Mar 20, 2015
Company Report
Rating: BUY
TP: HK$ 3.55

H-Share price (HK$)	3.21
Est. share price return	10.6%
Est. dividend yield	1.7%
Est. total return	12.3%
Previous Rating &TP	BUY, HK$3.55
Previous Report Date	Jan 19, 2015

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Key Data

52Wk H/L(HK$)	3.66/2.78
Issued shares (mn)	45,448.7
H-shares (mn)	11,163.6
Unlisted shares (mn)	34,285.1
H-share mkt cap (HK$mn)	35,835
Major shareholder(s):	
CGNPC	64.2%

Source(s): Company, Bloomberg, ABCI Securities

Business Mix

	FY14
Sales:	**% revenue**
Nuclear power	93.0%
Service income	5.8%
Others	1.2%
Total	100.0%
Cost of sales:	**% revenue**
Tax surcharges	1.5%
Nuclear fuel	14.9%
Spent fuel	3.7%
D&A	12.6%
Others	18.8%
Total	51.5%

Source(s): Company, ABCI Securities

CGN Power (1816 HK)

Better-than expected FY14 net profit; reiterate **BUY**

- Net profit surged 36%YoY to RMB 5.7 bn, 4.5% better than prospectus forecast and our estimates
- Attributable installed capacity and on-grid power generation surged 26% YoY and 23% YoY
- Acquisition of 41% stake in the Taishan NPP to complete in Mar 2015 at a consideration of RMB 9.7 bn
- Healthy financial position with net gearing falling to 88% and interest coverage improving to 2.3x; short-term debts accounted for 0.97x of EBITDA
- ROAA improved to 4.8% but ROAE diluted to 15.5%

Positive earnings surprise. Revenue growth was in line with expectations, but net profit rose significantly on forex gains. We estimate the net forex gains after hedging were ~RMB0.3bn, mainly due to the weakened Euro in 2H14. At end-June 2014, the Group's Euro-denominated liabilities amounted to RMB3.7 bn.

Major growth driver – capacity growth. Gross and attributable capacities were up 40% YoY and 26% YoY. Gross and attributable power sold was up 32% YoY and 23% YoY. Four additional new reactors are expected to operate each year in FY15 and FY16, and management expressed that construction has been on schedule. We expect consolidated power sold and revenue to grow at 19% and 18% CAGRs in 2014-16.

Purchase a 41% stake in Taishan NPP for RMB 9.7 bn. This acquisition is expected to complete in Mar 2015. The development progress of Taishan NPP, the first France-based 3rd gen. nuclear plant in China and the second in the world, has aroused concerns in the market. Currently, unit one reactor is in the commission phase (testing phase) while unit two reactor is in equipment installation phase. We believe the development risk of the NPP will reduce when commission phase proceeds further.

Healthy financial position. Net gearing was down to 88% after the Group raised RMB21.6 bn in net proceeds from IPO in late 2014. Debt repayment capability improved. Market yields of its bonds maturing in 2020 and 2022 have declined 170bp and 183 bp since end-2013 and are lingering at 1-year lows. We estimate the purchase of stakes in Taishan NPP will boost its net gearing to 160-170% in the next 12 months. As ~87% of the outstanding debts are long-term ones, we believe the financial risk is not excessive.

DCF-derived TP at HK$3.55 (based on a WACC of 6.82%). We maintain our TP at HK$ 3.55 which represents 1.65x FY16 PEG (FY16 PE/CAGR of EPS). Our valuation has priced in the under-constructing NPPs owned by the Group and potential acquisitions of NPPs from the parent, but excludes NPPs that have yet to commence construction.

Risk factors: Over-capacity risk of power industry; Falling utilization hours; Operation safety; Construction risk; Fuel cost risk; Tariff risk; Currency and interest rate risks.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Net power generation (GWh)	**45,113**	**44,156**	**52,175**	**56,215**	**73,759**
Growth (%YoY)	11.34	(2.12)	18.16	7.74	31.21
Revenue (RMB mn)	**17,575**	**17,365**	**20,793**	**22,361**	**28,807**
Chg (%,YoY)	10.67	(1.20)	19.74	7.54	28.82
Net Income (RMB mn)	**4,145**	**4,195**	**5,713**	**6,217**	**7,089**
Chg (%,YoY)	(12.33)	1.20	36.19	8.83	14.03
EPS (RMB)	-	0.1219	0.1257	0.1368	0.1560
P/E (x)	**-**	**-**	**20.53**	**18.75**	**16.53**
BVPS (RMB)	-	0.6698	1.1175	1.2518	1.3667
P/B (x)	**-**	**-**	**2.31**	**2.05**	**1.88**
Post-listing DPS(RMB)	-	-	0.0025	0.0429	0.0503
Yield (%)	**-**	**-**	**0.10**	**1.76**	**2.00**
ROAE (%)	24.56	21.32	15.47	11.55	11.91
Net gearing (%)	294.83	220.74	87.85	163.69	171.17

