growth, we should be fine. If it is more than that, it would pay to be more prudent.

Exporters in highly fragmented industries are most at risk

Avoid fragmented (i.e., weak pricing power) sectors. They tend to suffer more than regulated/domestic sectors

Those most at risk in Asia ex are exporters in highly fragmented sectors, in Figure 7 we have used the Herfindahl/Hirschman index of industry concentration/fragmentation to rank sectors within the region. As per Figure 7, those industries that have a low degree of industry concentration have also shown the worst ROEs over the course of the past five years and that in an environment of strong global growth. The sectors with a high degree of fragmentation are thus even more vulnerable should the period of US import growth weakness prove to be more prolonged than currently forecast by both ourselves and the consensus.

Figure 7. High degree of industry fragmentation in Asia leads to unstable pricing



Source: Worldscope, Citigroup Investment Research

What it means for markets and sectors

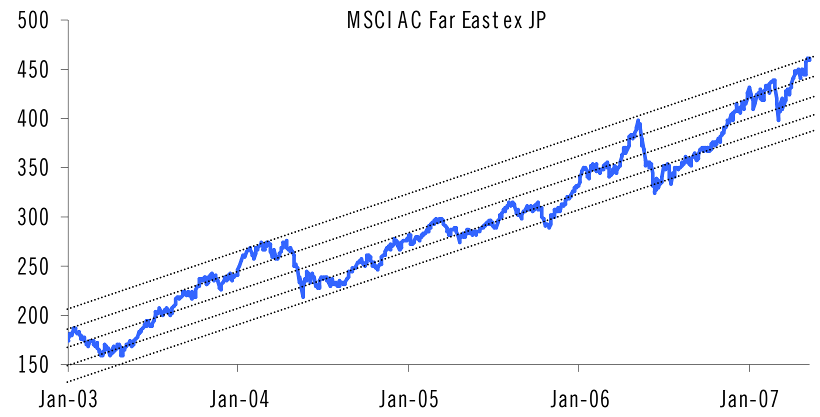
Go long cash flows and yield as they outperform, avoid the exporters

The first point is that exporters are much more vulnerable to this than the domestic sectors. We have written on this subject at length, the latest piece published 9 May 2007, “A Telco Today Brings Surplus Cash Your Way”. Cash flows, we firmly believe, are currently being undervalued relative to asset plays. This has always been a temporary feature of investment life. The other report on the subject was published 23 April, “Domestics Still the Place to Be, Avoid Exporters. Long cash flows, i.e., telecoms, selected utilities, consumers and banks. As we have highlighted previously, both cash flow and yield investing works in Asia ex, and if growth uncertainties rise, they would work all the better. Underweight real estate, base cyclicals, industrials and technology.

Compared with the trading range since 2003, the index looks stretched within the confines of a bull market

In terms of the markets in general, Figure 8 highlights the MSCI AC Asia ex since 2003. Historically, whenever the index has hit the plus 2 standard deviation above the mean line, Asian markets have corrected within the confines of a broader bull market for Asia ex. The breakout into a new trading range scenario if we get further export price declines and volume softness can be discounted, unless the Washington cavalry comes to the rescue.

Figure 8. Historically whenever the index has hit the +2sd line, Asian markets have corrected...



Source: MSCI, Citigroup Investment Research

Below is a list of analysts' top picks in domestic sectors and stocks to sell for exporters.

Figure 9. Top Buy-rated stocks in domestic sectors by total return

Name	RIC	Rating	Price (local curr., May 10)	Expected Total return
Industrial Bank of Korea	024110.KS	1M	18050	48%
Daegu Bank	005270.KS	1L	14900	41%
ICBC (Asia)	0349.HK	1L	17.06	39%
Wing Hang Bank	0302.HK	1L	89.25	38%
Pusan Bank	005280.KS	1L	13500	37%
Noble Group	NOBG.SI	1H	1.71	35%
ICICI Bank	ICBK.BO	1L	842.4	35%
Bank of China	3988.HK	1M	3.92	30%
Hana Financial Group	086790.KS	1L	45750	30%
Far Eastone	4904.TW	1L	39.3	27%
China Power International	2380.HK	1L	3.91	27%
Taiwan Mobile	3045.TW	1L	36.9	26%
DiGi.Com	DSOM.KL	1L	21	25%
PT Telkom	TLKM.JK	1L	9900	25%
China Unicom	0762.HK	1L	11.5	23%
China Life Insurance	2628.HK	1L	25.1	22%
SingTel	STEL.SI	1L	3.34	21%
Huaneng Power International	0902.HK	1L	8.21	16%
Datang International Power Generation	0991.HK	1L	9.64	11%

Source: Citigroup Investment Research estimates

Figure 10. Top Sell-rated stocks in exporter sectors by total return

Name	RIC	Rating	Price (local curr.)	Total return
Beijing Enterprises	0392.HK	3L	22.7	-54%
China Shipping Container Lines	2866.HK	3M	4.11	-50%
China Resources Enterprise	0291.HK	3L	28.3	-48%
Via Technologies	2388.TW	3M	32.35	-47%
NOL	NEPS.SI	3M	3.52	-47%
Jet Airways	JET.BO	3H	715.8	-45%
Hanjin Shipping	000700.KS	3H	43500	-43%
SMRT	SMRT.SI	3L	1.97	-42%
China Merchants Holdings	0144.HK	3L	36.9	-39%
Realtek	2379.TW	3M	72.8	-39%
Nanya Tech	2408.TW	3L	28.4	-38%
AirAsia	AIRA.KL	3H	2.08	-36%
Shipping Corporation of India	SCI.BO	3M	225.5	-33%
Shanghai Industrial	0363.HK	3L	22.5	-31%
Fraser & Neave	FRNM.SI	3L	5.9	-29%
TPV Technology	0903.HK	3M	5.83	-23%
Gamuda	GAMU.KL	3L	8.1	-17%
Johnson Electric	0179.HK	3L	4.75	-13%
ORION	001800.KS	3M	261000	-11%

Source: Citigroup Investment Research estimates

Asia Pacific Market Intelligence

Country

11 May 2007	Mkt Cap USD bil	P/E (x) 2006	2007	2008	EPS Growth (%) 2006	2007	2008	Yield (%) 2007	PBV (x)	ROE (%) 2006	2007	2008	US$ Performance 1W	1M	YTD
Asia Pacific ex Japan	2625.3	17.0	15.1	13.8	9.2	11.6	9.8	3.1	2.6	14.7	15.4	15.5	0.2	2.6	10.3
Asia ex Japan	1756.4	16.8	14.7	13.2	6.7	12.0	10.9	2.8	2.4	12.7	14.4	14.5	-0.3	2.5	7.4
Australia	847.3	18.5	16.6	15.6	22.5	13.2	6.9	3.7	3.2	19.1	18.4	18.4	1.2	2.9	17.1
China	301.6	18.7	16.9	14.4	18.8	8.7	17.0	2.2	3.1	17.3	15.9	16.5	0.1	1.9	4.5
Hong Kong	237.8	17.6	14.7	17.1	10.4	19.4	-14.4	3.5	2.0	11.0	12.2	9.9	-1.9	-0.5	3.6
India	168.3	18.8	18.4	15.6	24.4	11.7	17.6	1.4	5.0	25.7	19.6	19.6	-2.1	9.1	7.4
Indonesia	42.3	18.4	13.8	11.7	19.9	28.5	17.9	3.0	4.2	23.4	25.4	25.7	-1.0	3.4	7.8
Korea	414.5	13.0	12.3	10.8	-4.3	5.1	13.8	1.9	1.8	13.1	13.5	13.8	1.9	5.0	11.5
Malaysia	81.9	20.6	17.7	15.7	14.7	13.9	12.4	3.2	2.6	12.9	13.9	14.3	-0.3	4.4	29.5
New Zealand	21.6	15.9	15.9	15.6	-2.4	0.0	2.1	4.7	3.1	19.8	16.5	16.8	0.2	3.2	5.7
Philippines	14.4	17.5	17.4	15.1	16.5	3.6	14.9	2.5	2.8	14.7	14.6	15.2	3.3	2.8	15.9
Singapore	143.9	19.8	17.7	16.0	26.4	3.5	11.2	3.0	2.4	12.2	13.0	13.1	-1.5	0.7	17.4
Taiwan	308.1	20.0	14.0	11.9	5.1	26.8	15.5	4.0	2.2	11.2	14.6	15.8	-0.9	-0.7	-1.2
Thailand	37.4	10.6	10.5	9.4	-19.2	0.2	11.6	4.3	1.9	18.0	16.6	16.7	-2.0	1.3	8.2

Source: *MSCI Asia Free Ex Japan universe does not cover Australia and New Zealand.

Sector

11 May 2007	Mkt Cap USD bil	P/E (x) 2006	2007	2008	EPS Growth (%) 2006	2007	2008	Yield (%) 2007	PBV (x)	ROE (%) 2006	2007	2008	US$ Performance 1W	1M	YTD
Energy	164.9	12.3	12.9	11.8	4.0	0.2	8.5	3.0	3.1	22.7	19.4	18.4	-0.1	7.5	11.5
Materials	312.3	12.4	11.3	11.0	14.3	12.1	4.3	2.9	3.1	25.1	23.2	21.3	3.1	4.9	23.2
Capital Goods	177.6	20.2	15.3	15.3	37.5	27.7	-0.1	2.2	2.6	12.2	15.2	13.7	2.2	9.2	24.3
Comm Serv & Supplies	20.4	24.4	22.9	20.0	35.0	-4.6	15.9	2.1	5.5	27.3	29.8	29.1	2.8	-0.4	9.2
Transportation	99.3	18.3	15.8	15.8	-12.5	17.0	-4.0	3.4	2.0	10.7	11.5	10.7	0.7	2.5	20.0
Auto & Components	40.7	13.5	12.0	10.0	-30.5	16.6	17.9	2.0	1.6	10.4	12.1	13.0	-0.2	0.3	-3.8
Consumer Durables	28.2	19.9	15.1	11.1	-17.2	32.3	37.1	3.2	2.1	11.3	14.0	17.0	2.6	1.8	7.7
Consumer Services	38.0	21.9	20.1	17.8	17.9	8.7	12.9	3.2	3.1	14.4	14.5	15.4	-0.7	-0.5	12.2
Media	23.0	20.4	20.9	18.3	15.0	3.0	13.7	4.1	3.1	14.2	13.5	15.1	-0.9	1.2	8.2
Retailing	37.3	23.1	19.7	17.7	6.5	15.3	13.3	2.7	4.0	17.6	18.3	18.3	0.5	2.0	12.6
Food & Staples Retailing	58.3	27.9	24.2	21.0	14.9	14.3	16.9	2.3	5.8	22.3	24.0	25.2	1.5	4.7	24.9
Food Bev & Tobacco	65.3	19.6	17.6	15.6	17.5	9.7	13.3	3.0	3.0	15.6	15.4	15.9	1.1	4.5	13.7
Household Products	9.1	27.6	22.1	18.9	20.7	20.8	16.3	2.4	6.4	23.6	34.0	34.0	0.1	5.1	-0.3
Health Care Equip & Serv	12.9	27.6	24.8	21.3	55.8	6.1	18.4	2.6	4.7	17.9	17.8	19.1	0.4	4.3	10.9
Pharma Biotech & Life Sciences	24.4	29.7	23.3	19.4	36.3	28.0	21.9	1.2	6.0	20.6	20.9	21.2	-0.5	5.5	19.3
Banks	489.0	17.4	14.2	13.0	5.9	16.5	10.3	3.7	2.5	15.4	16.5	16.6	-0.4	0.8	7.8
Diversified Financials	85.0	22.2	18.4	16.5	1.6	22.3	11.1	2.8	3.0	15.7	15.1	15.5	-0.4	3.2	15.8
Insurance	124.9	21.2	18.7	17.1	17.3	12.2	8.9	2.9	3.5	17.5	16.8	17.0	-0.3	1.0	1.9
Real Estate	228.4	20.2	18.2	18.0	0.0	8.8	1.5	3.4	1.6	7.8	8.4	8.1	-1.0	1.5	11.1
Software & Services	45.9	37.3	24.2	19.2	84.3	11.8	25.3	0.8	10.4	24.3	29.8	28.9	-2.4	6.2	5.6
Technology Hardware & Equip	124.0	25.3	16.4	12.1	10.1	44.6	31.3	2.3	2.4	8.1	13.2	15.9	-1.4	1.3	-2.9
Semi & Semi Equipment	170.6	12.8	13.8	11.7	27.0	-10.5	17.8	2.6	2.3	16.1	15.4	16.4	-0.8	-2.4	-1.7
Telecom	160.8	15.7	15.5	13.5	3.2	5.4	12.6	4.5	3.1	20.0	17.3	18.1	-0.9	1.6	4.3
Utilities	85.0	15.5	14.5	13.5	5.5	7.0	7.0	3.3	1.7	10.7	10.7	10.8	-0.6	1.4	7.5

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2005E refers to June 2005E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet, Citigroup estimates.

