



August 30, 2013
 Equity Focus
 Rating: BUY
 TP: HK\$ 2.01

H-Share price (HK\$) 1.63
 Est. share price return 23.31%
 Est. dividend yield 2.23%
 Est. total return 25.54%

Previous Rating & TP BUY; HK\$ 1.86
 Previous Report Date July 15, 2013

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Key Data

52Wk H/L(HK\$)	2.48/ 1.01
Issued shares (mn)	4,280
Market cap (HK\$ mn)	6,976
3-mth avg daily turnover (HK\$ mn)	42.4
Major shareholder(s) (%)	
Li Sam Yim & spouse	55.69

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Wheel loaders	65.13
Excavators	12.65
Fork lifts	10.33
Road rollers	1.27
Financial Leasing Income	0.70
Others	9.92

Source(s): Company, ABCI Securities

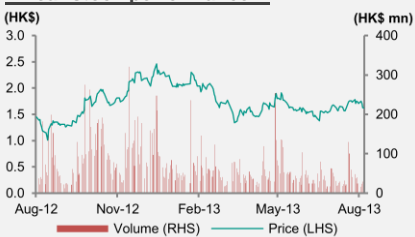
Share performance (%)

	Absolute	Relative*
1-mth	5.73	6.67
3-mth	(6.21)	(3.18)
6-mth	(19.02)	(14.59)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

Lonking (3339 HK)

Trend buckers in downturn; maintain BUY

- 1H13 net income was up 24.28% YoY on higher GPM and lower finance cost, while most industry peers reported earnings decline
- Lonking's share in China's wheel loader market fell to 14.04% in 1H13 from 14.80% in 2012 as the Group relinquishes the low-power wheel loader with low margins
- Credit sales control is expected to continue in 2H13 and 2014, freeing up more working capital as a result. We believe debt ratio will decrease accordingly
- We cut our FY13E net profit forecast by 17.20% to RMB 499mn, but revise up TP by 8.06% to HK\$ 2.01 on improved asset quality. Our TP is pegged to 1.0x FY13E P/B. The counter is currently trading at 0.81x FY13E P/B. Maintain BUY

1H13 net profit grew under effective cost control. Although 1H13 revenue was down 5.29% to RMB 4,474mn, thanks to the improved GPM and lower interest cost, net income was up 24.28% YoY to RMB 343mn, which is exceptional as most domestic machinery makers reported earnings decline for the same period. Looking forward, we expect sales of wheel loader, the major product of Lonking, to gain momentum. The product contributed 65.13% of revenue in 1H13, and we expect the proportion to stay similar in 2H13.

Relinquishes the lower-power wheel loader market for better margins. Lonking stepped down from the low-power wheel loader market strategically to attain a higher profitability. Total sales volume of wheel loader in China was 101,000 units in 1H13, of which 14,183 units were sold by Lonking. The Group's market share therefore arrived at 14.04% for 1H13 (2012: 14.80%) as sales of low-power wheel loader dropped significantly. However, GPM of the wheel loader segment increased to 25.89% in 1H13 (1H12: 24.92%; 2H12: 11.92%) as a result.

Debt level continues to improve. Interest cost dropped from RMB 219mn in 1H12 to RMB 110mn in 1H13 on lower debts. Debt-to-equity ratio decreased from 81.75% at end-Dec 2012 to 66.76% at end-June 2013. We expect the Group would turn more conservative towards credit sales going forward and this should free up more working capital. The debt level will further improve in FY14E.

Reiterate BUY on improved asset quality. We lower our FY13E revenue forecast by 11.47% to RMB 7,772mn, and FY13E net profit forecast by 17.20% to RMB 499mn as we expect Lonking to control credit sales. Looking forward, we expect asset quality will improve via reduced receivables and gearing. We revise up TP by 8.06% to HK\$ 2.01, representing 1.0x FY13E P/B. The counter is trading at 0.81x of FY13E P/B. Reiterate BUY.