Remark: Net power generation refers to amount of electricity sold to grid companies by consolidated subsidiaries. The reported revenue is including VAT. Forex: RMB0.7988/HK$
Source(s): The Company, ABCI Securities estimates

Review of FY2014 results

Revenue grew 19.7% YoY to RMB 20,793mn, driven by the 18.2%YoY increase in power output from its consolidated subsidiaries. Gross installed capacity of consolidated subsidiaries grew 18.9% to 7,208MW at end-2014 and power sold in FY14 was 52,176GWh. New capacity from subsidiary's NPP represents the unit 1 reactor that was in its first year of operation in Yanjiang NPP.

EBITDA rose by 22% YoY to RMB 13,769mn with EBITDA margin improving to 66.2% in FY14 (vs. 65.1% in FY13).

Pre-tax profit: Gross profit rose 23.8% YoY and shared profits from associates and JVs' NPPs surged 58% YoY. Total attributable power output by associates and JVs surged by 91% YoY to 7,465GWh on operation of new reactors in Ningde NPP and Hongyanhe NPP since May 2014. Combining NPPs under subsidiaries, associates and JVs, total attributable installed capacity and total attributable on-grid power generation climbed 26% YoY and 23% YoY to 7,888MW and 53,455GWh, respectively.

Net profit surged 36%YoY in FY14 to RMB 5,712 mn. Reported basic EPS was RMB0.17. Based on the outstanding issued shares after listing, pro-forma fully-diluted EPS was RMB 0.1257. ROAA improved to 4.83% in FY14 from 4.06% in FY13, but ROAE was diluted to 15.47% in FY14 from 21.32% in FY13 due to issuance of H-shares in late 2014.

Financial status: The net debt- to-equity ratio improved to 88% at end-FY14 from 221% at end-FY13 as the Group raised net proceeds of RMB 21.6bn in late 2014. Interest coverage ratio improved to 2.3x in FY14 from 1.7x in FY13. At end 2014, long-term debts accounted for 87% of total debts. Outstanding ST debts represent 0.79x of FY14 EBITDA. Debt repayment capability is healthy. NBV at end-FY14 was RMB 1.1175/share.

Exhibit 1: Nuclear power generation in 2014

On-grid power output (GWh)	Gross output	Prop	Chg (YoY)	Attributable output	Prop	Chg (YoY)
Consolidated subsidiaries:						
Daya Bay NPP	14,497	19.8%	1.80%	10,873	20.3%	1.80%
Ling'ao NPP	15,135	20.6%	7.32%	15,135	28.3%	7.32%
Lingdong NPP	15,750	21.5%	-0.39%	14,679	27.5%	-0.39%
Yanjiang NPP	6,793	9.3%	(a)	5,312	9.9%	(a)
Sub-total	52,176	71.1%	18.16%	46,000	62.7%	16.39%
Associates or JVs:						
Ningde NPP	10,802	14.7%	73.70% (b)	3,488	6.5%	73.70% (b)
Hongyanhe NPP	10,424	14.2%	109.25% (c)	3,977	7.4%	109.25% (c)
Sub-total	21,226	28.9%	89.51%	7,465	14.0%	90.98%
Total	73,402	100.0%	32.60%	53,464	100.0%	23.11%

Note a: Unit 1 reactor of Yanjiang NPP commenced operation on Mar 25, 2014
Note b: Unit 2 reactor of Ningde NPP commenced operation on May 4, 2014
Note c: Unit 2 reactor of Hongyanhe NPP NPP commenced operation on May 13, 2014
Source: CGN Power, ABCI Sec