Asia Pacific Model Portfolio by Country

Name	Price 11 May 07	YTD Perf (%)	Ticker	CIR Rating	MSCI Wght (%)	Portfolio Wght (%)	FY07E P/E (x)	FY07E EPS Gwth (%)	FY07E Div Yield (%)	FY07E P/BV (x)	FY07E ROE (%)	Up/Downside to Target (%)
Australia/New Zealand (-234 bps Underweight)					**31.3**	**29.0**						
Aust & NZ Banking	30.4	7.9	ANZ.AX	1L		6.0	14.6	10.6	4.6	2.7	18.6	3.7
Brambles	13.4	4.7	BXB.AX	1M		5.0	29.1	53.8	1.3	12.5	43.1	13.9
Rio Tinto Ltd	92.0	23.8	RIO.AX	1M		3.0	12.4	13.5	1.7	3.9	31.2	2.2
Tabcorp Hld	17.7	4.7	TAH.AX	2M		3.0	17.4	-2.7	5.1	2.7	15.8	-6.5
Telecom NZ	4.9	0.0	TEL.NZ	2M		5.0	13.3	-0.9	6.8	3.1	22.9	2.9
Telstra	4.9	17.4	TLS.AX	2M		5.0	17.1	-1.3	5.8	4.8	27.9	-12.6
Woodside Pet	42.4	11.1	WPL.AX	2M		2.0	19.9	0.3	3.1	4.6	23.2	-3.0
China (-783 bps Underweight)					**11.8**	**4.0**						
China Netcom	18.8	-9.7	0906.HK	2L		1.0	11.0	5.6	3.2	1.5	13.5	20.6
China Tel	4.1	-2.8	0728.HK	1L		2.0	14.6	1.8	2.5	1.5	10.2	15.9
CNOOC	6.9	-7.0	0883.HK	1L		1.0	11.6	-20.2	2.6	2.4	20.4	16.9
Hong Kong (+503 bps Overweight)					**10.0**	**15.0**						
Cathay Pacific	19.6	2.0	0293.HK	3L		2.0	16.3	8.7	2.5	1.7	10.2	-2.9
Guoco	111.5	16.1	0053.HK	1L		1.0	12.9	-46.8	3.6	0.9	7.3	1.3
Hong Kong & China Gas	16.9	6.4	0003.HK	1L		3.0	12.9	35.2	2.0	3.9	29.8	7.5
Henderson Land	53.3	22.4	0012.HK	1L		2.0	18.0	-7.8	2.1	1.1	6.2	4.0
HSBC	145.0	1.7	0005.HK	2M		6.0	12.0	4.1	4.9	1.9	15.5	5.5
Li and Fung	26.4	8.9	0494.HK	1L		1.0	32.4	20.7	2.5	10.9	33.7	17.6
India (-288 bps Underweight)					**6.9**	**4.0**						
Bharti Airtel	813.9	29.4	BRTI.BO	1L		1.0	25.6	45.9	0.6	8.6	33.7	18.0
State Bank of India	1,149.2	-7.8	SBI.BO	1L		1.0	12.1	17.4	1.4	1.7	14.4	7.5
Wipro	545.7	-9.7	WIPR.BO	1L		2.0	21.7	24.0	1.8	6.3	29.0	25.5
Indonesia (-52 bps Underweight)					**1.5**	**1.0**						
PT Telkom	9,600.0	-5.0	TLKM.JK	1L		1.0	15.4	12.7	3.6	5.4	35.2	25.0
Korea (+455 bps Overweight)					**15.4**	**20.0**						
KEPCO	38,950.0	-8.1	015760.KS	NR		3.0	10.3	17.1	3.0	0.6	5.4	NA
Kookmin Bank	82,200.0	9.7	060000.KS	1L		5.0	9.0	24.5	3.9	1.7	18.6	15.0
Samsung Elec	573,000.0	-6.5	005930.KS	1L		5.0	11.9	-10.2	1.0	1.7	14.4	22.2
Shinhan Financial	53,400.0	12.4	055550.KS	1L		4.0	10.8	6.1	2.6	1.3	12.2	22.3
Shinsegae	608,000.0	4.8	004170.KS	2L		3.0	20.7	18.2	0.2	3.4	16.5	-7.9
Malaysia (+297 bps Overweight)					**3.0**	**6.0**						
DiGi.com	21.0	38.2	DSOM.KL	1L		2.0	16.5	18.3	6.0	7.7	46.5	19.0
IJM Corp	8.7	18.4	IJMS.KL	NR		1.0	17.6	25.1	1.9	1.7	9.7	NA
Public Bank	9.9	27.7	PUBM.KL	3L		1.0	18.2	5.1	5.1	3.6	19.6	-22.9
TA Enterprise	1.8	131.4	TAES.KL	1L		1.0	15.3	56.7	4.7	1.2	8.0	49.5
Tenaga	11.8	8.3	TENA.KL	1L		1.0	13.9	94.7	3.8	2.2	15.9	16.9
Philippines (-57 bps Underweight)					**0.6**	**0.0**						
Singapore (+552 bps Overweight)					**5.5**	**11.0**						
ComfortDelGro	2.2	37.9	CMDG.SI	1L		2.0	19.4	14.7	3.4	3.0	15.5	10.8
DBS	23.5	4.0	DBSM.SI	1L		3.0	14.6	17.1	3.1	1.8	12.2	13.8
Parkway	4.2	33.1	PARM.SI	3L		1.0	36.7	30.1	2.6	6.6	18.0	-27.3
StarHub	2.9	10.3	STAR.SI	1L		2.0	14.6	43.5	5.2	34.2	234.0	13.8
SPH	4.4	2.8	SPRM.SI	1L		3.0	15.5	24.0	5.7	3.9	25.1	21.6
Taiwan (-535 bps Underweight)					**12.3**	**7.0**						
Chinatrust	26.3	-3.5	2891.TW	3L		2.0	13.4	253.3	-	1.9	14.2	-1.1
Taishin	16.6	-13.4	2887.TW	1L		3.0	20.3	134.6	-	1.2	6.1	17.8
Taiwan Mobile	36.0	6.5	3045.TW	1L		2.0	54.9	-79.8	1.7	2.2	4.1	27.8
Thailand (-58 bps Underweight)					**1.6**	**1.0**						
Thai Airways	45.0	1.7	THAI.BK	1M		1.0	9.7	-12.0	3.2	1.1	11.2	33.3
Cash (+200 bps Overweight)					**0.0**	**2.0**						
Total					**100.0**	**100.0**	**14.9**	**21.9**	**3.2**	**2.2**	**14.7**	

Neutral weight as of Feb 9, 2007

Source: Citigroup Investment Research estimates, IBES for non-rated stocks (NR)

Asia Pacific Model Portfolio by Sector

Name	Price 11 May 07	YTD Perf (%)	Country	MSCI Wght (%)	Portfolio Wght (%)	FY07E P/E (x)	FY07E EPS Gwth (%)	FY07E Div Yield (%)	FY07E P/BV (x)	FY07E ROE (%)	Up/Downside to Target (%)
Banks (+1162 bps Overweight)				**19.4**	**31.0**						
Aust & NZ Banking	30.4	7.9	AU		6.0	14.6	10.6	4.6	2.7	18.6	3.7
Chinatrust	26.3	-3.5	TW		2.0	13.4	253.3	0.0	1.9	14.2	-1.1
DBS	23.5	4.0	SG		3.0	14.6	17.1	3.1	1.8	12.2	13.8
HSBC	145.0	1.7	GB		6.0	12.0	4.1	4.9	1.9	15.5	5.5
Kookmin Bank	82,200.0	9.7	KR		5.0	9.0	24.5	3.9	1.7	18.6	15.0
Public Bank	9.9	27.7	MY		1.0	18.2	5.1	5.1	3.6	19.6	-22.9
Shinhan Financial	53,400.0	12.4	KR		4.0	10.8	6.1	2.6	1.3	12.2	22.3
State Bank of India	1,149.2	-7.8	IN		1.0	12.1	17.4	1.4	1.7	14.4	7.5
Taishin	16.6	-13.4	TW		3.0	20.3	134.6	0.0	1.2	6.1	17.8
Consumer Discre. (+337 bps Overweight)				**6.6**	**10.0**						
Li and Fung	26.4	8.9	HK		1.0	32.4	20.7	2.5	10.9	33.7	17.6
Shinsegae	608,000.0	4.8	KR		3.0	20.7	18.2	0.2	3.4	16.5	-7.9
SPH	4.4	2.8	SG		3.0	15.5	24.0	5.7	3.9	25.1	21.6
Tabcorp Hld	17.7	4.7	AU		3.0	17.4	-2.7	5.1	2.7	15.8	-6.5
Consumer Staples (-512 bps Underweight)				**6.1**	**1.0**						
Parkway	4.2	33.1	SG		1.0	36.7	30.1	2.6	6.6	18.0	-27.3
Energy (-290 bps Underweight)				**5.9**	**3.0**						
CNOOC	6.9	-7.0	HK		1.0	11.6	-20.2	2.6	2.4	20.4	16.9
Woodside Pet	42.4	11.1	AU		2.0	19.9	0.3	3.1	4.6	23.2	-3.0
Financials , Others (-588 bps Underweight)				**7.9**	**2.0**						
Guoco	111.5	16.1	HK		1.0	12.9	-46.8	3.6	0.9	7.3	1.3
TA Enterprise	1.8	131.4	MY		1.0	15.3	56.7	4.7	1.2	8.0	49.5
Industrials (+26 bps Overweight)				**10.7**	**11.0**						
Brambles	13.4	4.7	AU		5.0	29.1	53.8	1.3	12.5	43.1	13.9
Cathay Pacific	19.6	2.0	HK		2.0	16.3	8.7	2.5	1.7	10.2	-2.9
ComfortDelGro	2.2	37.9	SG		2.0	19.4	14.7	3.4	3.0	15.5	10.8
IJM Corp	8.7	18.4	MY		1.0	17.6	25.1	1.9	1.7	9.7	NA
Thai Airways	45.0	1.7	TH		1.0	9.7	-12.0	3.2	1.1	11.2	33.3
Information Technology (-665 bps Underweight)				**13.6**	**7.0**						
Samsung Elec	573,000.0	-6.5	KR		5.0	11.9	-10.2	1.0	1.7	14.4	22.2
Wipro	545.7	-9.7	IN		2.0	21.7	24.0	1.8	6.3	29.0	25.5
Materials (-793 bps Underweight)				**10.9**	**3.0**						
Rio Tinto Ltd	92.0	23.8	AU		3.0	12.4	13.5	1.7	3.9	31.2	2.2
Real Estate (-687 bps Underweight)				**8.9**	**2.0**						
Henderson Land	53.3	22.4	HK		2.0	18.0	-7.8	2.1	1.1	6.2	4.0
Telecommunications (+1445 bps Overweight)				**6.5**	**21.0**						
Bharti Airtel	813.9	29.4	IN		1.0	25.6	45.9	0.6	8.6	33.7	18.0
China Netcom	18.8	-9.7	HK		1.0	11.0	5.6	3.2	1.5	13.5	20.6
China Tel	4.1	-2.8	CN		2.0	14.6	1.8	2.5	1.5	10.2	15.9
DiGi.com	21.0	38.2	MY		2.0	16.5	18.3	6.0	7.7	46.5	19.0
PT Telkom	9,600.0	-5.0	ID		1.0	15.4	12.7	3.6	5.4	35.2	25.0
StarHub	2.9	10.3	SG		2.0	14.6	43.5	5.2	34.2	234.0	13.8
Taiwan Mobile	36.0	6.5	TW		2.0	54.9	-79.8	1.7	2.2	4.1	27.8
Telecom NZ	4.9	0.0	NZ		5.0	13.3	-0.9	6.8	3.1	22.9	2.9
Telstra	4.9	17.4	AU		5.0	17.1	-1.3	5.8	4.8	27.9	-12.6
Utilities (+365 bps Overweight)				**3.4**	**7.0**						
Hong Kong & China Gas	16.9	6.4	HK		3.0	12.9	35.2	2.0	3.9	29.8	7.5
KEPCO	38,950.0	-8.1	KR		3.0	10.3	17.1	3.0	0.6	5.4	NA
Tenaga	11.8	8.3	MY		1.0	13.9	94.7	3.8	2.2	15.9	16.9
Cash (+200 bps Overweight)				**0.0**	**2.0**						
Total				**100.0**	**100.0**	**14.9**	**21.9**	**3.2**	**2.2**	**14.7**	

