

PO up to HK\$3.56 on upside earnings risk

Turnaround underway, estimates raised by 6-9%

We reiterate our Buy and raise our estimates and PO on Vinda by 5.3% to HK\$3.56 (HK\$3.38). Interim results beat our top-of-the-Street estimates on much higher-than-expected revenue growth (+40% vs +30% MLe). The operating margin was in line, but lower finance costs more than offset a surge in the tax rate. More importantly, the results showed a significant HoH pick-up in growth and profitability. Revenues grew 27% HoH and operating profit surged over 80% due to a 240bp improvement in the margin.

Solid operating performance

Revenue growth re-accelerated to 40% through strong pricing and volume growth. The gross margin was distorted by a shift of distributor rebates out of selling expenses to COGS. This pulled the GP margin down by 320bp, while selling expenses:sales fell 350bp. Below the line, we suspect that the company enjoyed a forex gain of ~HK\$15-16mn, which may have helped to offset interest expenses. Finance costs fell 61% YoY, but the effective tax rate jumped 11.7% to 26.3%.

Healthy cash flow

For a change, Vinda was free cash flow positive thanks to a more than doubling in operating cash flow to HK\$145mn (vs HK\$62mn 1H08 net profit and HK\$10mn in FY07 operating cash flow) and the fact that capex will be 2H-loaded. Working capital improved significantly, with inventories down 8% from end-07 and receivables increasing by only 8% while revenues rose 40%. Net gearing edged down to 24% from 27% end-07.

Improving 2H outlook on softening pulp, strong pricing

We expect market share gains, the falling pulp price and pricing power all to strengthen in 2H08. Pulp (63% of COGS) in RMB terms is now down YoY. We estimate that a 5% change in pulp would lead to a 35% change in earnings.

Estimates (Dec)

(HK\$)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	107	78	143	189	253
EPS	0.168	0.103	0.158	0.209	0.280
EPS Change (YoY)	68.6%	-38.9%	53.7%	32.1%	34.2%
Dividend / Share	1.07	0.050	0.039	0.052	0.070
Free Cash Flow / Share	(0.476)	(0.548)	(0.329)	(0.315)	(0.055)

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	14.21x	23.25x	15.13x	11.46x	8.53x
Dividend Yield	44.77%	2.08%	1.65%	2.18%	2.93%
EV / EBITDA*	13.73x	15.74x	9.85x	7.32x	5.76x
Free Cash Flow Yield*	-14.05%	-19.34%	-13.76%	-13.19%	-2.30%

* For full definitions of *iQmethod*SM measures, see page 9.

Equity | China | Consumer Paper Products
16 September 2008



Merrill Lynch

Denise Chai, CFA >> +65 6330 7197

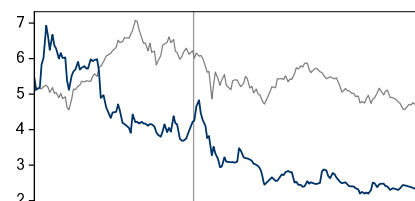
Research Analyst
Merrill Lynch (Singapore)
denise_chai@ml.com

Raymond Ching >> +8 52 2161 7992

Research Analyst
Merrill Lynch (Hong Kong)
raymond_ching@ml.com

Stock Data

Price	HK\$2.39
Price Objective	HK\$3.38 to HK\$3.56
Date Established	16-Sep-2008
Investment Opinion	C-1-8
Volatility Risk	HIGH
52-Week Range	HK\$2.10-HK\$6.07
Mkt Val / Shares Out (mn)	US\$277 / 903.8
Average Daily Volume	1,743,844
ML Symbol / Exchange	XVIHF / HKG
Bloomberg / Reuters	3331 HK / 3331.HK
ROE (2008E)	9.4%
Net Dbt to Eqty (Dec-2006A)	29.4%
Est. 5-Yr EPS / DPS Growth	25.0% / 25.0%
Free Float	29.5%



- Vinda Intl Hldgs - HANG SENG INDEX

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 10 to 11. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8.

iQprofileSM Vinda International Holdings

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(HK\$ Millions)					
Sales	1,358	1,778	2,510	3,272	4,239
Gross Profit	340	366	485	645	843
Sell General & Admin Expense	(181)	(243)	(269)	(343)	(444)
Operating Profit	159	123	216	302	399
Net Interest & Other Income	(45)	(28)	(32)	(59)	(70)
Associates	NA	NA	NA	NA	NA
Pretax Income	114	95	184	243	329
Tax (expense) / Benefit	(7)	(17)	(41)	(55)	(76)
Net Income (Adjusted)	107	78	143	189	253
Average Fully Diluted Shares Outstanding	635	762	904	904	904

Key Cash Flow Statement Data

Net Income (Reported)	107	78	143	189	253
Depreciation & Amortization	60	68	90	109	124
Change in Working Capital	(170)	(188)	(26)	(180)	(124)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(21)	(28)	(3)	(3)	(2)
Cash Flow from Operations	(25)	(70)	203	115	250
Capital Expenditure	(279)	(348)	(500)	(400)	(300)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	4	1	(21)	3	2
Cash Flow from Investing	(275)	(347)	(521)	(397)	(298)
Shares Issue / (Repurchase)	38	894	0	0	0
Cost of Dividends Paid	(20)	(31)	(36)	(47)	(63)
Cash Flow from Financing	297	569	264	253	27
Free Cash Flow	(303)	(418)	(297)	(285)	(50)
Net Debt	894	431	785	1,114	1,225
Change in Net Debt	283	(446)	354	329	111