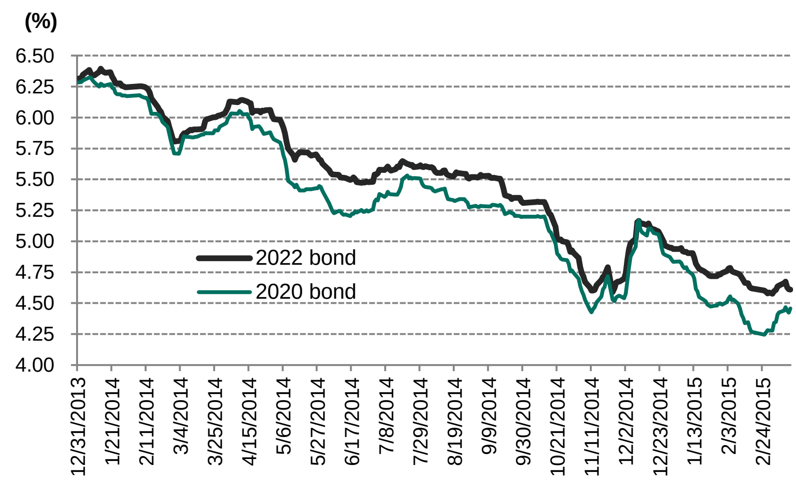
Bond yields favorable to CGN Power

The nuclear power generation industry is capital-intensive in nature. Funding costs affect not only the ROI of new nuclear projects but also the equity valuation of the power company.

CGN Power has issued two outstanding bonds maturing in Mar 2020 and Dec 2022, respectively, in China. The bond yields of these two outstanding bonds have declined 170bp and 183 bp since end-2013. The current yield of its bond maturing in 2022 is 4.610%, or ~131 bp higher than the yield of the Chinese government bond of similar duration; current yield of its bond maturing in 2020 s 4.456%, or ~103 bp higher than the yield of the Chinese government bond of similar duration.

In our view, CGN Power should take advantage of the current favorable bond yields to secure the long-term funds for the construction of existing and new plants.

Exhibit 2: Bond yield curves of CGN Power



Remarks:
2020 bond: RMB 2,500bn; coupon rate at 4.6%; maturity at May 12, 2020
2022 bond: RMB2,000bn; coupon rate at 5.9%; maturity at Dec 20, 2022
Updated on Mar 13, 2015
Source(s): Bloomberg

M&A activities are accelerating

We expect CGN Power to complete its 41% stake acquisition in Guangdong 's Taishan NPP and 61% stake in the Guangxi's Fengchengang NPP in the next 12-15 months. To avoid conflict of interests between listed company and controlling shareholders, the parent company of CGN Power would need to inject its controlling stakes in the two aforementioned NPPs into CGN Power prior to commercial operation. As the potential injections are connected transactions between controlling shareholders and CGN Power, approvals from non-connected shareholders (i.e. mainly the H-share shareholders) are required.

Management expects the acquisition of Taishan NPP to complete in Mar 2015 at a consideration of RMB 9.7 bn. The two reactors are expected to commence operation in 2016. We estimate the net gearing ratio of the Group to rebound from 88% at end-2014 to 164% at end- 2015F.

Areas of concern

Power overcapacity risk in Liaoning Province. In Mar 2015, CGN Power expressed that NDRC had granted approval for the construction of the 5th and 6th nuclear reactor units in Hongyanhe NPP, Liaoning Province. However, we remain reserved on the project mainly due to possible power oversupply in the province. Average utilization hour of power generators in Liaoning Province was 3,939 in 2014, 8.1% below the national average utilization hours and was down 1.7% YoY (67 hrs). The data indicate possible overcapacity in the province. The 3rd and 4th nuclear reactor units in the Hongyanhe NPP are expected to commence operation this year, bringing the total nuclear installed capacity to 4.5GW at end-2015. Hence, overcapacity of power generation in Liaoning Province will be aggravated further. To alleviate the overcapacity issue, Liaoning Province would need to reduce power import from Inner Mongolia or export surplus power to neighboring areas (e.g. Hebei, Heilongjiang, and Beijing) or country (e.g. North Korea). Power producers in the neighboring provinces, however, may resist power import from Liaoning as they are also experiencing decline in equipment utilization. Average utilization hour of power equipment was down 6.7%, 2.3% and 4.5%YoY in Hebei, Heilongjiang, and Beijing in 2014, respectively.

Moreover, the average thermal tariff is RMB 0.4044 (incl. VAT) per KWh in Liaoning, or ~2.4% lower than the nuclear tariff of RMB 0.4142 (incl. VAT) per KWh in local market. Hence, nuclear tariff in Liaoning has a high downside risk.