Neutral weight as of Feb 9, 2007

Source: Citigroup Investment Research estimates, IBES for non-rated stocks (NR)

Asia ex Strategy

A Telco Today Brings Surplus Cash Your Way

Markus Rosgen
+852-2501-2752
markus.rosgen@citigroup.com

Chris W Leung, CFA
+852-2501-2741
chris.w.leung@citigroup.com

Elaine Chu
+852-2501-2768
elaine.chu@citigroup.com

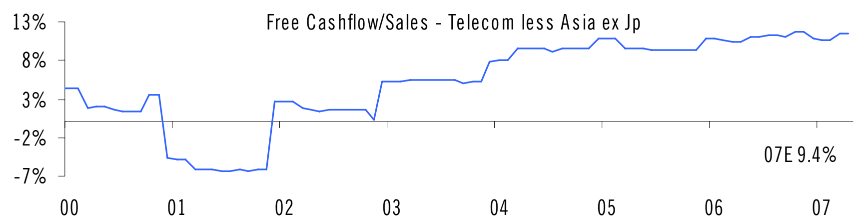
- Telecoms has carried out more capital management than any other sector — The combination of strong free cash flows, 8.2% free cashflow yield and limited investment opportunities has led to great capital management focus. Singaporean, Malaysian and now Taiwanese telcos are all returning cash to shareholders. This should be positive for stock price performance.

- High free cash flow and high dividend yield are outperforming attributes — Contrary to popular belief, both high free cash flow and high dividend yields are rewarded by the equity market. High free cash flow stocks have outperformed by 5% p.a. and high dividend yields by 9.1% since 2000. We expect both dividends and free cashflow to continue to grow in the future.

- Telecoms is cheap absolute and relative — On P/CE or EV/EBITDA, the sector has traded at 1 sd below mean since 1990. On a relative EV/EBITDA, it is at its cheapest ever. Better capital management, hence higher ROE, EPS and cash returns should push valuations up. The sector remains underowned by investors.

- Top telecom picks — We believe an optimal mix of growth and/or yield is available from Bharti, PT Telkom, SingTel, StarHub, LG Dacom and China Telecom. Among other Buy rated names, we view DiGi, PLDT and Globe as coming with the potential and the will to return surplus cash to shareholders. Korean and Chinese operators have the potential, but lack the will, in our view.

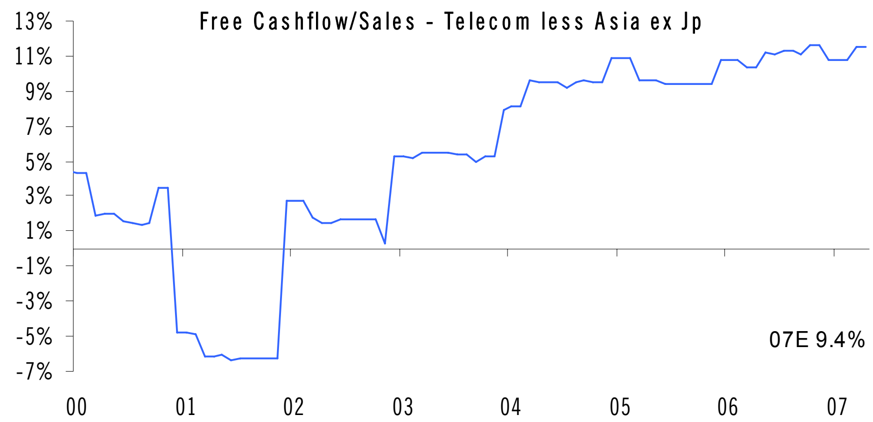
Asia ex Japan Telecom Free Cashflow/Sales Relative to Asia ex Japan



Source: Worldscope, Citigroup Investment Research

We have been overweight telecoms for a while now and have viewed the sector in two ways. First, for countries such as India, China and Indonesia we view their sectors as providing growth. The second basket we view as great surplus cashflow generators. Asian telecom stocks have outperformed as free cashflow generators for a while now, as evidenced by figure 1. Based on our 2007 forecasts, the free cash flow to sales ratio of the sector stands at 14.4%, a full 9% above the regional average. Unlike telecoms in Europe, the Asian telecoms were not lumbered with high 3G licence fee costs and hence balance sheets in Asia ex remained much healthier. The net effect of this has been that much more cashflow has found its way into the hands of the shareholders than into the hands of the bondholders. The reason this is so key is that, contrary to popular belief, both cashflow investing and dividend investing in Asia has worked a treat. In the case of free cashflow, investing the excess annual return of this strategy on an equal weighted basis would have been 5% since 2000 (figure 2). A strategy based on dividend yield would have done even better, outperforming the region by 9.1% p.a. based on the same criteria as with the free cash flow analysis (figure 3).

Figure 1. Asia ex Japan Telecom Free Cashflow/Sales Relative to Asia ex Japan

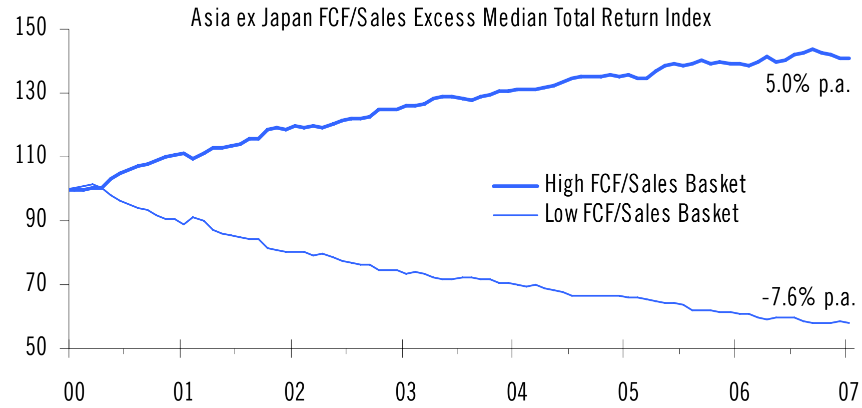


Source: Worldscope, Citigroup Investment Research

Why does dividend yield work better? Very simply, there are those which generate free cashflow but do not necessarily pay it out – free cashflow hoarders. Nice to have, but nicer if it is distributed to shareholders. Hence the dividend yield as a strategy tends to work much better.

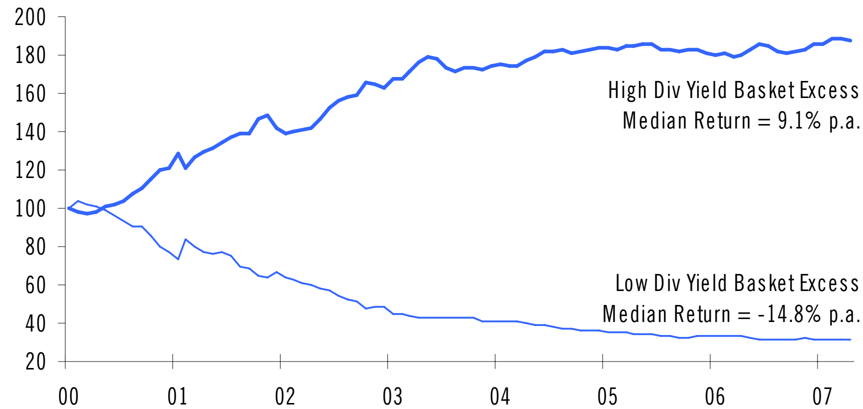
So far, the telecoms sector has been at the forefront of the special dividend/capital reduction theme. The reasons for this are three-fold. First, these companies are hugely free cash flow generative. Second, they are in mature businesses with high barriers to entry. Third, these companies are run by paid managers and not by families. Their incentive set is thus substantially different. For management to get paid come year-end, certain criteria need to be met, be it ROE, EPS growth or share price performance. Capital reductions help all three, special dividends more the latter. With family owned businesses, the focus on such matrixes just seems to be less. After all, the company is already yours. And as we are told – though are yet to experience ourselves – if you are already worth a few hundred million US dollars, what is an extra ten or twenty million. In other words, the incentive set is not as clear as with the hired hand.

Figure 2. Cashflow Investing Excess Annual Return on an Equal Weighted Basis is 5% Since 2000



Source: Worldscope, MSCI, Citigroup Investment Research

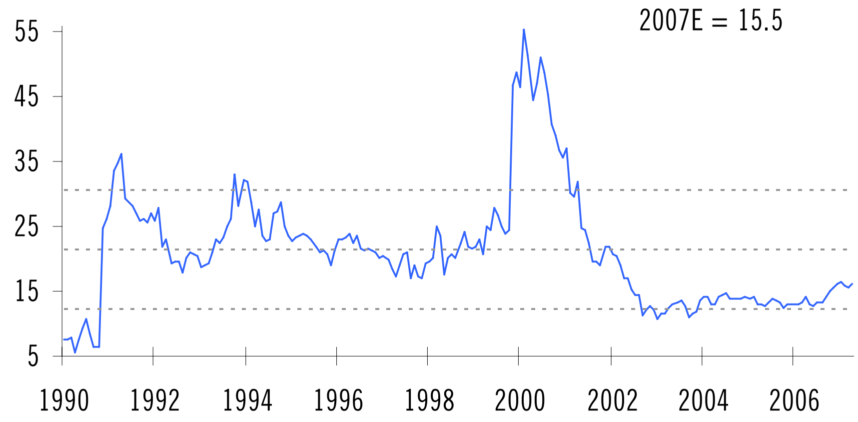
Figure 3. A Dividend Yield Strategy has Done Even Better, Outperfoming the Region by 9.1% p.a.