Risk factors: 1) Competition from international players; 2) market share loss; 3) Potential sales growth slowdown due to credit sales control.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	12,721	7,896	7,772	8,786	9,785
Chg (% YoY)	5.83	(37.93)	(1.58)	13.05	11.37
Net Income (RMB mn)	1,730	151	499	632	694
EPS (RMB)	0.40	0.04	0.12	0.15	0.16
Chg (% YoY)	(2.04)	(91.27)	230.78	26.58	9.77
BVPS (RMB)	1.50	1.46	1.62	1.78	1.96
Chg (% YoY)	22.21	(2.52)	10.95	10.25	9.94
P/E (x)	-	37.11	11.22	8.86	8.07
P/B (x)	-	0.90	0.81	0.73	0.67
ROAE (%)	29.71	2.39	7.59	8.68	8.66
ROAA (%)	11.69	1.02	3.60	4.50	4.88
DPS(RMB)	0.12	-	0.03	0.04	0.04
Yield (%)	-	-	2.23	2.82	3.10
Net gearing (%)	50.06	66.26	32.55	26.59	7.99

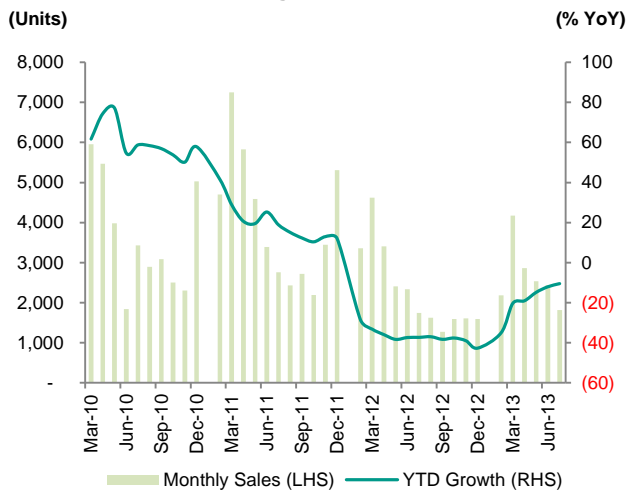
*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates

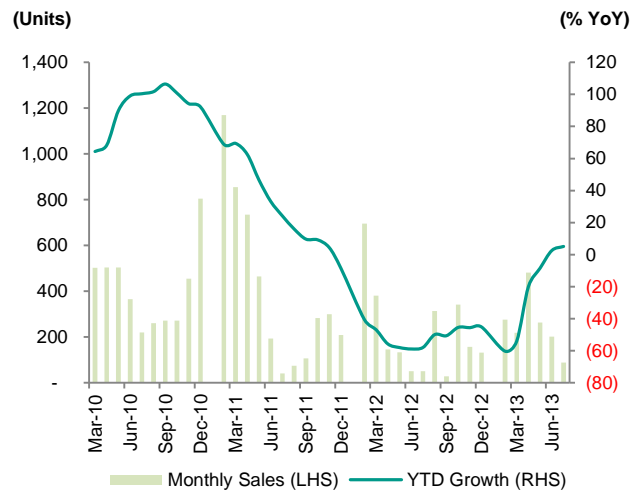
Sales recovery continued in July

Overall performance in 7M13 is improving. Decline in cumulative sales volume of wheel loader of Lonking continued to narrow from -12.05% in 1H13 to -10.49% in 7M13.

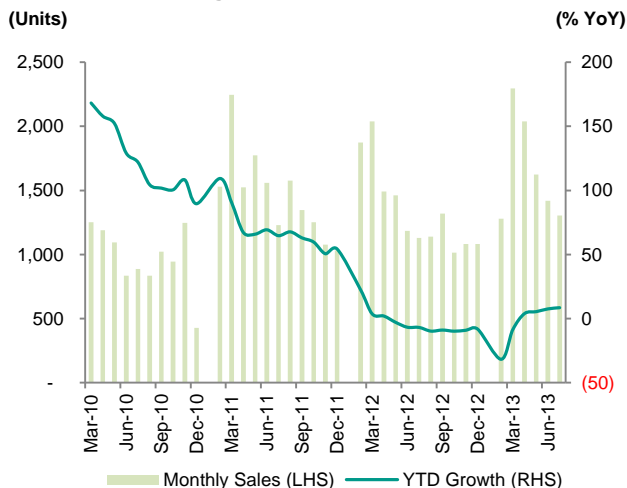
The cumulative sales volume growth of excavator and fork lift accelerated from 2.56% and 7.53% in 1H13 to 5.09% and 8.49% in 7M13, respectively. We see the sales volume recovery momentum of the three largest segments of Lonking remaining strong in July.