Key Balance Sheet Data

Property, Plant & Equipment	985	1,391	1,804	2,098	2,277
Other Non-Current Assets	110	130	151	148	146
Trade Receivables	205	245	373	433	612
Cash & Equivalents	62	252	198	169	149
Other Current Assets	374	512	619	799	1,028
Total Assets	1,735	2,531	3,147	3,648	4,211
Long-Term Debt	220	338	338	338	338
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Short-Term Debt	735	346	646	946	1,036
Other Current Liabilities	316	381	590	650	933
Total Liabilities	1,272	1,065	1,573	1,933	2,306
Total Equity	463	1,467	1,574	1,715	1,905
Total Equity & Liabilities	1,735	2,531	3,147	3,648	4,211

iQmethodSM - Bus Performance*

Return On Capital Employed	12.1%	6.7%	7.2%	8.5%	9.9%
Return On Equity	26.6%	8.1%	9.4%	11.5%	14.0%
Operating Margin	11.7%	6.9%	8.6%	9.2%	9.4%
EBITDA Margin	16.1%	10.8%	12.2%	12.6%	12.3%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	-0.2x	-0.9x	1.4x	0.6x	1.0x
Asset Replacement Ratio	4.9x	5.3x	5.8x	3.8x	2.5x
Tax Rate (Reported)	6.1%	17.4%	22.5%	22.5%	23.0%
Net Debt-to-Equity Ratio	193.1%	29.4%	49.9%	65.0%	64.3%
Interest Cover	3.4x	2.4x	6.1x	4.9x	5.5x

Key Metrics

* For full definitions of iQmethodSM measures, see page 9.

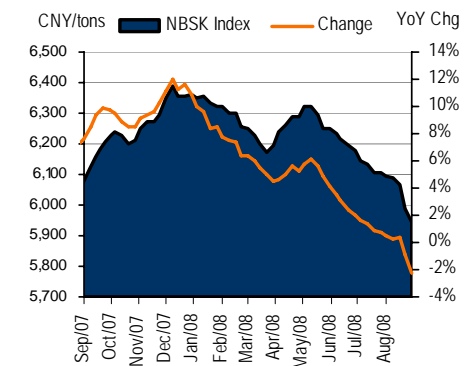
Company Description

Vinda commenced operations in 1991. The company has been distributing its tissue products nationwide for a decade and operates five production bases with 14 paper machines strategically located in Beijing, Guangdong, Hubei and Sichuan, with a total annual capacity of 240,000tpa as of September 2007.

Investment Thesis

Although Vinda is one of the four largest tissue makers in China, its ASP increases have historically been too limited to fully offset pulp cost pressures. We now see the company proactively managing its profitability by exercising pricing power and improving its sales mix. We also see easing cost pressures facilitating higher margins and returns. Stricter environmental regulations will accelerate industry consolidation, to the benefit of the leading branded tissue companies including Vinda.

Chart 1: Pulp Price in RMB terms

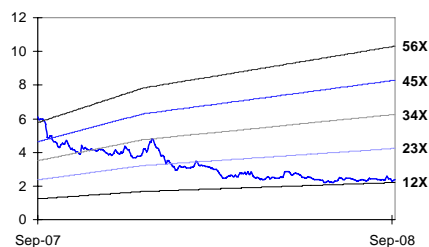


Source: Bloomberg

Stock Data

Price to Book Value 1.4x

Chart 2: Vinda: Forward P/E band chart



Source: Bloomberg

Turnaround not in the price

We reiterate Buy on Vinda and raise our estimates by 6-9% and our PO by 5.3% to HK\$3.56 (HK\$3.38). Interim results beat our top-of-the-Street estimates on much higher-than-expected revenue growth (+40% vs +30% MLe). The operating margin was in line, but finance costs were lower than expected, possibly due to a forex gain which was not broken out of the numbers. More importantly, the results showed a significant HoH pick-up in growth and profitability. Revenues grew 27% HoH and operating profit surged over 80% due to a 240bp improvement in the margin. We expect market share gains, leverage to the falling pulp price and exercise of pricing power all to strengthen in 2H08. Pulp (63% of COGS) in RMB terms is now in negative territory YoY. We estimate that a 5% change in pulp would lead to a 35% change in earnings.

Revenue growth re-accelerated to 40% through strong pricing and volume growth. The gross margin was distorted by a shift of distributor rebates out of selling expenses to COGS. This pulled the GP margin down by 320bp, while selling expenses:sales fell 350bp. Below the line, we suspect that the company enjoyed a forex gain of ~HK\$15-16mn, which may have helped to offset interest expenses, given that gross finance costs were HK\$28mn. Net finance costs fell 61% YoY, but the effective tax rate jumped 11.7% to 26.3% due to the expiry of tax breaks and possibly the taxation of a PRC forex gain which was eliminated at the parent co level.