Source: Worldscope, MSCI, Citigroup Investment Research

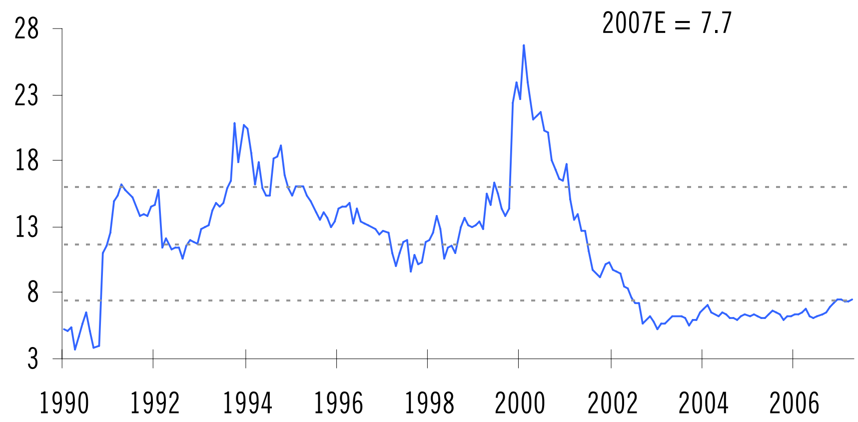
Valuations also speak in favour of the telecom sector. The charts below come from *the Asian Macro Investigator*, dated 2 May 2007. On both P/E and P/CE, valuations remain at the very bottom end of the range. On a P/CE basis, valuations are actually 1 sd below mean.

Figure 4. MSCI AC Asia Pacific ex Japan Telecom Trailing P/E



Source: MSCI, IBES, Citigroup Investment Research

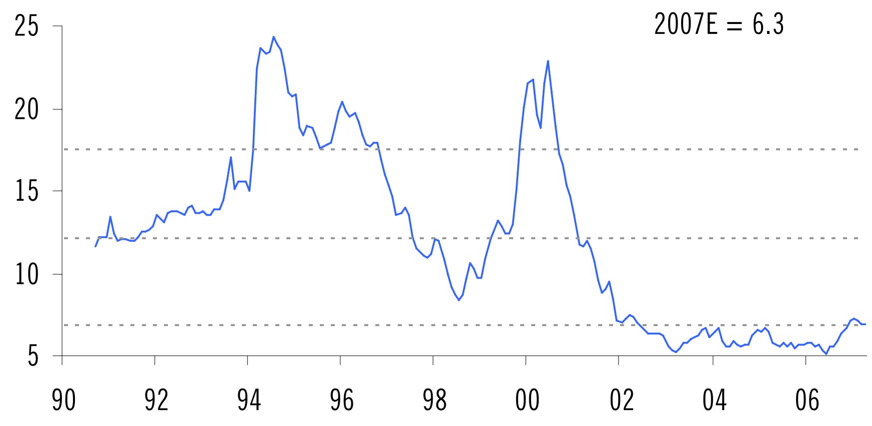
Figure 5. MSCI AC Asia Pacific ex Japan Telecom Trailing P/CE



Source: MSCI, IBES, Citigroup Investment Research

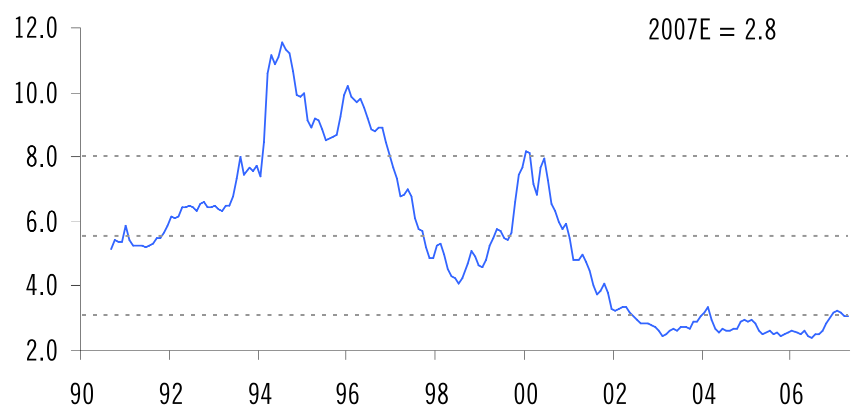
Turning to EV/EBITDA or EV/sales, again valuations are 1 sd below mean. On an absolute basis, this is a seriously de-rated sector. The catalyst to make it more expensive is the fact that this sector is and has the ability to return cash to shareholders.

Figure 6. MSCI AC Asia Pacific ex Japan Telecom Trailing EV/EBITDA



Source: FactSet, IBES, Citigroup Investment Research

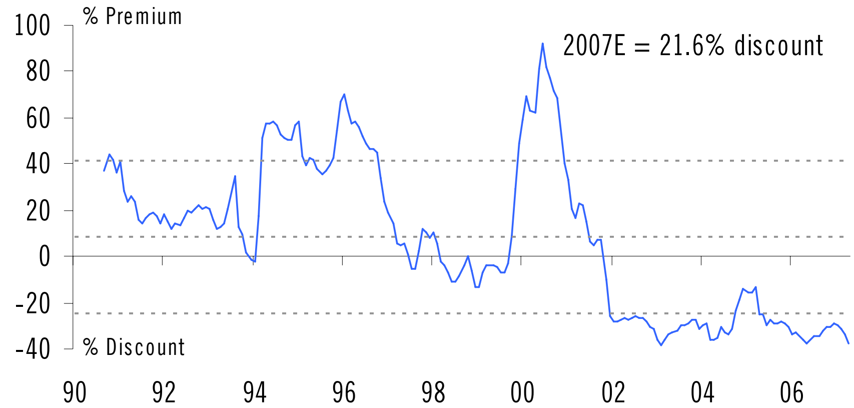
Figure 7. MSCI AC Asia Pacific ex Japan Telecom Trailing EV/Sales



Source: FactSet, IBES, Citigroup Investment Research

Relative to the region, the de-rating is clear to see. EV to EBITDA rel to the region is now at a 22% discount on a prospective basis, based on trailing we are 1 sd below mean.

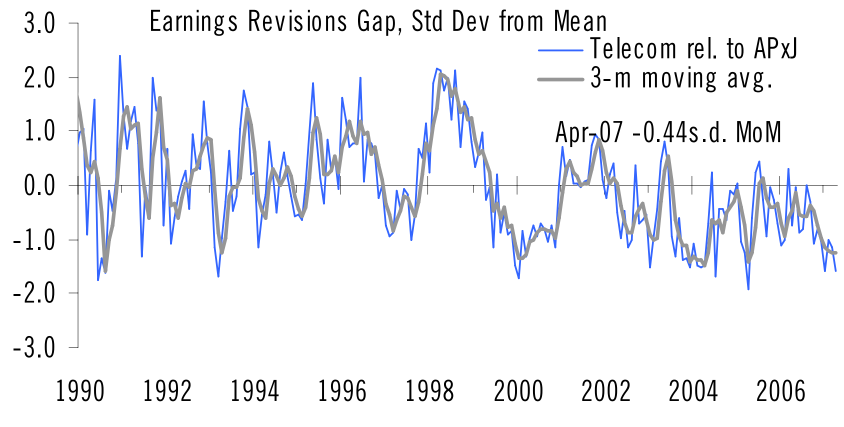
Figure 8. MSCI AC Asia Pacific ex Japan Telecom Trailing EV/EBITDA relative to the region



Source: Citigroup Investment Research

What has hurt the sector is relative earnings revisions. While the cyclicals and real estate sectors have had upward revisions to earnings, the telecoms have lagged since 2003. As the evidence of a US mid-cycle slowdown mounts, earnings revisions in more exposed sectors will turn negative. On a relative basis, telecoms will begin to look better. The added kicker is that capital reductions have a positive kicker on EPS forecasts. Relative earnings revisions are already at minus 2 sd below the mean, as bad as they have gotten historically.

Figure 9. MSCI AC Asia Pacific ex Japan Telecom Earnings Revisions Relative to APxJ



Source: IBES, Citigroup Investment Research

The reversal towards a more positive earnings trend will further help galvanize investor interest in the sector.

We continue to view the sector as a great place to invest. The sector is underowned. It has characteristics that lead to outperformance in its free cash flow and dividend yield, with both absolute and relative value and strong potentials for positive earnings surprises.

Below is a list of top picks by our analysts, sorted by expected price return.

Figure 10. Analysts' Top Telecoms Picks

Name	RIC code	Rating	Price (local curr.)	Expected Price Return	Div Yield 2007E	Expected Total Return
LG Dacom	015940.KS	1M	22550.0	33.0	2.7	35.8
Taiwan Mobile	3045.TW	1L	35.9	28.1	8.4*	36.5
China Comm Services	0552.HK	1M	4.8	27.5	1.5	29.0
Far Eastone	4904.TW	1L	39.1	20.4	13.0*	33.4
China Telecom	0728.HK	1L	3.9	21.8	2.6	24.4
PT Telkom	TLKM.JK	1L	9950.0	20.6	3.5	24.1
DiGi.Com	DSOM.KL	1L	21.2	17.9	6.1	24.0
True Corp	TRUE.BK	1H	7.3	23.3	0.0	23.3
China Unicom	0762.HK	1L	11.7	19.0	1.9	20.9
PLDT	TEL.PS	1L	2550.0	15.7	5.1	20.8
StarHub	STAR.SI	1L	2.9	14.6	5.2	19.8
SingTel	STEL.SI	1L	3.4	11.1	7.1	18.3
Bharti Airtel	BRTI.BO	1L	816.0	17.6	0.3	17.9
Chunghwa Telecom	2412.TW	1L	63.0	11.1	6.4	17.5
Globe Telecom	GLO.PS	1L	1290.0	12.4	4.9	17.3
Telekom Malaysia	TLMM.KL	1L	10.7	12.1	4.3	16.4
Shin Corp.	SHIN.BK	1H	29.0	6.9	8.2	15.1
Reliance Communications	RLCM.BO	1M	462.3	10.3	0.4	10.8

Prices as of 8 May; Source: Citigroup Investment Research estimates

*Include Capital Reduction

Asia ex Japan Looks Expensive on P/BV

Markus Rosgen
+852-2501-2752
markus.rosgen@citigroup.com

Chris W Leung, CFA
+852-2501-2741
chris.w.leung@citigroup.com

Elaine Chu
+852-2501-2768
elaine.chu@citigroup.com

- Asia ex at steepest premium on a trailing P/E basis since '90 vs. MSCI AC World – The 17-year average is a 17% discount vs. the AC World index. On a P/BV basis, the discount remains at 15% with a 9% lower ROE, both based on '07 estimates. Based on P/BV, Asia ex did trade at a premium during 1994 to the AC World index, but ROE at that time was 50% higher in Asia ex.

- 6 out of 10 countries in Asia ex looks expensive on P/BV – 6 out of the 10 in Asia ex now trade at more than 1 standard deviation above their 17-year averages based on P/BV. Interestingly, the ROE counterpart shows a shortfall in the case of Hong Kong and Indonesia where P/BV multiples are above ROEs.

- India still expensive on overall valuations – Looking at the six common valuations – P/BV, P/E, P/CE, EV/EBITDA, EV/Sales and DY – India is now 1sd above all of these bar P/E (1sd below in the case of DY) and is thus crowned as the most expensive market in the region. Next in line is China with four out of the six ratios now 1sd expensive. Four markets are below the 1 standard deviation range on all six criteria: Malaysia, the Philippines, Taiwan and Thailand.

- Consumer and Industrials look dear – Based on the same six criteria, the broad consumer sector in Asia ex ranks 1sd above mean in four out of the six criteria. Dividend yield is just above the -1sd threshold. Industrials come second with three out of the six criteria being 1sd above the mean and materials rank third with a mere two being 1sd above the mean. At the other end, technology, telecoms and utilities are all still trading within their historical parameters.

As we looked through the various valuation charts of Asian markets vs. their global peers as well as markets and sectors on an absolute/relative basis, a few observations come to light. On a trailing P/E basis, Asia ex is now trading at the steepest premium since 1990 vs. MSCI AC World. The 17-year average is a 17% discount vs. the AC World index. On a P/BV basis, the discount remains at 15% with a 9% lower ROE, both based on 2007 estimates. Based on P/BV, Asia ex did trade at a premium during 1994 to the AC World index, but one needs to bear in mind, ROE at that time was 50% higher in Asia ex than for the AC World index.