Power overcapacity risk in Fujian Province. Controlled by CGN Power, Ningde NPP in Fujian has two reactors (1,089MW each) in operation and two other reactors (1,089MW each) under construction. CNN Power, the competitor of CGN Power, is operating 1 reactor unit (1,080 MW) in the Fujing NPP and building 3 other reactor units (1,080MW each) in this NPP. Total installed capacity of nuclear power in the province will increase from 3,258MW at end-2014 to 7,596MW at end-2016 and 8,676MW at end-2018.

Power overcapacity risk in Fujian will increase asset utilization risk and tariff risk in coming years. Average utilization hour of power equipment in Fujian eased 0.22% YoY to 4,490hrs in 2014. The thermal tariff in Fujian was RMB0.4379 (incl VAT) per KWh, in line with the nuclear tariff. The downside risk of nuclear tariff will emerge if thermal power producers cut their tariff on weak coal prices.

Decreasing utilization hour of nuclear power equipment may lead to declines in sales/assets and return rate of assets

Exhibit 3: Average annual utilization of power equipment/calendar year hours

	Overall	**Nuclear**	Thermal	Hydro	Wind
2011	54.0%	**88.6%**	60.6%	34.5%	21.6%
2012	52.1%	**89.4%**	56.7%	40.9%	22.0%
2013	51.5%	**90.1%**	57.2%	37.9%	23.7%
2014	48.9%	**85.5%**	53.7%	41.7%	21.7%

Source(s): NEA, ABCI Securities

Increase in uranium price would drive up nuclear fuel cost. Uranium spot price hit its 5-year low in May 2014 and has rebounded since then. Uranium spot price rose 3.3% in 2014 and increased 11.4% ytd in 2015. The continued rise in uranium cost will subsequently drive up nuclear fuel cost as we estimate uranium to account for one-third of such cost.

Nuclear fuel cost accounted for 14.9% of CGN Power's revenue in FY14. Assuming that uranium accounts for one-third of the nuclear fuel cost, we estimate uranium cost to represent ~5% of revenue. Hence, a 10% increase in uranium cost will erode GP margin by 0.5 ppt. Considering CGN's substantial level of nuclear fuel inventory, the impact of rising uranium price on the Group's nuclear fuel cost would not be instantaneous. Nuclear fuel to be consumed in FY15 would have been in FY14 or earlier when uranium price was low. Hence, we expect gross profit margin to improve further in FY15 but would decline in FY16.

Exhibit 4: Uranium 308 physical spot price (US$/lb)

Source(s): Bloomberg

Financial Statements

Consolidated income statement (2011A-2016E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014A	2015E	2016E
Revenue	**15,881**	**17,575**	**17,365**	**20,793**	**22,361**	**28,807**
Power Generation	14,972	16,514	16,268	19,327	21,186	27,611
Service revenue	755	796	843	1,214	896	902
Others	154	265	254	252	280	294
Less: Tax surcharge	221	250	255	304	342	432
Less: Cost of sales and services	7,987	9,155	8,961	10,399	11,065	14,573
Gross profit	**7,674**	**8,170**	**8,148**	**10,090**	**10,954**	**13,802**
Less: SG&A	812	921	1,031	1,469	2,362	3,379
Add: VAT Refunds	1,009	1,263	1,299	1,600	1,793	2,592
Add: Other income and gains	255	310	3	162	-	-
Operating profit (RMB mn)	**8,125**	**8,823**	**8,419**	**10,384**	**10,384**	**13,015**
Add: Share of results of associates and JV	153	(9)	293	461	1,054	1,755
Less: Net financial cost	1,946	2,946	2,642	3,045	2,922	5,113
Pre-tax profit	**6,332**	**5,868**	**6,070**	**7,800**	**8,516**	**9,657**
Less: Income tax	936	890	998	925	1,022	1,159
Net profit	**5,396**	**4,977**	**5,071**	**6,875**	**7,494**	**8,498**
Attributable to:						
Non-controlling interests	669	833	877	1,162	1,277	1,448
Owners of the Company	**4,727**	**4,145**	**4,195**	**5,713**	**6,217**	**7,049**
FD EPS (RMB)[1]			**0.122**	**0.126**	**0.137**	**0.155**
Post-listing DPS (RMB)[2]				**0.0025**	**0.045**	**0.051**