For a change, Vinda was free cash flow positive thanks to a more than doubling in operating cash flow to HK\$145mn (vs HK\$62mn 1H08 net profit and HK\$10mn in FY07 operating cash flow) and the fact that capex will be 2H-loaded. Working capital improved significantly, with inventories down 8% from end-07 and receivables increasing by only 8% while revenues rose 40%. Net gearing edged down to 24% from 27% end-07.

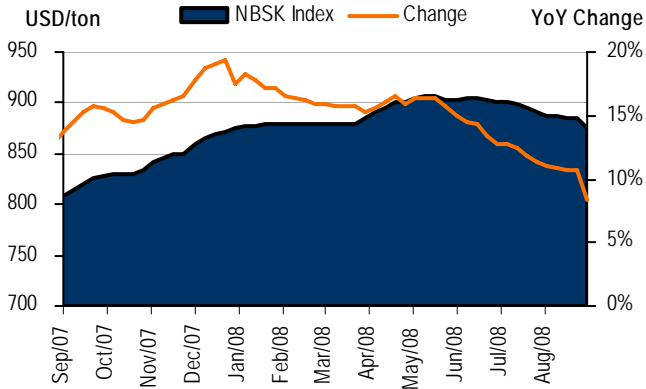
Results review

Table 1: Vinda - 1H08 results comparison

	1H07	1H08	YoY Chg	Comment
Turnover	849	1,185	39.6%	Acceleration driven by strong pricing and volume growth
COGS	(663)	(963)	45.3%	
Gross profit	186	222	19.4%	Distributor rebates booked in COGS instead of selling & distribution
Selling and distribution costs	(88)	(82)	-7.3%	Distributor rebates booked in COGS instead of selling & distribution
Administrative expenses	(32)	(49)	53.7%	
Other income	7	2	-65.3%	
Operating profit	72	93	29.0%	
Finance income	3	2	-53.1%	
Finance costs	(27)	(11)	-60.0%	Healthier balance sheet coupled with a suspected forex gain of ~\$15mn
Profit before income tax	48	84	74.3%	
Income tax expense	(7)	(22)	214.5%	Expiration of tax breaks and PRC tax paid on suspected forex gain
Net profit	41	62	50.4%	
Gross margin	21.9%	18.7%	-3.2%	
Operating margin	8.5%	7.9%	-0.6%	
Net margin	4.8%	5.2%	0.4%	
Effective tax rate	14.6%	26.3%	11.7%	