Relative to the GEMS universe, Asia ex trades at a 7% forward P/E premium which is in line with the long-run historic average. On a P/BV basis, Asia ex looks cheap at 1 st dev below historic averages at a 6% discount; the counter part, ROE, is also at 1 st dev below the historic average with a 12% discount. In other words, Asia ex comes slightly cheaper but with a lower ROE due to our poor terms of trade.

In terms of individual countries, six out of the 10 in Asia ex now trade at more than 1 standard deviation above their 17-year averages based on P/BV. Only Malaysia, the Philippines, Taiwan and Thailand are still below the 1 st dev P/BV threshold. Interestingly, the ROE counterpart shows a shortfall in the case of Hong Kong and Indonesia where P/BV multiples are above ROEs. The high P/BVs are explained away due to the prevalence of high ROEs. While this is correct, it is worth noting that since 1975 here in Asia ex, P/BV led ROE by some 4.4 months with P/BV peaking ahead of ROE. As such, one's confidence level in the P/BV /ROE argument should diminish as the cycle matures.

Looking at the six common valuations – P/BV, P/E, P/CE, EV/EBITDA, EV/Sales and DY – India is now 1 standard deviation above all of these bar P/E (1 st dev below in the case of DY) and is thus crowned as the most expensive market in the region. Next in line is China (please note this is MSCI China) with four out of the six ratios now 1 standard deviation expensive. Third prizes go to Hong Kong, Korea and Singapore where valuations exceed 1 standard deviation both on a P/BV and P/CE basis. Four markets are below the 1 standard deviation range on all six criteria: Malaysia, the Philippines, Taiwan and Thailand.

Figure 1. Valuations Ratios vs. 1sd Threshold

	Overall "Expensive" Count	P/E	P/BV	P/CE	Dividend Yield	EV-to-EBITDA	EV-to-Sales
China	4/6	Below	Above	Below	Below	Above	Above
Hong Kong	3/6	Above	Above	Below	Below	Below	Below
India	5/6	Below	Above	Above	Below	Above	Above
Indonesia	1/6	Below	Above	Below	Above	Below	Below
Korea	2/6	Below	Above	Above	Above	Below	Below
Malaysia	0/6	Below	Below	Below	Above	Below	Below
Philippines	0/6	Below	Below	Below	Above	Below	Below
Singapore	2/6	Below	Above	Above	Above	Below	Below
Taiwan	0/6	Below	Below	Below	Above	Below	Below
Thailand	0/6	Below	Below	Below	Above	Below	Below
Overall "Expensive" Count		1/10	6/10	3/10	3/10	2/10	2/10

Source: Citigroup Investment Research

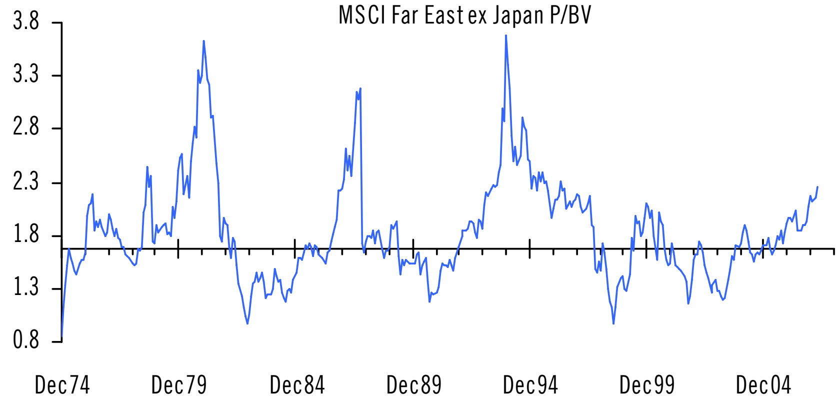
*Overall "Expensive" count: when trailing valuations rise above +1sd thresholds and fall below -1sd threshold in the case of dividend yield relative to own history since 1990.

The valuation story among the 10 sectors is worth a look. Based on the same six criteria, the broad consumer sector in Asia ex ranks 1 st dev above mean in four out of the six criteria. Dividend yield is just above minus 1 st dev. Industrials come second with three out of the six criteria being 1 st dev above the mean and materials rank third with a mere two being 1 st dev above the mean. Three sectors are all still trading within their historic parameters: technology, telecoms and utilities. In the case of tech, the dividend yield is actually 1.2 standard deviation above the historic mean.

On the basis of P/E, all Asia ex sectors are currently trading at below 1 st dev above the mean. On P/CE only the consumers are at more than 1 st dev above the mean and finally on an EV/EBITDA only the consumers and industrials look expensive.

Final thought and chart. Below we have 30-year of P/BV history for the region, with a couple of points worth noting. Anyone in the 1980s who thought it would be different than the late 1970s got a rude shock. Anyone in the 1990s who thought it would be different than the late 1970s and 1980s came in for another rude awakening. We all like to believe that what happens in our lives is unique and it certainly is unique to us. Sadly, however it does not seem unique to mankind. The second simplistic observation is that cycles have been getting shorter as time progressed. Thirdly, from 2.4x P/BV (current trailing multiple) "the only way is up" with a peak P/BV between 3.2x to 3.9x. That at least, was the lesson of the 1970s, 1980s and 1990s and until the valuation/index goes vertical will most probably be the lesson of this cycle. Asia ex may not be cheap now, but it can get a whole lot less cheap before it gets cheap again.

Figure 2. MSCI Far East ex Japan P/BV since 1975



Source: Citigroup Investment Research

China Strategy

Further Details on QDII Announced by CBRC

Lan Xue
+852-2501-2783
lan.xue@citigroup.com

- What's new — China's Banking Regulatory Commission (CBRC) just announced further details on QDII (i.e., Chinese money investing in overseas financial markets). We believe this further clarifies the QDII investment requirements and should step up progress in this area.

- Further details on QDII — 1) The equity portion can reach 50% of every QDII product. 2) Every stock holding should not exceed 5% of the total fund size. 3) Individual subscription amount should be no less than RMB300,000 (i.e., around US$40,000). 4) Investors should have relevant stock investing experience. 5) Foreign fund managers managing QDII need to be institutions that are approved and/or authorized by overseas regulatory bodies that have signed MOUs with the CBRC. 6) Chinese Banks that offer QDII products need to invest in stock markets that are regulated by authorities that have signed MOUs with the CBRC.

- Implications — We believe that when QDII flows come to Hong Kong, they will invest in three categories of stocks: 1) Dual-listed H-shares that trade at substantial discounts, in particular the mid-cap names; 2) China concept stocks that are not available on the domestic market, in particular, telecom and energy names; 3) Blue-chip Hong Kong companies that offer global exposure, such as HSBC (0005.HK - HK$146.90; 2M) and Hutchison (0013.HK - HK$77.25; 2L). Please see table on A-share premium to dual-listed H-Shares on the following page.

Figure 1. A Share Premium to Dual-List H Share As of 11 May 07

Name	RIC-H	RIC-A	H share (HK$)	A share (RMB)	A-Share Premium
Luoyang Glass	1108.HK	600876.SS	0.87	8.9	942.2%
Guangdong Kelon	0921.HK	000921.SZ	0.89	7.68	779.1%
Nanjing Panda	0553.HK	600775.SS	3.24	13.41	321.6%
Sinopec Yizheng Chemical	1033.HK	600871.SS	3.92	14.61	279.7%
Shangdong Xinhua	0719.HK	000756.SZ	2.99	10.54	259.1%
Beiren Printing	0187.HK	600860.SS	3.26	10.7	234.4%
Beijing North Star	0588.HK	601588.SS	3.59	10.62	201.4%
Northeast Electric	0042.HK	000585.SZ	2.84	8	187.0%
Sinopec Shanghai Petrochem	0338.HK	600688.SS	5.09	13.89	178.0%
China Eastern Airlines	0670.HK	600115.SS	3.05	8.13	171.6%
China Southern Airlines	1055.HK	600029.SS	3.9	9.48	147.6%
Huadian Power	1071.HK	600027.SS	3.9	9.1	137.7%
Jingwei Textile	0350.HK	000666.SZ	4.83	10.65	124.6%
Jiangxi Copper	0358.HK	600362.SS	11.3	24.83	123.9%
Guangzhou Pharmaceutical	0874.HK	600332.SS	6.8	14.61	118.9%
Tianjin Capital	1065.HK	600874.SS	4.75	9.99	114.3%
Chalco	2600.HK	601600.SS	9.83	20.06	107.9%
Datang Power	0991.HK	601991.SS	9.38	18.8	104.2%
Jiaoda Hightech	0300.HK	600806.SS	9.03	17.93	102.3%
Guangshen Railway	0525.HK	601333.SS	5.73	10.13	80.1%
Air China	0753.HK	601111.SS	5.77	10.09	78.1%
Sinopec	0386.HK	600028.SS	7.33	12.66	76.0%
Shenzhen Expressway	0548.HK	600548.SS	6.11	10.11	68.6%
Yanzhou Coal	1171.HK	600188.SS	8.99	14.73	66.9%
Huaneng Power	0902.HK	600011.SS	8.13	13.19	65.3%
China Life Insurance	2628.HK	601628.SS	24.6	39.22	62.4%
Anhui Expressway	0995.HK	600012.SS	6.48	10.29	61.8%
Bank of China	3988.HK	601988.SS	3.86	6.09	60.7%
Maanshan Iron & Steel	0323.HK	600808.SS	5.96	9.12	55.9%
Dongfang Electric	1072.HK	600875.SS	32.8	48.65	51.1%
Jiangsu Expressway	0177.HK	600377.SS	6.9	9.91	46.3%
Ping An Insurance	2318.HK	601318.SS	44.45	62.81	44.0%
Weichai Power	2338.HK	000338.SZ	43.15	60.65	43.2%
China Shipping Development	1138.HK	600026.SS	16	21.78	38.7%
ICBC	1398.HK	601398.SS	4.21	5.71	38.2%
ZTE	0763.HK	000063.SZ	35.55	46.25	32.5%
Tsingtao Brewery	0168.HK	600600.SS	14.68	18.81	30.5%
Guangzhou Shipyard International	0317.HK	600685.SS	27.85	32.53	19.0%
Angang New Steel	0347.HK	000898.SZ	16.96	19.41	16.6%
Anhui Conch Cement	0914.HK	600585.SS	34.7	39.02	14.6%
China Merchants Bank	3968.HK	600036.SS	20.3	21.65	8.6%
Simple Average					**137.7%**
Market Cap Weighted Avg.					**45.4%**