Exhibit 1: Monthly sales volume and cumulative growth of wheel loader of Lonking in 3M10 – 7M13


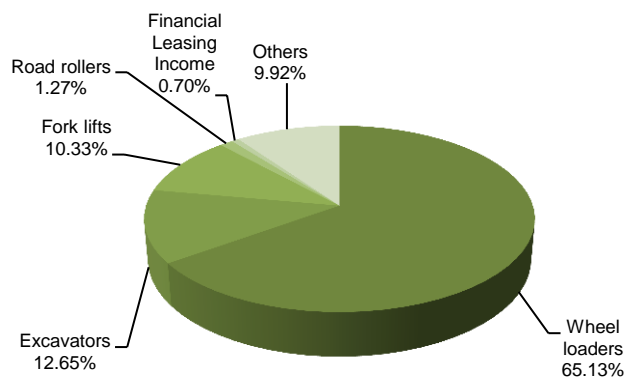
Sources: CCMA, Media

Exhibit 2: Monthly sales volume and cumulative growth of excavator of Lonking in 3M10 – 7M13


Sources: CCMA, Media

Exhibit 3: Monthly sales volume and cumulative growth of fork lift of Lonking in 3M10 – 7M13


Sources: CCMA, Media

Exhibit 4: Sales revenue breakdown of Lonking, 1H13


Source: NBS

Exhibit 5: 1H13 results summary of Sany Int'l

	1H11	2H11	1H12	2H12	1H13	Change (% YoY)	Change (% HoH)
Revenue (RMB mn)	8,398	4,323	4,724	3,172	4,474	(5.29)	41.05
Wheel loaders	5,683	3,184	3,208	1,953	2,914	(9.16)	49.21
Excavators	1,303	410	530	350	566	6.79	61.71
Fork lifts	468	461	422	397	462	9.48	16.37
Road rollers	272	95	72	43	57	(20.83)	32.56
Financial Leasing Income	136	69	61	44	31	(49.00)	(29.30)
Others	536	104	431	385	444	2.99	15.30
Gross Profit (RMB mn)	2,201	1,013	978	551	998	2.04	81.13
Wheel loaders			799	233	754	(5.63)	224.12
Excavators			101	68	90	(11.41)	31.22
Fork lifts			47	36	47	1.13	29.87
Road rollers			8	11	8	(1.06)	(22.81)
Financial Leasing Income			55	40	28	(49.18)	(29.55)
Others			(33)	163	70	(315.91)	(56.81)
GPM (%)	26.21	23.43	20.70	17.37	22.31	1.60ppt	4.94ppt
Wheel loaders			24.92	11.92	25.89	0.97ppt	13.97ppt
Excavators			19.13	19.56	15.87	-3.26ppt	-3.69ppt
Fork lifts			11.02	9.12	10.18	-0.84ppt	1.06ppt
Road rollers			11.69	25.09	14.61	2.92ppt	-10.48ppt
Financial Leasing Income			90.00	90.00	89.68	-0.32ppt	-0.32ppt
Other			(7.57)	42.38	15.88	23.45ppt	-26.51ppt
Major cost (RMB mn)							
Selling and distribution cost	385	208	211	172	148	(29.86)	(13.95)
Administrative cost ¹	283	354	278	246	269	(3.24)	9.35
Cost ratio (%)							
Selling and distribution cost	4.58	4.81	4.47	5.42	3.31	-1.16ppt	-2.11ppt
Administrative cost ¹	3.37	8.19	5.88	7.76	6.01	0.13ppt	-1.74ppt
Net profit (RMB mn)	1,154	576	276	(125)	343	24.28	N/A
Net profit margin (%)	13.74	13.32	5.84	(3.94)	7.67	1.82ppt	11.61ppt