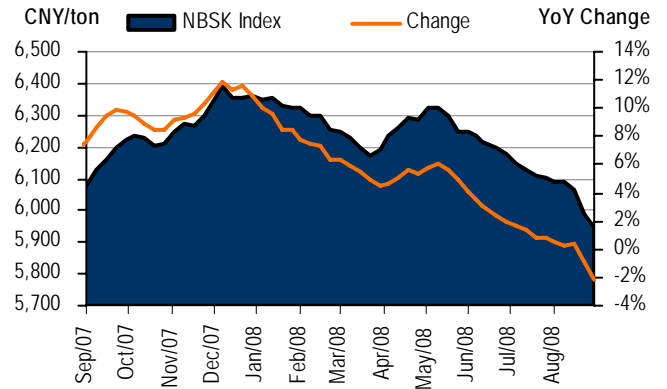
Source: Merrill Lynch estimates

Chart 3: Pulp price in USD terms peaked in May



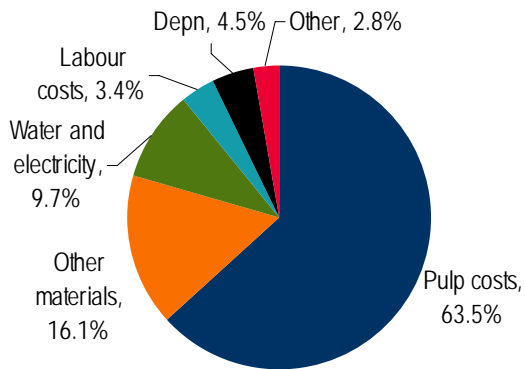
Source: Bloomberg

Chart 4: Pulp price in RMB terms is now declining YoY



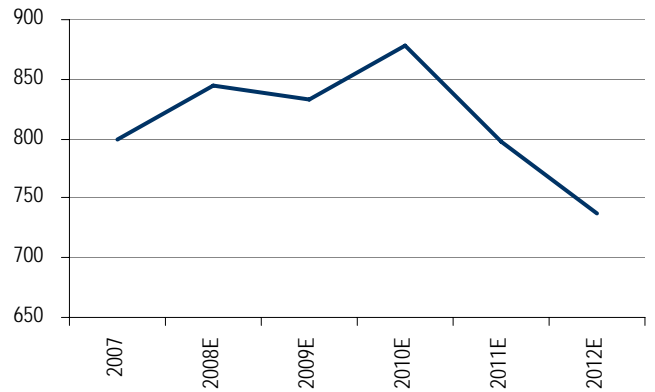
Source: Bloomberg

Chart 5: Vinda: COGS breakdown



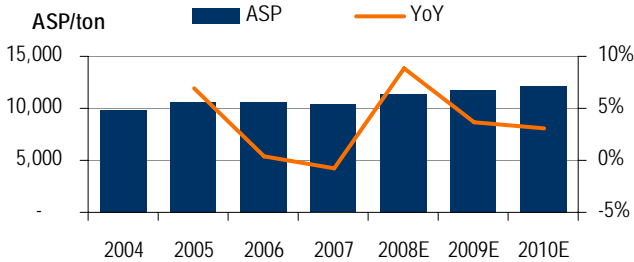
Source: Vinda, Merrill Lynch estimates

Chart 6: NBSK pulp price projections



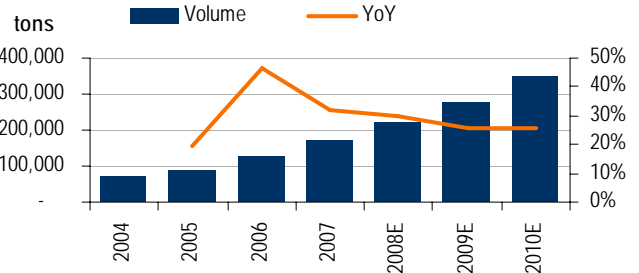
Source: RISI

Chart 7: Vinda: Starting to exercise pricing power



Source: Vinda, Merrill Lynch estimates

Chart 8: Vinda: Volume growth



Source: Vinda, Merrill Lynch estimates

Earnings revision

After better-than-expected interim results, we have lifted our FY08, FY09 and FY10 earnings by 9%, 6% and 7%, respectively, on stronger pricing and volume growth expectations. The reclassification of distributor rebates from selling expenses to COGS does not change our view on operating profitability. We kept our FY09 and FY10 operating margin unchanged but lowered our FY08 operating margin by 40bps by factoring in a more conservative other income estimate. We cut FY08 finance expenses by HK\$16mn on lower-than-expected interest costs (ie, the offsetting suspected forex gain) and lowered FY09 and FY10 interest cost by HK\$9mn and HK\$6mn, assuming a slightly lower cost of funds.

Table 2: Vinda: Earnings Revision

HK\$ mn	2008E			2009E			2010E		
	Old	New	YoY	Old	New	YoY	Old	New	YoY
Turnover	2,387	2,510	5.2%	3,136	3,272	4.3%	4,079	4,239	3.9%
COGS	(1,866)	(2,025)	8.5%	(2,443)	(2,627)	7.5%	-3,175	(3,396)	7.0%
Gross profit	521	485	-6.9%	692	645	-6.8%	905	843	-6.8%
Other gains / losses, net	13	10	-23.5%	14	15	4.3%	18	19	3.9%
Selling and distribution costs	(219)	(173)	-20.9%	(288)	(226)	-21.5%	-374	(293)	-21.8%
Administrative expenses	(101)	(106)	5.2%	(126)	(132)	4.3%	-164	(171)	3.9%
Operating profit	215	216	0.7%	293	302	3.3%	385	399	3.7%
Finance income	6	3	-42.6%	5	3	-45.2%	4	2	-45.8%
Finance costs	(51)	(35)	-31.3%	(71)	(62)	-12.5%	-83	(73)	-12.5%
Profit before income tax	169	184	8.9%	227	243	7.1%	306	329	7.4%
Income tax expense	(38)	(41)	8.9%	(49)	(55)	12.1%	-70	(76)	7.4%
Net profit	131	143	8.9%	178	189	5.8%	236	253	7.4%
EPS - basic (HK\$)	0.145	0.158	8.9%	0.197	0.209	5.8%	0.261	0.280	7.4%
DPS (HK\$)	0.036	0.039	8.9%	0.049	0.052	5.8%	0.065	0.070	7.4%
Gross margin	21.8%	19.3%	-2.5%	22.1%	19.7%	-2.4%	22.2%	19.9%	-2.3%
Operating margin	9.0%	8.6%	-0.4%	9.3%	9.2%	-0.1%	9.4%	9.4%	0.0%
Net margin	5.5%	5.7%	0.2%	5.7%	5.8%	0.1%	5.8%	6.0%	0.2%
Effective tax rate	22.5%	22.5%	0.0%	21.5%	22.5%	1.0%	23.0%	23.0%	0.0%