Source: Bloomberg

China Market Intelligence

	Mkt Cap	P/E (x)			EPS Growth (%)			Yield (%)	PBV	ROE (%)			US$ Performance		
11 May 2007	USD bil	2006	2007	2008	2006	2007	2008	2007	(x)	2006	2007	2008	1W	1M	YTD
China	**301.6**	**18.7**	**16.9**	**14.4**	**18.8**	**8.7**	**17.0**	**2.2**	**3.1**	**17.3**	**15.9**	**16.5**	**0.1**	**1.9**	**4.5**
Energy	54.9	11.3	11.1	10.5	15.0	1.7	6.0	3.3	2.8	24.9	25.4	26.9	-0.9	2.3	-6.0
Materials	20.1	16.3	14.9	14.1	66.5	9.4	5.5	2.2	3.5	21.4	23.4	24.7	5.2	3.1	30.0
Capital Goods	16.5	16.2	21.0	17.6	63.4	-22.7	18.8	2.0	2.4	14.6	11.3	13.4	-0.9	5.7	22.6
Transportation	23.1	27.9	21.2	17.3	-24.5	31.4	22.7	2.1	2.8	10.0	13.2	16.2	3.9	5.5	28.3
Auto & Components	4.1	15.3	12.1	10.2	30.5	27.0	18.8	2.2	2.1	13.8	17.5	20.8	-1.4	-4.5	8.1
Consumer Durables	2.2	21.8	18.8	15.1	15.7	16.0	24.9	1.8	3.4	15.3	17.8	22.2	3.1	-0.7	34.8
Consumer Services	2.1	45.4	28.3	21.2	-25.3	60.0	33.4	1.4	2.7	6.0	9.5	12.7	4.8	-1.1	37.9
Retailing	6.0	26.3	24.5	27.4	19.7	7.4	-10.5	1.8	4.1	15.6	16.7	15.0	1.5	10.5	43.8
Food Bev & Tobacco	6.6	24.3	20.0	15.3	14.8	21.6	22.6	1.2	3.5	14.2	17.3	22.6	0.8	4.5	27.8
Banks	48.0	23.3	20.1	15.7	-2.7	16.0	28.1	2.2	3.2	13.7	15.9	20.4	-1.9	-1.0	-9.9
Diversified Financials	1.2	22.9	31.6	24.3	196.7	-27.4	30.1	0.0	3.0	13.1	9.5	12.3	27.8	31.1	40.5
Insurance	31.7	32.6	33.3	27.0	113.3	-1.8	23.3	0.8	4.9	15.0	14.7	18.1	-0.1	3.3	-4.4
Real Estate	15.9	23.8	18.2	12.7	-5.3	30.6	43.1	1.9	3.6	15.0	19.5	28.0	-2.0	-1.6	5.8
Software & Services	0.5	23.5	19.9	17.7	-3.3	18.0	12.3	2.0	3.1	13.2	15.5	17.4	4.4	2.6	15.4
Technology Hardware & Equip	2.9	17.6	12.9	10.7	-8.2	36.6	20.1	2.3	2.2	12.7	17.3	20.8	-2.8	1.1	0.4
Semi & Semi Equipment	1.6	-15.7	13.7	2.8	NA	NA	NA	0.0	0.8	-5.2	5.9	29.2	-6.3	-1.0	3.4
Telecom	52.6	19.1	17.2	14.5	16.7	11.4	18.4	2.5	3.5	18.5	20.6	24.4	-0.9	-0.8	3.7
Utilities	11.6	19.4	17.7	15.5	11.4	9.8	14.5	2.5	2.5	12.8	14.0	16.1	4.8	10.3	27.3

Note: The above data are compiled based on the MSCI Asia Pacific Free-ex-Japan universe of stocks. The market capitalization for the countries, sectors and the region are free-float adjusted. Also the P/E and EPS Growth are taken from IBES Aggregate estimates for MSCI country, sector and regional indices. P/BV represents 12-months trailing P/BV calculated by MSCI for MSCI country, sector and regional indices. ROE is calculated as trailing P/BV divided by forward P/E estimates for respective fiscal year. With the exception of Australia and New Zealand whose fiscal year ends in June, (ie, 2008E refers to June 2008E), fiscal year for all countries, sectors and the region ends in December. NM = Not Meaningful; NA = Not Available.

Source: IBES Aggregate, MSCI, FactSet, Citigroup estimates.

Fun With Flows

More Foreign Money Exits Asian Markets

Elaine Chu
+852-2501-2768
elaine.chu@citigroup.com

Markus Rosgen
+852-2501-2752
markus.rosgen@citigroup.com

Chris W Leung, CFA
+852-2501-2741
chris.w.leung@citigroup.com

- **Last week's redemptions from Asian equity funds: the second-biggest of the year** — Despite the 2.6% rise in regional markets in the week ended 9 May, net outflows from all Asia-dedicated funds accelerated to US$418mn, up 22x week-on-week. Year-to-date total net inflows dropped to just US$2bn versus US$14.7bn during the same period in 2006.

- **Outflows from China funds the major source of last week's redemptions** — Of the 12 country and regional funds we watch, outflows from China funds were the biggest. Not only this, the US$574m redemption in one week was the second-highest in history. Back in the first week of March when we had the record US$4.1b outflows from Asia, money repatriated from China funds was US$965m, or one-fourth of total redemptions.

- **Inflows to Korea were the largest among all country funds** — New money going to Korea country funds resumed and rose to a 14-month high of US$94m. On a 4-week total perspective, net inflows to Korea funds remained on an uptrend whereas net outflows from Taiwan and Indonesia funds appeared to be bottoming. Net outflows from China, HK, India and Thailand have been rising.

- **However, foreigners turned net sellers in Korea for the first time in seven weeks** — Foreign net sales of Korean equities totaled US$328m in the week ended 9 May. Consequently, total net purchases for the year fell to US$2.8b compared with US$1.3b a year ago. On the other hand, foreigners' sustained buying in the Taiwan market has taken total net buying to US$5.2b in the past eight weeks.

Figure 1. Weekly flows to country funds

US$mn	May 3-9, 2007	Past 4-wk Total	YTW Total	Same period in '06
China	-574.4	-606.6	-1,034.8	3,816.9
Hong Kong	-26.4	-42.7	-277.3	560.2
India	-69.9	-95.9	-712.9	2,452.2
Indonesia	-0.2	-10.9	-26.1	48.9
Korea (South)	94.2	203.8	217.3	782.7
Malaysia	14.4	133.4	469.6	150.6
Philippines	0.1	1.5	10.8	8.0
Singapore	18.4	339.7	1,051.9	252.4
Taiwan	18.1	-39.9	224.5	824.8
Thailand	-10.4	-57.6	-208.8	210.1

Source: EPFR Global, Citigroup Investment Research

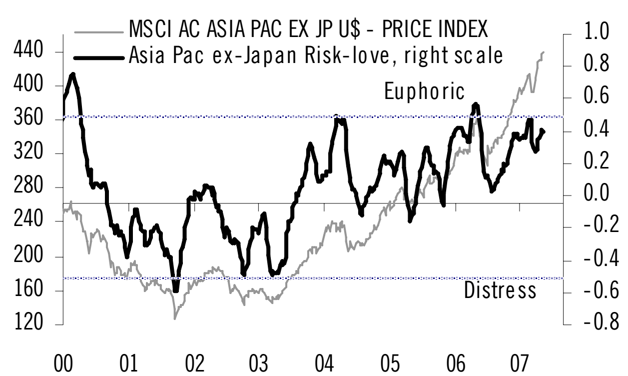
Asia Pacific

Elaine Chu
+852-2501-2768
elaine.chu@citigroup.com

Sentiment Indicators

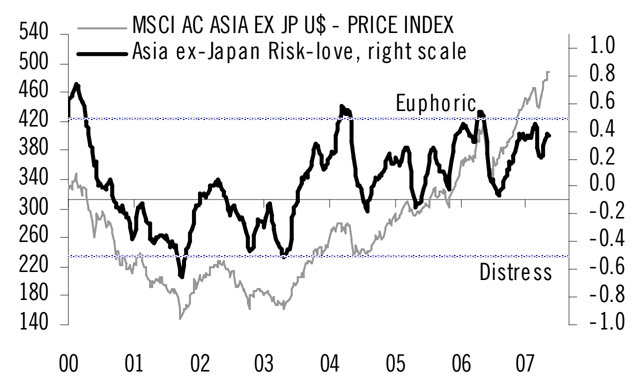
Market sentiment in Singapore and Malaysia has deteriorated in the past two weeks mainly because inflows of funds have peaked. While risk-love indicators for Australia and Taiwan have moved sideways, the rest has shown strong upward momentum. Accordingly, our regional sentiment indexes are edging towards euphoric zones.

Figure 1. Asia Pac (incl. Australia) ex-Japan Risk-Love Indicator



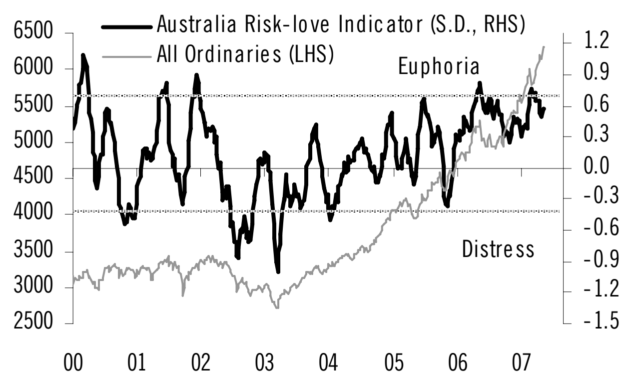
Source: CEIC, Datastream, Citigroup Investment Research

Figure 2. Asia ex-Japan Risk-Love Indicator



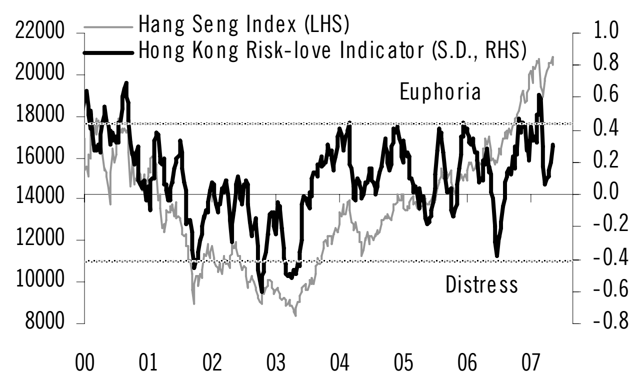
Source: CEIC, Datastream, Citigroup Investment Research

Figure 3. Australia Risk-Love Indicator



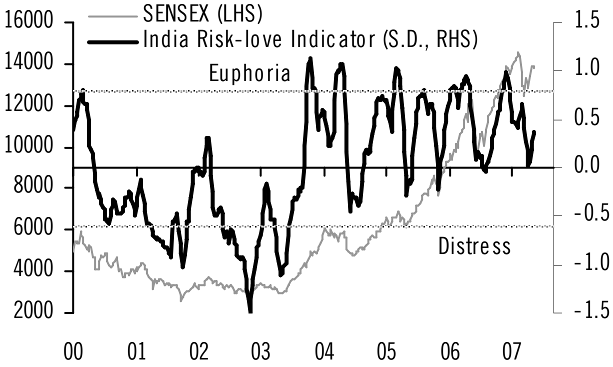
Source: CEIC, Datastream, Citigroup Investment Research

Figure 4. Hong Kong Risk-Love Indicator



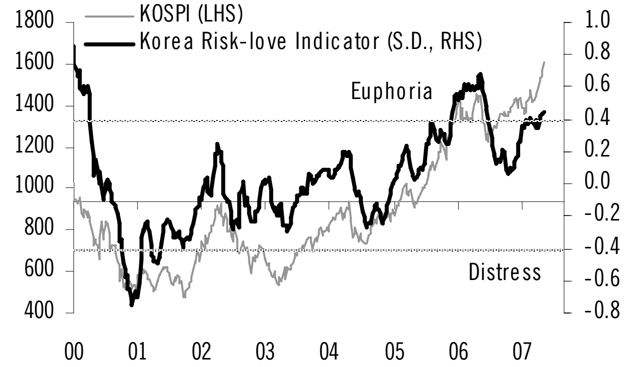
Source: CEIC, Datastream, Citigroup Investment Research

Figure 5. India Risk-Love Indicator



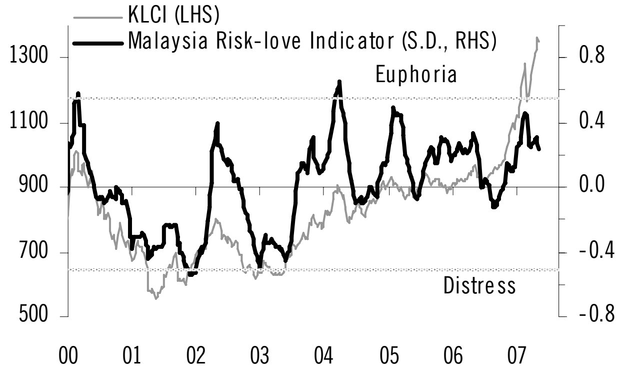
Source: CEIC, Datastream, Citigroup Investment Research