1: Including R&D expenses

Source(s): Company

Exhibit 6: Major changes in our FY13E/14E forecasts

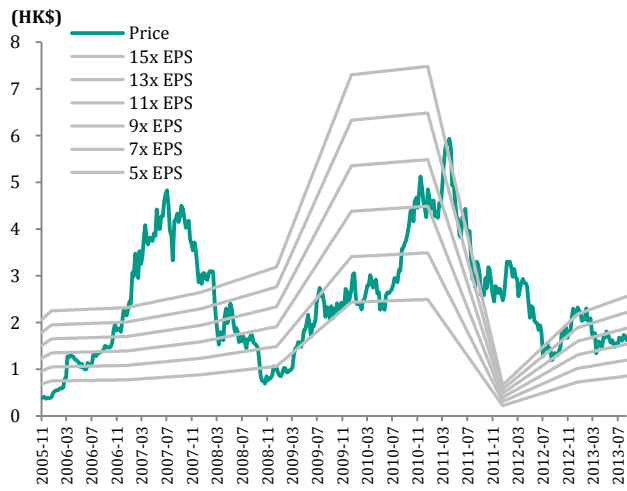
	FY13E			FY14E			FY15E		
	Previous	New	Diff (%)	Previous	New	Chg (%)	Previous	New	Diff (%)
Revenue (RMB mn)	8,778	7,772	(11.47)	9,940	8,786	(11.61)	11,086	9,785	(11.74)
Wheel loaders	5,777	4,867	(15.76)	6,551	5,567	(15.01)	7,325	6,221	(15.07)
Excavators	953	930	(2.35)	1,041	965	(7.35)	1,180	1,092	(7.45)
Fork lifts	942	942	0.00	1,130	1,130	0.00	1,243	1,243	0.00
Road rollers	124	116	(6.48)	134	125	(6.48)	145	135	(6.48)
Finance lease interest income	85	19	(77.72)	96	11	(88.86)	107	7	(93.33)
Others	898	898	0.00	987	987	0.00	1,086	1,086	0.00
Gross profit (RMB mn)	1,866	1,621	(13.15)	2,193	1,865	(14.93)	2,448	2,077	(15.16)
GPM (%)	21.26	20.86	-0.40ppt	22.06	21.23	-0.83ppt	22.08	21.23	-0.86ppt
Net income (RMB mn)	603	499	(17.20)	851	632	(25.68)	1,015	694	(31.63)
Net margin (%)	6.87	6.43	-0.44ppt	8.56	7.20	-1.36ppt	9.16	7.09	-2.06ppt
EPS (RMB)	0.141	0.117	(17.20)	0.199	0.148	(25.68)	0.237	0.162	(31.63)
BVPS (RMB)	1.642	1.618	(1.48)	1.853	1.784	(3.74)	2.093	1.961	(6.28)
DPS (RMB)	0.035	0.029	(17.20)	0.050	0.037	(25.68)	0.059	0.041	(31.63)

Source(s): ABCI Securities estimates

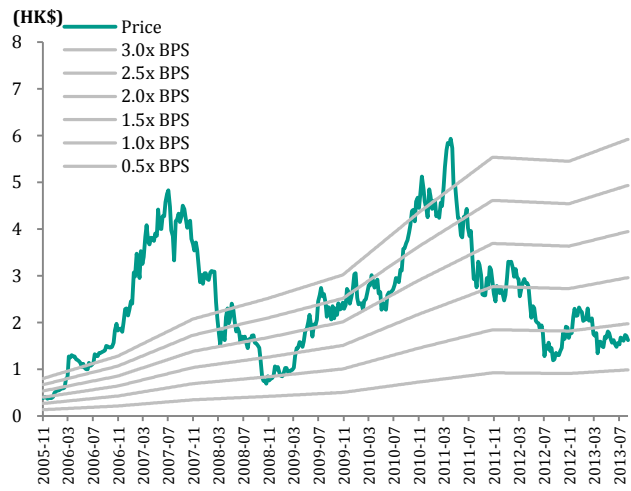
Exhibit 7: Peer group valuation and earnings forecasts summary (share price as of Aug 30, 2013)