Note 1: FD EPS in 2014 is pro-forma basis. EPS from 2014 to 2016 are based on 45,448.75mn issued shares.
Note 2: The DPS for FY14 is excluding the special dividend distributed to pre-listing shareholders
Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2016E)

As of Dec 31 (RMB mn)	2011A	2012A	2013A	2014A	2015E	2016E
Current assets	**26,287**	**27,096**	**21,761**	**42,150**	**31,412**	**30,807**
Cash and equivalent	12,347	7,734	9,400	28,872	17,654	9,577
Trade and bill receivables	1,659	1,837	1,629	2,346	1,940	3,813
Inventories	7,531	7,514	8,384	9,337	10,065	15,488
Other current assets	4,749	10,011	2,347	1,594	1,753	1,929
Non-current assets	**87,421**	**95,167**	**105,914**	**114,776**	**216,359**	**234,441**
Property, plant and equipment	70,068	79,185	87,042	93,983	195,468	212,682
Intangible assets	1,059	1,697	1,772	2,277	1,784	1,790
Long term investments	329	2,289	2,658	3,101	3,411	3,752
Interests in associates and JV	13,980	9,197	11,093	11,893	11,778	11,952
Other non-current assets	1,983	2,800	3,350	3,522	3,917	4,264
Total assets	**113,708**	**122,263**	**127,675**	**156,926**	**247,771**	**265,248**
Current liabilities	**40,546**	**39,887**	**26,462**	**23,559**	**47,868**	**53,124**
Trade and bill payables	1,761	3,678	2,161	2,263	2,490	4,697
Construction payables	5,225	6,695	7,246	3,303	8,264	9,000
Short term borrowings	11,125	23,589	13,098	10,871	29,280	30,808
Other current liabilities	22,434	5,925	3,958	7,123	7,835	8,619
Non-current liabilities	**49,619**	**58,226**	**69,521**	**73,950**	**121,247**	**127,769**
Long-term borrowings	41,712	49,802	60,721	70,200	117,121	123,230
Other non-current liabilities	7,907	8,424	8,800	3,751	4,126	4,538
Total liabilities	**90,165**	**98,114**	**95,983**	**97,510**	**169,115**	**180,892**
Minority interests	**6,091**	**7,845**	**8,640**	**8,628**	**21,763**	**22,281**
Shareholders' equities	**17,452**	**16,304**	**23,052**	**50,789**	**56,892**	**62,076**
BVPS (RMB)			**0.670**	**1.117**	**1.252**	**1.366**

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2016E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E	2016E
Profit before tax	**6,332**	**5,868**	**6,070**	**7,800**	**8,516**	**9,657**
Changes in depreciation and amortization	2,633	2,704	2,488	3,364	3,580	4,472
Changes in working capital	39	(2,540)	(1,169)	(1,567)	(1,595)	(5,089)
Financial income	(168)	(172)	(161)	(159)	(465)	(272)
Financial cost	2,114	3,118	2,804	3,204	3,387	5,385
Others	(732)	(318)	(539)	65	(1,457)	13
Net operating cash flow	**10,218**	**8,660**	**9,493**	**12,706**	**11,967**	**14,166**
Interest received	168	172	162	159	465	272
Deposit paid for PP&E	(12,436)	(7,805)	(9,932)	(11,877)	(14,621)	(20,000)
Increase in stake of JV	-	-	-	-	(12,924)	-
Decrease (increase) in deposits and others	450	(7,346)	5,288	-	-	-
Net investing cash flow	**(11,818)**	**(14,979)**	**(4,482)**	**(11,718)**	**(27,080)**	**(19,728)**
Capital injection	10,629	4,078	2,708	21,600	-	-
Net debt financing	11,707	20,555	427	1,721	16,519	7,636
Dividend payout	(2,769)	(9,843)	(1,655)	(6,060)	(2,052)	(2,326)
Interest paid	(3,030)	(4,329)	(5,179)	(4,866)	(10,098)	(11,235)
Others	(10,845)	(9,160)	(238)	6,688	(613)	3,180
Net financing cash flow	**5,692**	**1,301**	**(3,937)**	**19,084**	**3,756**	**(2,745)**
Net change in cash	**4,092**	**(5,018)**	**1,074**	**20,072**	**(11,357)**	**(8,306)**
Cash at the beginning (excluding restricted deposits)	6,195	10,453	5,434	6,640	26,712	15,356
Effects of exchange rate changes	166	(1)	132	-	-	-
Cash at the end	**10,453**	**5,434**	**6,640**	**26,712**	**15,356**	**7,049**