Figure 6. Korea Risk-Love Indicator



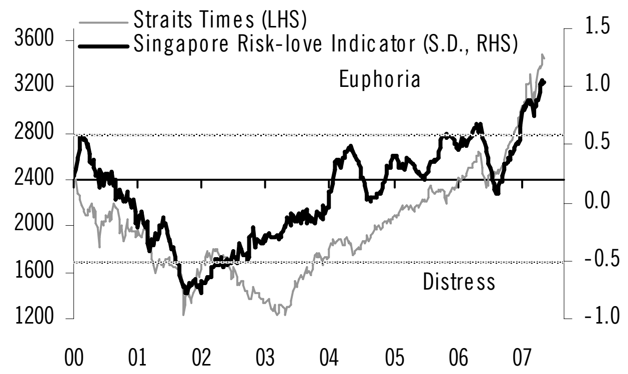
Source: CEIC, Datastream, Citigroup Investment Research

Figure 7. Malaysia Risk-Love Indicator



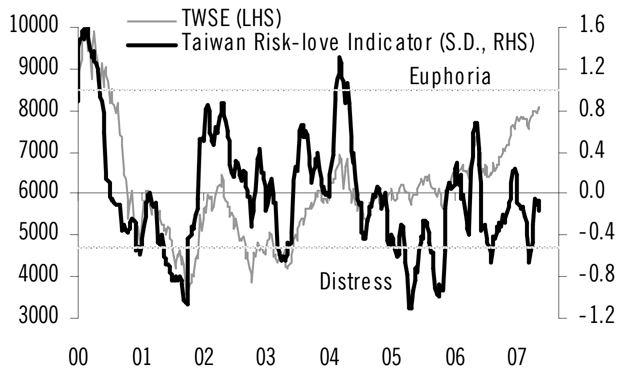
Source: CEIC, Datastream, Citigroup Investment Research

Figure 8. Singapore Risk-Love Indicator



Source: CEIC, Datastream, Citigroup Investment Research

Figure 9. Taiwan Risk-Love Indicator



Source: CEIC, Datastream, Citigroup Investment Research

Appendix A-1

Analyst Certification

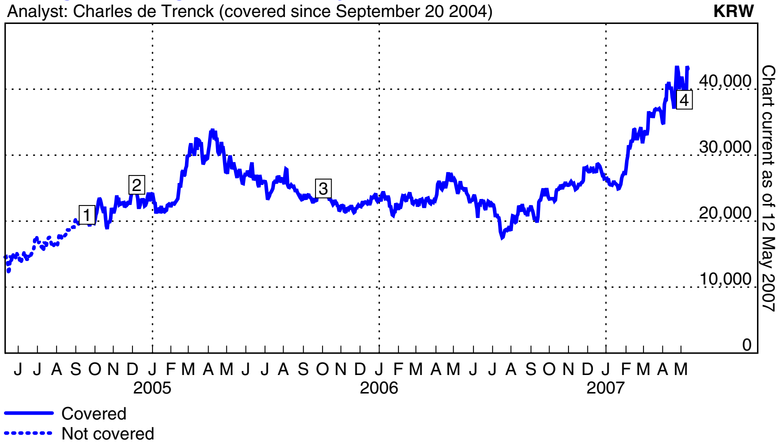
I, Markus Rosgen, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Hanjin Shipping (000700.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Charles de Trenck (covered since September 20 2004)



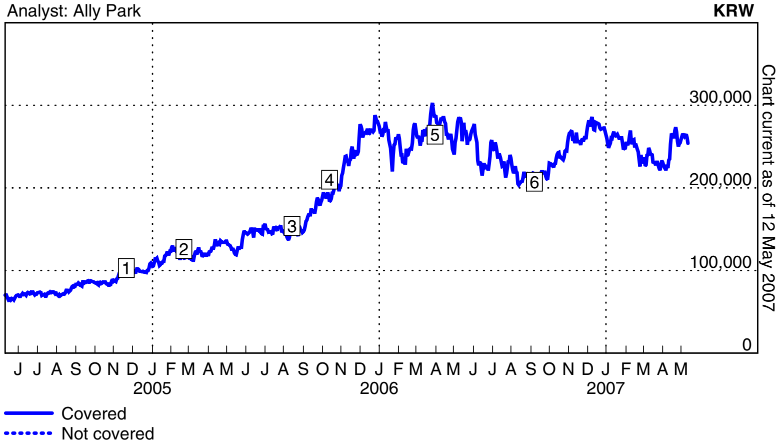
#	Date	Rating	Target Price	Closing Price
1:	20 Sep 04	2H	24,000.00	20,300.00
2:	8 Dec 04	*3H	24,000.00	24,200.00
3:	4 Oct 05	3H	*16,000.00	24,950.00
4:	7 May 07	3H	*24,000.00	40,850.00

*Indicates change.

Orion (001800.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park



#	Date	Rating	Target Price	Closing Price
1:	22 Nov 04	*1M	*125,000.00	96,800.00
2:	22 Feb 05	1M	*142,000.00	115,000.00
3:	15 Aug 05	*1L	*175,000.00	NA
4:	13 Oct 05	1L	*210,000.00	183,500.00
5:	31 Mar 06	*3L	210,000.00	287,000.00
6:	7 Sep 06	*3M	*230,000.00	211,000.00

*Indicates change.

Shinsegae (004170.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ally Park (covered since June 1 2004)

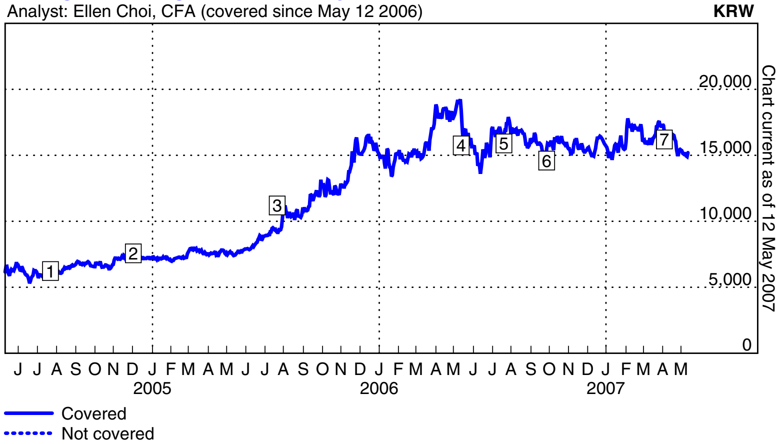
#	Date	Rating	Target Price	Closing Price
1:	31 May 04	1M	*350,000.00	263,500.00
2:	22 Feb 05	*1L	*370,000.00	302,500.00
3:	19 May 05	1L	*450,000.00	320,500.00
4:	1 Apr 06	*2L	*456,000.00	450,000.00
5:	8 Nov 06	2L	*560,000.00	534,000.00

*Indicates change.

DAEGU BANK (005270.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ellen Choi, CFA (covered since May 12 2006)



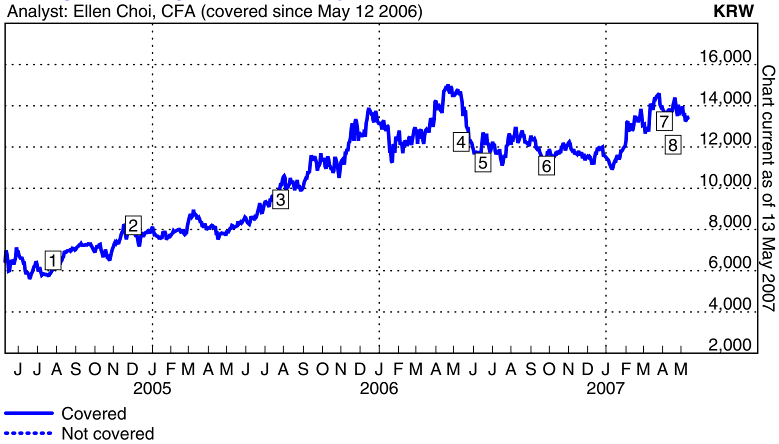
#	Date	Rating	Target Price	Closing Price
1:	22 Jul 04	1M	*8,300.00	6,100.00
2:	2 Dec 04	*3M	*8,010.00	7,570.00
3:	21 Jul 05	3M	*9,500.00	9,160.00
4:	12 May 06	*1L	*22,000.00	18,400.00
5:	20 Jul 06	1L	*22,400.00	16,550.00
6:	27 Sep 06	1L	*21,000.00	15,500.00
7:	4 Apr 07	1L	*20,400.00	16,700.00

*Indicates change.

Pusan Bank (005280.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ellen Choi, CFA (covered since May 12 2006)



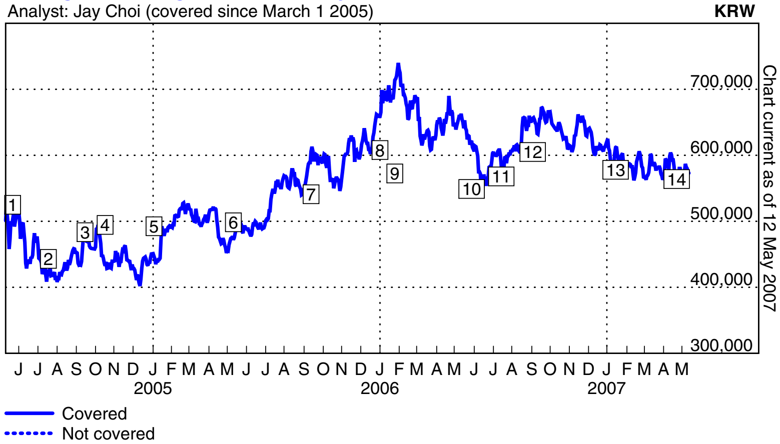
#	Date	Rating	Target Price	Closing Price
1:	27 Jul 04	1M	*8,650.00	6,060.00
2:	2 Dec 04	*3M	*8,500.00	8,180.00
3:	27 Jul 05	3M	*9,800.00	10,250.00
4:	12 May 06	*1L	*17,600.00	14,450.00
5:	16 Jun 06	1L	*16,100.00	12,700.00
6:	27 Sep 06	1L	*14,800.00	11,450.00
7:	4 Apr 07	1L	*17,000.00	13,700.00
8:	18 Apr 07	1L	*17,900.00	14,050.00
9:	13 May 07	1L	*16,300.00	0.00

*Indicates change.

Samsung Electronics (005930.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Jay Choi (covered since March 1 2005)



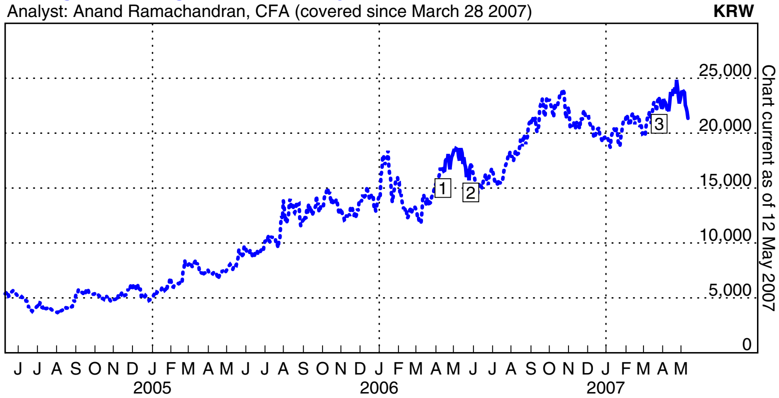
#	Date	Rating	Target Price	Closing Price
1:	17 May 04	1L	*592,000.00	458,000.00
2:	19 Jul 04	1L	*515,000.00	426,500.00
3:	15 Sep 04	*2L	515,000.00	478,000.00
4:	18 Oct 04	2L	*468,000.00	432,500.00
5:	4 Jan 05	2L	*464,000.00	447,000.00
6:	11 May 05	*1L	*610,000.00	472,000.00
7:	13 Sep 05	1L	*675,000.00	606,000.00
8:	2 Jan 06	1L	*780,000.00	659,000.00
9:	25 Jan 06	1L	*820,000.00	714,000.00
10:	29 May 06	1L	*800,000.00	622,000.00
11:	14 Jul 06	1L	*770,000.00	584,000.00
12:	3 Sep 06	*2L	*695,000.00	656,000.00
13:	15 Jan 07	*1L	*750,000.00	612,000.00
14:	23 Apr 07	1L	*700,000.00	570,000.00

*Indicates change.