Source: Merrill Lynch estimates

Table 3: Vinda: Results Review

	1H06	2H06	2006	1H07	2H07	2007	1H08	2H08	2008
Turnover	622	736	1,358	849	929	1,778	1,185	1325	2,510
COGS	(466)	(552)	(1,018)	(663)	(749)	(1,412)	(963)	(1062)	(2,025)
Gross profit	157	184	340	186	180	366	222	264	485
Selling and marketing costs	(65)	(65)	(130)	(88)	(87)	(175)	(82)	(92)	(173)
Administrative expenses	(31)	(31)	(62)	(32)	(47)	(79)	(49)	(57)	(106)
Other income	4	7	11	7	4	11	2	8	10
Operating profit	65	94	159	72	51	123	93	123	216
Finance income	0	1	1	3	19	23	1.50	2	3
Finance costs	(21)	(25)	(47)	(27)	(23)	(51)	(10.95)	(24)	(35)
Profit before income tax	44	70	114	48	47	95	84	100	184
Income tax expense	(1)	(6)	(7)	(7)	(10)	(17)	(22)	(19)	(41)
Net profit	43	64	107	41	37	78	62	81	143
Gross margin	25.2%	25.0%	25.0%	21.9%	19.4%	20.6%	18.7%	19.9%	19.3%
Operating margin	10.5%	12.8%	11.7%	8.5%	5.5%	6.9%	7.9%	9.3%	8.6%
Net margin	6.9%	8.7%	7.9%	4.8%	4.0%	4.4%	5.2%	6.1%	5.7%
Effective tax rate	3.0%	8.0%	6.1%	14.6%	20.4%	17.4%	26.3%	19.3%	22.5%

Source: Vinda, Merrill Lynch

Table 4: Comparison of major China consumer companies

Company Name	ML		CUR	Share Price	ML Mkt Cap Rating (US\$ m)	EPS 2008	EPS 2009	EPS 2010	EPS CAGR 08-10	P/E 2008	P/E 2009	P/E 2010	PEG	ROE 2007	EV/EBITD A 2007	EV/EBITDA 2008	EV/EBITD A 2009	Net	
	Code	BB Code																Debt/(Cash) - HK\$m	
Consumer Staple																			
TINGYI*	TCYMF	322 HK	HKD	8.8	C-3-7	6,336	0.041	0.054	0.063	23%	27.5	20.9	18.1	0.9	20.1	14.8	11.6	9.1	(2,252)
CR ENTERPRISE	CRHKF	291 HK	HKD	19.3	NR	5,912	0.976	1.101	1.297	15%	19.8	17.5	14.9	1.1	23.6	20.5	16.8	14.8	4,821
WANT WANT CHINA*	XWHNF	151 HK	HKD	3.3	C-1-7	5,593	0.021	0.026	0.032	24%	20.5	16.3	13.3	0.7	28.0	18.8	14.5	11.4	(1,329)
CHINA MENGNIU*	CIADF	2319 HK	HKD	20.15	C-1-7	4,035	0.738	1.065	1.257	31%	24.0	16.6	14.1	0.5	23.1	17.9	14.7	10.7	(2,177)
HENGAN INT'L*	HEGIF	1044 HK	HKD	25.15	B-1-7	3,686	1.133	1.387	1.616	19%	22.2	18.1	15.6	0.9	24.2	20.0	16.7	13.8	(265)
TSINGTAO BREW*	TSGTF	168 HK	HKD	15.1	C-1-7	2,877	0.556	0.754	0.909	28%	23.8	17.6	14.6	0.6	10.0	10.9	9.7	7.7	(1,988)
CHINA YURUN FOOD		1068 HK	HKD	11	NR	2,160	0.723	0.870	1.088	23%	15.2	12.6	10.1	0.6	26.1	21.2	15.2	11.7	(351)
UNI-PRESIDENT*	XOSPF	220 HK	HKD	2.68	C-2-9	1,237	0.143	0.185	0.217	23%	16.5	12.7	10.9	0.5	11.0	6.2	5.9	5.1	(3,933)
SYNEAR	SYNRF	SYNF SP	SGD	0.32	REVIEW	304	0.226	0.266	0.312	17%	6.7	5.7	4.9	0.3	24.0	4.7	4.3	3.4	(416)
VINDA*	XVIHF	3331 HK	HKD	2.39	C-1-8	277	0.158	0.209	0.280	33%	15.1	11.4	8.5	0.5	8.1	15.4	9.7	7.3	380
Sub-total										24%	19.1	15.0	12.5	0.7	19.8	15.0	11.9	9.5	(751)
Department Stores																			
PARKSON*	PKSGF	3368 HK	HKD	9.25	C-1-7	3,307	0.326	0.431	0.550	30%	24.9	18.8	14.8	0.6	27.0	19.8	15.5	12.0	(969)
GOLDEN EAGLE*	GDNEF	3308 HK	HKD	6.97	C-1-7	1,625	0.270	0.337	0.416	24%	22.6	18.2	14.7	0.8	33.8	16.4	15.5	12.6	(1,061)
NEW WORLD DEPT		825 HK	HKD	5	NR	1,081	0.245	0.329	0.425	32%	20.4	15.2	11.8	0.5	57.9	na	na	na	(968)
INTIME*	INTIF	1833 HK	HKD	3.64	C-2-7	840	0.273	0.306	0.391	20%	11.7	10.5	8.2	0.5	15.8	11.2	8.8	6.9	1,078
FAR EAST	FEDTF	2903 TT	TWD	22.4	C-2-7	822	0.949	1.718	1.930	43%	23.6	13.0	11.6	0.3	7.1	31.9	27.9	24.9	11,656
DEPARTMENT*																			
Sub-total										30%	20.7	15.1	12.2	0.5	28.3	19.8	17.0	14.1	1,947
Sportswear																			
LI NING*	LNGF	2331 HK	HKD	15.2	C-1-7	2,027	0.711	0.972	1.260	33%	18.8	13.7	10.6	0.4	30.1	20.1	12.4	8.7	(973)
CHINA DONGXIANG*	CDGXF	3818 HK	HKD	2.8	C-1-7	2,034	0.190	0.226	0.290	23%	12.9	10.9	8.5	0.5	23.4	9.4	4.9	4.1	(6,475)
ANTA*	ANPDF	2020 HK	HKD	4.98	C-1-7	1,590	0.327	0.471	0.604	36%	13.4	9.3	7.2	0.3	24.5	15.0	9.1	5.8	(3,762)
POU SHENG INT'L*	PSHGF	3813 HK	HKD	1.18	C-2-9	540	0.022	0.022	0.026	7%	6.8	7.0	5.9	1.0	36.5	10.6	7.6	7.3	1,304
CHINA HONGXING	CIXGF	CHHS SP	SGD	0.29	REVIEW	509	0.190	0.253	0.304	26%	7.2	5.4	4.5	0.2	19.3	7.6	5.4	4.0	(559)
Sub-total										25%	11.8	9.3	7.3	0.5	26.8	12.5	7.9	6.0	(2,093)
Footwear and Apparel																			
BELLE INT'L		1880 HK	HKD	5.7	NR	6,170	0.273	0.366	0.451	29%	18.3	13.7	11.1	0.5	27.1	56.3	26.8	21.1	(2,616)
PORTS DESIGN*	PDESF	589 HK	HKD	17.74	C-1-7	1,276	0.819	0.971	1.160	19%	19.0	16.0	13.4	0.8	43.1	20.8	15.3	12.5	
BOSIDENG INTL		3998 HK	HKD	1.08	NR	1,099	0.150	0.163	0.187	12%	6.3	5.8	5.1	0.5	29.2	4.7	4.7	3.8	(5,966)
DAPHANE	PSGPF	210 HK	HKD	4.15	NR	872	0.315	0.393	0.464	21%	13.2	10.6	8.9	0.5	32.7	15.9	12.1	9.8	58
Sub-total										20%	14.2	11.5	9.6	0.6	33.0	24.4	14.7	11.8	(2,841)
Food Retailers																			
WUMART*	WUMSF	8277 HK	HKD	7.04	C-1-7	1,102	0.328	0.420	0.523	26%	18.8	14.7	11.8	0.6	15.0	12.8	10.3	8.3	(477)
LIANHUA*	LHUAF	980 HK	HKD	12.92	C-1-7	1,031	0.626	0.740	0.866	18%	18.1	15.3	13.1	0.9	12.5	6.2	5.9	5.1	(423)
Sub-total										22%	18.5	15.0	12.5	0.7	13.7	9.5	8.1	6.7	(450)
Restaurant																			
AJISEN*	AJSCF	538 HK	HKD	6.1	C-1-7	835	0.278	0.385	0.512	36%	19.3	13.9	10.5	0.4	19.7	16.5	10.8	7.5	(1,916)
LITTLE SHEEP*	LSGLF	968 HK	HKD	2.17	C-1-7	286	0.149	0.192	0.263	33%	12.8	9.9	7.2	0.3	36.5	8.9	6.7	4.9	(120)
Sub-total										34%	16.0	11.9	8.9	0.3	28.1	12.7	8.7	6.2	(1,018)
Consumer Electronics																			
GOME*	GMELF	493 HK	HKD	2.67	C-3-7	4,369	0.173	0.213	0.252	21%	13.6	11.0	9.3	0.5	21.1	15.3	10.9	8.5	111
Average										25%	16.3	12.7	10.3	0.5	24.4	15.6	11.3	9.0	(727)

