COMMENTARY

November 28, 2008

Dear clients and colleagues,

Markets rebounded this week following a series of new government actions: the Fed committed $800B to unfreeze credit markets; US government rescued Citigroup with a $326B plan; China cut its lending rate by 1.08%; and EU proposed a 200B euro spending package. However, this rally may soon lose steam as confidence remains weak. Due to lagged effects of policy change, in the next two quarters we may still see more worsening indicators and more downward revisions of corporate earnings forecasts. In the near term, speculations will continue to drive markets on a shaky road.

China, the biggest contributor of global economic growth, plays an important role in fighting against the slowdown. And it certainly has lots of ammunitions. It reported a record $35.2B trade surplus last month, increased reserves by $470B this year to over $1.9 trillion, and keeps a stable reference rate for yuan. On top of the $586B stimulus plan and aggressive rate cuts, China is also studying extra measures to help struggling industries like steel, auto, petrochemical and textile, to increase resources reserves, to expand jobless insurance, and to implement fuel-price and tax reform to spur consumption. We remain confident in the Chinese economy shifting from export-driven to consumption-driven, and believe GDP growth can be maintained at above 7% next year.

This week, two companies in our portfolio reported satisfactory results. Vitasoy (345 HK), a leading producer of soybean related products based in HK with distribution worldwide, announced that 1H08 net sales increased by 20%. Net income was down 8% due to a one-off provision of leave pay entitlements. Chico's (CHS US), a women's specialty retailer in the US, reported that 3Q08 net sales was down 5.2%, hurt by worsening demand. EPS was $0.01, beating consensus by $0.03. Another news is that Hochtief, Germany's biggest builder, announced that its Dubai unit won a major-size development contract valued at A$3.75 billion ($2.4 billion).

Last week, I attended an annual conference on China hosted by Roth Capital, a US investment bank in the small and micro cap sector. 70 US-listed Chinese companies were presented to over 200 institutional investors, with average market cap of $100M from various sectors. Compared with last year's conference, this year the total number of participants increased from 300 to 800; investors focused on their existing holdings rather than new opportunities; and value was favored vs. growth. Among many companies, we saw popular investment themes such as substantial market potential, favorable demographics, and industry consolidation. We will follow up with analysis on some compelling stories.

The company we will profile this week is Sina Corporation (SINA US, $30.07).

Established in 1999, Sina is a leading online media company and mobile value-added service (MVAS) provider for China and for the global Chinese communities. Five major business lines: SINA.com, SINA Community, SINA Mobile, SINA.net and SINA E-Commerce. Two revenue streams: Advertising 72%, non-advertising 28% (mostly MVAS).

market cap $1.6B, no debt, cash $463M, gross margin 57%, operating margin 19%, roe 15%, ev/t12 sales 3.44x, p/e 22.05x, 1yr return: -39%. www.sina.com

3Q08 record revenue $105M, +64% y/y. EPS +29%. 4Q08 guidance remains strong, revenue $98-101M.

Competitive advantage: Leadership position in web content and media influence. Sina is one of the strongest brands in the Chinese internet sector, ranked top 3 in the latest China Websites Ranking. The closest competitor is Sohu. Others are baidu, yahoo, etc.

Growth Strategy: Distribution strategy through acquisitions. With cash of $562M, it is actively looking for takeover targets.

Experienced and stable management: Chairman, CEO and COO are with Sina since inception. All members have rich experience in the industry. Management holds 0.54% ownership.

Investment themes

- Big growth potential: 1) Increase of computer and internet use: In 2008, china surpassed US as the world's biggest internet market with 253M web users in Jun 08, up 56% y/y. 2) Increase of Internet ads spending: China is forecasted to remain as the #4 largest advertising market in the world, growing 63.5% from 2007 to 2010.

- Favorable advertising trend: More ads will go online instead of offline. Global internet ads will account for 13.6% of total spending in 2010, from 10.2% in 2008.

Valuation: Our target price is $58, for a 94% expected return. We are using a 20% growth rate for 10 years and a 8% growth rate at maturity and a 9% risk premium.

Have a nice weekend.

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