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2011A-2016E)

FY ended Dec 31	2011A	2012A	2013A	2014A	2015E	2016E
Sales mixed (%)						
Power Generation	94.27	93.96	93.68	92.95	94.74	95.85
Service revenue	4.75	4.53	4.86	5.84	4.01	3.13
Others	0.97	1.51	1.46	1.21	1.25	1.02
Profit & loss ratios (%)						
Gross profit margin	48.32	46.49	46.92	48.52	48.98	47.91
Net profit margin	29.77	23.58	24.16	27.47	27.80	24.47
Effective tax rate	14.78	15.18	16.45	11.86	12.00	12.00
Growth (%)						
Revenue		10.67	(1.20)	19.74	7.54	28.82
Gross profit		6.47	(0.27)	23.82	8.56	26.00
Operating profit		8.59	(4.58)	23.33	0.00	25.34
Net profit		(12.33)	1.20	36.19	8.83	13.39
Balance sheet ratios						
Current ratio (x)	0.65	0.68	0.82	1.79	0.66	0.58
Quick ratio (x)	0.46	0.49	0.51	1.39	0.45	0.29
Trade and bill receivables days	39	36	36	37	37	37
Trade and bill payables turnover days	47	73	83	90	90	90
Inventory turnover days	346	300	324	320	320	320
Total debt / equity ratio (%)	247.92	326.80	250.38	136.44	186.13	182.60
Net debt / equity ratio (%)	195.54	294.83	220.74	87.85	163.69	171.25
Returns (%)						
ROAE		24.56	21.32	15.47	11.55	11.85
ROAA		4.22	4.06	4.83	3.70	3.31
Payout ratio		237.56	39.41	33.00	33.00	33.00

Source(s): Company, ABCI Securities estimates

Appendix: Shareholders background of CGN Power

Exhibit 5: Beneficial owners of CGN Power

	Issued shares (mn shares)	% to issued shares	% to issued H-shares
Domestic shares shareholders:			
CGNPC	29,176.641	64.20%	
Hengjian Investment (Guangdong government)	3,428.513	7.54%	
CNNC	1,679.971	3.70%	
Total **unlisted** shares	34,285.125	75.44%	
H-share shareholders:			
18 cornerstone investors^	3,713.105	8.17%	33.26%
NSSF	1,014.875	2.23%	9.09%
Public shareholders	6,435.645	14.16%	57.65%
Total **listed** H shares	11,163.625	24.56%	100.00%
Total issued shares	45,448.750	100.00%	

Note ^: Lockup expiry at Jun 8, 2015
Source: CGN Power

Appendix: Shareholders background of CGN Power's NPP

Exhibit 6: Beneficial owners of CGN Power's NPPs

Nuclear power plant	No. of reactors in operation	No. of reactors under construction	Beneficial owners (attributable stake)
Daya Bay NPP	2	0	**CGN Power (75%)** CLP Holdings (25%)
Ling Ao NPP	2	0	**CGN Power (100%)**
Ling Dong NPP	2	0	**CGN Power (93.2%)** Non-controlling shareholders of CGN Fund Phase 1 (6.8%)
Yangjiang NPP	1	5	**CGN Power (78.2%)** Yudean Group (17.0%) Non-controlling shareholders of CGN Fund Phase 1 (4.8%)
Ningde NPP	2	2	**CGN Power (32.29%)** Datang Int'l Power Generation (44%) Fujian Energy Group (10%) Non-controlling shareholders of CGN Fund Phase 1 (13.72%)
Hongyanhe NPP	2	2 + 2 (a)	**CGN Power (38.15%)** China Power Investment Nuclear Power (45%) Dalian Construction Investment (10%) Non-controlling shareholders of CGN Fund Phase 1 (6.85%)
Taishan NPP	0	2	**CGN Power (10%)** CGNPC (41%) EDF Int'l (30%) Yudean Group (19%)
Total	**11**	**11 + 2 (a)**	

Note a: CGN Power has obtained NDRC approval to build additional 2 units in Mar 15
Source: CGN Power

Disclosures

Analyst Certification
I, Chan Sung-yan, Philip, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months
Market return: 5-year average market return rate from 2010-2014
Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.
Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Disclaimers

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