Source: Bloomberg, Merrill Lynch estimate

Financials

Table 5: Vinda: Income Statement

HK\$ mn	2006	2007	2008E	2009E	2010E
Turnover	1,358	1,778	2,510	3,272	4,239
COGS	(1,018)	(1,412)	(2,025)	(2,627)	(3,396)
Gross profit	340	366	485	645	843
Other gains / losses, net	11	11	10	15	19
Selling and distribution costs	(130)	(175)	(173)	(226)	(293)
Administrative expenses	(62)	(79)	(106)	(132)	(171)
Operating profit	159	123	216	302	399
Finance income	1	23	3	3	2
Finance costs	(47)	(51)	(35)	(62)	(73)
Profit before income tax	114	95	184	243	329
Income tax expense	(7)	(17)	(41)	(55)	(76)
Minority interests	-	-	-	-	-
Net profit	107	78	143	189	253
EPS - basic (HK\$)	0.168	0.103	0.158	0.209	0.280
EPS - diluted (HK\$)	0.168	0.103	0.158	0.209	0.280
DPS (HK\$)	1.070	0.050	0.039	0.052	0.070
CFPS	-0.039	-0.091	0.224	0.127	0.277
# of shares					
End of year	638	904	904	904	904
Weighted average	637	762	904	904	904
Diluted weighted average	635	762	904	904	904