LG Dacom (015940.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Anand Ramachandran, CFA (covered since March 28 2007)



Covered
Not covered

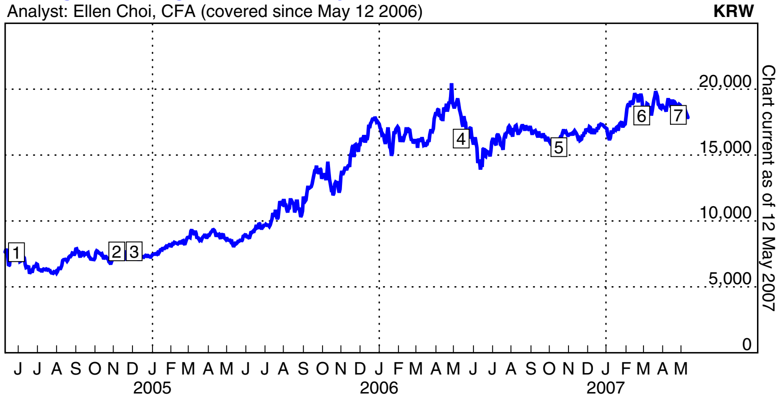
#	Date	Rating	Target Price	Closing Price
1:	13 Apr 06	1M	20,000.00	16,750.00
2:	29 May 06	Coverage suspended		
3:	27 Mar 07	*1M	*30,000.00	23,150.00

*Indicates change.

Industrial Bank of Korea (024110.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ellen Choi, CFA (covered since May 12 2006)



Covered
Not covered

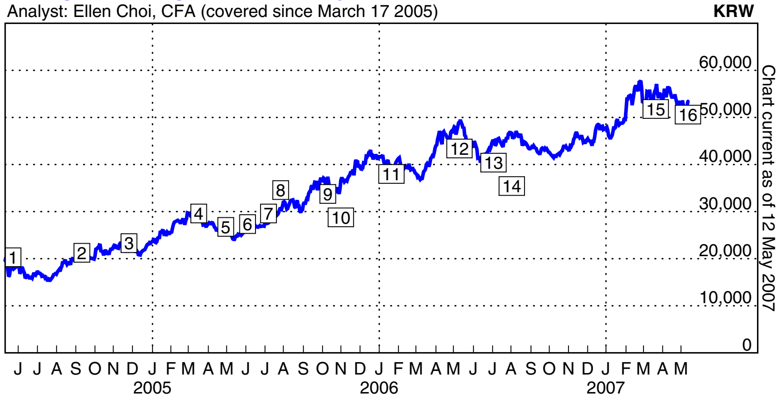
#	Date	Rating	Target Price	Closing Price
1:	28 May 04	1M	*9,650.00	7,520.00
2:	5 Nov 04	1M	*8,900.00	7,550.00
3:	3 Dec 04	*3M	*7,940.00	7,430.00
4:	12 May 06	*1M	*23,000.00	17,900.00
5:	17 Oct 06	1M	*21,800.00	15,950.00
6:	27 Feb 07	1M	*27,000.00	19,350.00
7:	26 Apr 07	1M	*25,900.00	18,700.00

*Indicates change.

Shinhan Financial (055550.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ellen Choi, CFA (covered since March 17 2005)



Covered
Not covered

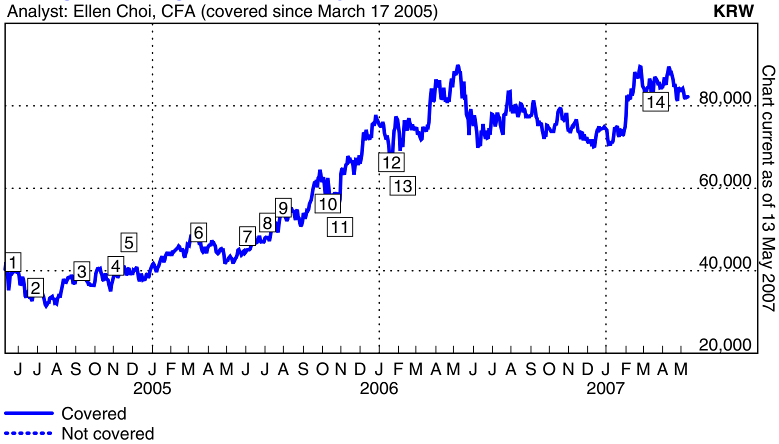
#	Date	Rating	Target Price	Closing Price
1:	24 May 04	1M	*25,000.00	18,350.00
2:	10 Sep 04	1M	*26,000.00	20,150.00
3:	25 Nov 04	*1L	26,000.00	22,600.00
4:	17 Mar 05	*2L	*32,200.00	27,900.00
5:	29 Apr 05	*2M	*30,000.00	25,750.00
6:	3 Jun 05	2M	*28,750.00	25,950.00
7:	7 Jul 05	2M	*30,300.00	27,600.00
8:	27 Jul 05	2M	*33,600.00	30,650.00
9:	11 Oct 05	2M	*39,000.00	37,400.00
10:	1 Nov 05	*2L	39,000.00	36,700.00
11:	20 Jan 06	2L	*41,500.00	38,500.00
12:	10 May 06	2L	*50,400.00	48,950.00
13:	4 Jul 06	*1L	*54,800.00	45,000.00
14:	2 Aug 06	1L	*55,000.00	46,550.00
15:	21 Mar 07	*2L	*61,000.00	56,000.00
16:	11 May 07	*1L	*65,300.00	53,400.00

*Indicates change.

Kookmin Bank (060000.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ellen Choi, CFA (covered since March 17 2005)



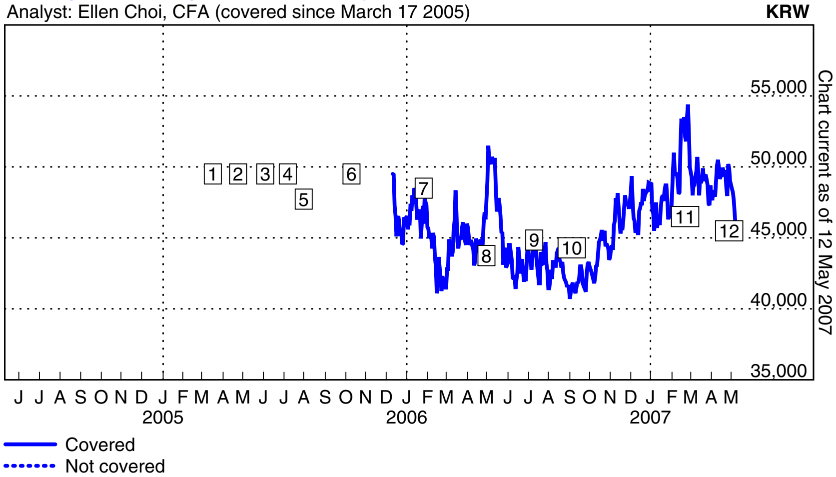
#	Date	Rating	Target Price	Closing Price
1:	24 May 04	1M	*49,000.00	40,500.00
2:	29 Jun 04	1M	*47,500.00	35,850.00
3:	10 Sep 04	1M	*51,500.00	38,600.00
4:	4 Nov 04	1M	*49,000.00	39,150.00
5:	25 Nov 04	1M	*47,500.00	40,650.00
6:	17 Mar 05	*2L	*52,700.00	47,200.00
7:	3 Jun 05	2L	*49,200.00	45,100.00
8:	6 Jul 05	2L	*51,400.00	48,050.00
9:	31 Jul 05	2L	*59,200.00	54,100.00
10:	11 Oct 05	2L	*66,500.00	62,500.00
11:	31 Oct 05	*1L	*70,000.00	57,300.00
12:	20 Jan 06	1L	*80,000.00	66,300.00
13:	8 Feb 06	1L	*82,000.00	70,000.00
14:	21 Mar 07	*2L	*93,000.00	86,700.00
15:	13 May 07	*1L	*94,500.00	0.00

*Indicates change.

Hana Financial Group (086790.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Ellen Choi, CFA (covered since March 17 2005)



#	Date	Rating	Target Price	Closing Price
1:	17 Mar 05	*1L	*32,376.24	NA
2:	24 Apr 05	1L	*32,772.28	NA
3:	3 Jun 05	1L	*31,386.14	NA
4:	7 Jul 05	1L	*32,574.26	NA
5:	31 Jul 05	1L	*38,118.81	NA
6:	11 Oct 05	1L	*48,514.85	NA
7:	26 Jan 06	1L	*52,000.00	46,000.00
8:	1 May 06	1L	*54,000.00	NA
9:	11 Jul 06	1L	*55,000.00	44,600.00
10:	5 Sep 06	1L	*54,000.00	41,600.00
11:	21 Feb 07	1L	*59,500.00	52,100.00
12:	27 Apr 07	1L	*58,000.00	49,900.00

*Indicates change.

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A member of Ratnesh Kumar's household holds a long position in the shares of Reliance Communications and State Bank of India.

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Data current as of 31 March 2007	Buy	Hold	Sell
Citigroup Investment Research Global Fundamental Coverage (3215)	45%	40%	15%
% of companies in each rating category that are investment banking clients	45%	42%	32%
Banks -- Australia/New Zealand (8)	50%	50%	0%
% of companies in each rating category that are investment banking clients	100%	25%	0%
China -- Asia Pacific (88)	72%	15%	14%
% of companies in each rating category that are investment banking clients	44%	46%	42%
Exploration & Production -- Australia/New Zealand (4)	75%	25%	0%
% of companies in each rating category that are investment banking clients	33%	0%	0%
Gaming -- Australia/New Zealand (5)	0%	100%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Hong Kong -- Asia Pacific (99)	58%	13%	29%
% of companies in each rating category that are investment banking clients	42%	38%	38%
India -- Asia Pacific (130)	58%	14%	28%
% of companies in each rating category that are investment banking clients	42%	50%	42%
Indonesia -- Asia Pacific (22)	50%	9%	41%
% of companies in each rating category that are investment banking clients	64%	100%	22%
Malaysia -- Asia Pacific (40)	68%	5%	28%
% of companies in each rating category that are investment banking clients	22%	0%	18%
Mining--Diversified -- Australia/New Zealand (4)	75%	25%	0%
% of companies in each rating category that are investment banking clients	33%	0%	0%
Philippines -- Asia Pacific (2)	50%	50%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Singapore -- Asia Pacific (48)	50%	17%	33%
% of companies in each rating category that are investment banking clients	54%	25%	19%
South Korea -- Asia Pacific (75)	48%	27%	25%
% of companies in each rating category that are investment banking clients	14%	25%	5%
Taiwan -- Asia Pacific (91)	66%	20%	14%
% of companies in each rating category that are investment banking clients	17%	6%	23%
Telecommunications Services -- Australia/New Zealand (4)	25%	75%	0%
% of companies in each rating category that are investment banking clients	0%	100%	0%
Thailand -- Asia Pacific (41)	49%	20%	32%
% of companies in each rating category that are investment banking clients	20%	25%	23%
Transportation--General -- Australia/New Zealand (2)	50%	50%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%

Guide to Fundamental Research Investment Ratings:

Citigroup Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citigroup Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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