Source: Vinda, Merrill Lynch estimates

Table 6: Vinda: Balance Sheet

HK\$ mn	2006	2007	2008E	2009E	2010E
Non-current assets					
Fixed assets	985	1,391	1,804	2,098	2,277
Leasehold land and land use rights	84	95	117	114	112
Others	26	35	34	34	34
Total non-current assets	1,095	1,521	1,956	2,247	2,423
Current assets					
Inventories	330	501	608	788	1,017
Trade receivables, other receivables	205	245	373	433	612
Others	0	4	4	4	4
Pledged bank deposits	43	7	7	7	7
Cash	62	252	198	169	149
Total current assets	640	1,010	1,191	1,402	1,788
Total assets	1,735	2,531	3,147	3,648	4,211
Non-current liabilities					
Borrowings	192	309	309	309	309
Others	28	29	29	29	29
Total non-current liabilities	220	338	338	338	338
Current liabilities					
Trade and bills payables	283	348	556	616	899
Borrowings	735	346	646	946	1,036
Others	34	34	34	34	34
Total current liabilities	1,052	727	1,235	1,596	1,969
Capital and reserves					
Share capital and share premium	74	925	925	925	925
Other reserves	390	541	648	790	980
Minority	-	-	-	-	-
Total equity	463	1,467	1,574	1,715	1,905
Total equity and liabilities	1,735	2,531	3,147	3,648	4,211

Source: Vinda, Merrill Lynch estimates

Table 7: Vinda: Cash Flow Statement

HK\$ mn	2006	2007	2008E	2009E	2010E
Profit before income tax	114	95	184	243	329
Non-cash items	107	103	122	168	194
Change in working capital	(170)	(188)	(26)	(180)	(124)
Gross Operating Cashflow	51	10	280	232	399
Interest paid	(48)	(59)	(35)	(62)	(73)
Tax	(28)	(20)	(41)	(55)	(76)
Net Operating Cashflow	(25)	(70)	203	115	250
Capex	(290)	(357)	(524)	(400)	(300)
Others	15	10	3	3	2
Investing Cashflow	(275)	(347)	(521)	(397)	(298)
Free Cash Flow	(314)	(426)	(321)	(285)	(50)
Proceeds from borrowings	1,967	1,585	300	300	90
Repayment of borrowings	(1,668)	(1,916)	-	-	-
Repurchase of treasury shares	-	-	-	-	-
Capital contributions	20	881	-	-	-
Dividends	(20)	(31)	(36)	(47)	(63)
Others	(2)	49	(0)	0	-
Financing Cashflow	297	569	264	253	27
Net increase in Cash	(2)	152	(54)	(29)	(21)

Source: Vinda, Merrill Lynch estimates

Table 8: Vinda: Key Ratios

	2006	2007	2008E	2009E	2010E
Profit and Loss					
Sales growth (%)	46.7	30.9	41.2	30.4	30
Pretax growth (%)	61.4	(16.5)	94.1	32.1	35.1
Earnings growth (%)	83.0	(26.6)	82.2	32.1	34.2
Gross margin (%)	25.0	20.6	19.3	19.7	19.9
Operating margin (%)	11.7	6.9	8.6	9.2	9.4
Net margin (%)	7.9	4.4	5.7	5.8	6.0
EBITDA margin (%)	16.1	10.8	12.2	12.6	12.3
Effective tax rate (%)	6.1	17.4	22.5	22.5	23.0
Interest coverage (x)	3.4	2.4	6.1	4.9	5.5
Balance Sheet					
Net debt / (cash) (HK\$ mn)	823	395	749	1,078	1,189
Net debt/equity (%)	178	27	48	63	62
Total debt/capital (%)	73	42	50	53	55
Net debt/EBITDA (x)	3.8	2.1	2.4	2.6	2.3
Inventory days	102	107	100	97	97
Creditor days	95	81	81	81	81
Receivable days	45	46	45	45	45
Net working capital cycle	51	72	64	61	61
Return on equity %	26.6	8.1	9.4	11.5	14.0
Return on assets %	7.1	3.7	5.0	5.6	6.4
ROIC %	16.4	9.2	10.2	11.9	13.4
ROCE %	13.4	7.4	9.3	11.0	12.8
BVPS (HK\$/share)	0.73	1.62	1.74	1.90	2.11

Source: Vinda, Merrill Lynch estimates

Price objective basis & risk

Vinda Intl Hldgs (XVIHF)

Our PO of HK\$3.56 is derived from a blend of P/E (HK\$3.65 based on 19.9x 2008/09E EPS, an implied 0.6x PEG based on 08-10E EPS CAGR) and DCF (HK\$3.48 based on a 8.6pct discount rate, 0.66 beta and 3pct terminal growth).

At our PO, Vinda would be trading on 17x 2009E P/E, an implied 0.5x PEG.

Despite its high raw material exposure, we now see Vinda exercising its pricing power. The risk to our PO is that pulp prices rise by more than we are expecting, price increases do not stick or impact volume growth or the sales mix improves more slowly than we expect, resulting in weaker-than-expected margins and earnings.

Analyst Certification

I, Denise Chai, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

APR - Consumer Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Ajisen China	AJSCF	538 HK	Chen Luo
	Anta Sports	ANPDF	2020 HK	Denise Chai, CFA
	Beauty China Hld	BTYCF	BCH SP	Chen Luo
	China Dongxiang	CDGXF	3818 HK	Denise Chai, CFA
	China Mengniu Da	CIADF	2319 HK	Denise Chai, CFA
	Esprit Holdings	ESHDF	330 HK	Denise Chai, CFA
	Golden Eagle	GDNEF	3308 HK	Chen Luo
	Hengan Intl	HEGIF	1044 HK	Denise Chai, CFA
	Li Ning Co Ltd	LNNGF	2331 HK	Denise Chai, CFA
	Lianhua Superm-H	LHUAF	980 HK	Chen Luo
	Little Sheep Group Limited	LSGLF	968 HK	Chen Luo
	Parkson Retail	PKSGF	3368 HK	Chen Luo
	Ports Design Ltd	PDESF	589 HK	Brenda Lee, CFA
	Tsingtao Brew.	TSGTF	168 HK	Denise Chai, CFA
	Tsingtao Brew.-A	TSGTY	TSGTY US	Denise Chai, CFA
	Vinda Intl Hldgs	XVIHF	3331 HK	Denise Chai, CFA
	Want Want China	XWHNF	151 HK	Christine Lee
	Wumart Stores	WUMSF	8277 HK	Chen Luo
NEUTRAL				
	Intime Dept	INTIF	1833 HK	Chen Luo
	Pou Sheng International	PSHGF	3813 HK	Denise Chai, CFA
	Uni-president China	XOSPF	220 HK	Christine Lee
	Yue Yuen	YUEIF	551 HK	Denise Chai, CFA
UNDERPERFORM				
	Acorn Intern-ADR	ATV	ATV US	Denise Chai, CFA
	China Ting Group	CGUHF	3398 HK	Denise Chai, CFA
	Giordano	GRDZF	709 HK	Denise Chai, CFA
	GOME Electrical	GMELF	493 HK	Chen Luo
	Li & Fung	LFUGF	494 HK	Denise Chai, CFA
	Tingyi	TCYMF	322 HK	Christine Lee
REVIEW				
	China Resources Enterprise	CRHKF	291 HK	Denise Chai, CFA
	Shun Tak Holding	SHTGF	242 HK	Brenda Lee, CFA

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

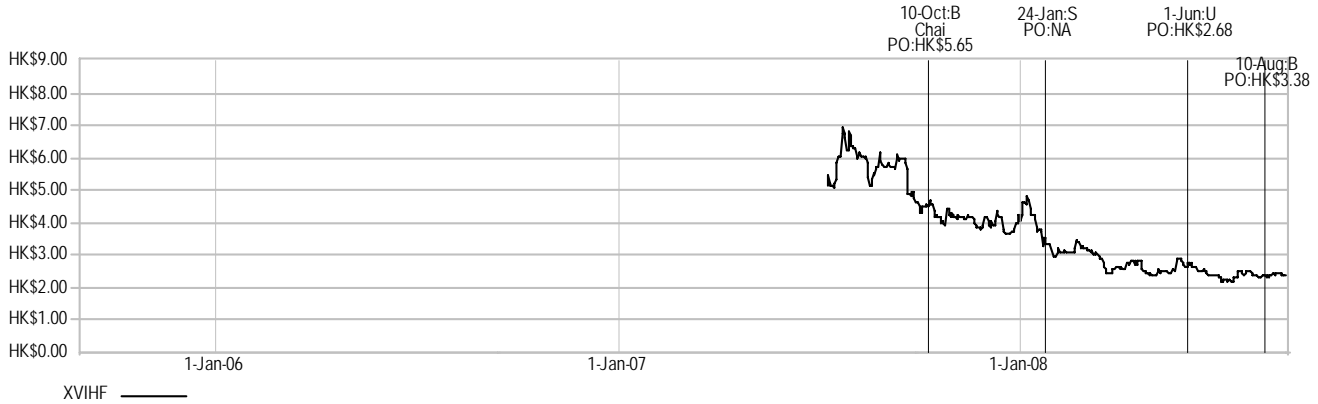
iQmethodSM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

iQprofileSM, *iQmethodSM* are service marks of Merrill Lynch & Co., Inc. *iQdatabase[®]* is a registered service mark of Merrill Lynch & Co., Inc.

Important Disclosures

XVIHF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of August 31, 2008 or such later date as indicated.

Investment Rating Distribution: Consumer Products Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	27	39.13%	Buy	4	16.00%
Neutral	23	33.33%	Neutral	3	15.00%
Sell	19	27.54%	Sell	6	35.29%

Investment Rating Distribution: Global Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1664	47.42%	Buy	441	29.46%
Neutral	803	22.88%	Neutral	224	31.46%
Sell	1042	29.70%	Sell	217	22.84%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent Merrill Lynch Comment referencing the stock.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Vinda Intl Hldgs.

MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Vinda Intl Hldgs.

MLPF&S together with its affiliates beneficially owns one percent or more of the common stock of this company. If this report was issued on or after the 10th day of the month, it reflects the ownership position on the last day of the previous month. Reports issued before the 10th day of a month reflect the ownership position at the end of the second month preceding the date of the report: Vinda Intl Hldgs.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International Bank Ltd, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2008 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.