Company	Ticker	Mkt cap (HK\$ mn)	As of 30/08/2013 CRY Share Price	P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)		
				FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
Construction Machinery Maker												
CATERPILLAR INC	CAT US	414,500	USD	82.53	13.10	11.36	(27.66)	15.27	2.84	2.41	28.07	37.21
KOMATSU LTD	6301 JP	167,675	JPY	2,155	11.40	10.49	42.56	8.65	1.59	1.45	13.28	15.05
SANY HEAVY INDUS	600031 CH	69,678	RMB	7.22	8.79	6.47	9.47	35.93	1.93	1.56	21.92	27.41
ZOOMLION HEAVY-H	1157 HK	8,637	HKD	6.04	6.89	6.20	(26.01)	11.14	0.81	0.71	12.45	12.18
ZOOMLION HEAVY-A	000157 CH	42,226	RMB	5.31	7.54	6.79	(26.01)	11.14	0.88	0.77	12.45	12.18
XCMG CONSTRUCT-A	000425 CH	21,145	RMB	8.09	7.54	8.01	(10.58)	(5.87)	0.89	0.83	11.96	10.72
GUANGXI LIUGONG	000528 CH	1,196	RMB	6.45	17.29	10.22	49.20	69.17	0.75	0.72	4.39	6.83
TEREX CORP	TEX US	25,299	USD	29.31	14.74	10.11	107.19	45.70	1.38	1.20	10.13	12.33
TADANO	6395 JP	14,113	JPY	1,377	16.54	14.71	43.92	12.45	1.82	1.62	7.95	11.64
SHANTUI CONST-A	000680 CH	5,050	RMB	3.50	23.65	17.95	393.33	31.76	0.94	0.93	3.79	5.23
XIAMEN XGMA-A	600815 CH	5,261	RMB	4.33	(33.31)	19.24	(181.25)	(273.08)	0.91	0.87	(2.70)	4.62
LONGKING HOLDINGS	3339 HK	6,976	HKD	1.63	11.22	8.86	230.78	26.58	0.81	0.73	7.59	8.68
Sector Weighted Average					11.75	10.43	1.53	14.69	2.18	1.88	21.20	27.04
Agricultural Machinery Maker												
DEERE & CO	DE US	248,808	USD	83.80	9.51	10.38	14.20	(8.38)	3.26	2.66	40.54	27.00
MAHINDRA & MAHIN	MM IN	56,950	INR	795.10	10.53	8.77	8.62	20.06	2.00	1.70	17.75	15.87
CNH GLOBAL NV	CNH US	86,902	USD	46.24	8.55	8.68	14.05	(1.50)	1.18	1.03	16.82	16.93
FIRST TRACTOR-H	38 HK	1,918	HKD	4.77	11.66	7.23	(6.30)	61.35	0.85	0.74	7.38	10.96
FIRST TRACTOR -A	601038 CH	5,659	RMB	7.52	22.88	14.18	(6.30)	61.35	1.66	1.46	7.38	10.96
ESCORTS LTD	ESC IN	1,179	INR	82.70	6.16	5.40	116.81	14.12	0.53	0.48	10.20	9.30
Sector Weighted Average					9.63	9.80	13.29	(1.47)	2.59	2.14	31.46	22.88
Mining Machinery Maker												
JOY GLOBAL INC	JOY US	40,529	USD	49.18	8.39	11.72	(18.63)	(28.37)	1.71	1.59	26.43	18.40
ZHENGZHOU COAL-H	564 HK	1,193	HKD	4.91	6.52	5.52	(38.33)	18.22	0.66	0.61	10.41	11.47
ZHENGZHOU COAL-A	601717 CH	12,729	RMB	7.29	12.06	10.20	(38.33)	18.22	1.22	1.12	10.41	11.47
TIAN DI -A	600582 CH	10,921	RMB	7.10	7.42	6.38	2.35	16.20	1.20	1.07	21.55	17.73
SANY INT'L	631 HK	6,940	HKD	2.26	12.62	11.49	(10.34)	9.82	0.96	0.90	7.66	7.94
LINZHOU HEAVY-A	002535 CH	3,814	RMB	5.61	7.95	5.87	64.19	35.41	1.23	1.03	17.19	19.14
SUNWARD INTELL-A	002097 CH	3,446	RMB	6.61	41.31	41.31	633.94	0.00	1.55	1.50	3.94	3.69
Sector Weighted Average					10.59	11.63	13.78	(6.50)	1.45	1.34	19.91	15.59
Machinery Parts Maker												
CUMMINS INC	CMI US	179,236	USD	123.44	15.15	12.70	(6.24)	19.27	3.02	2.57	23.15	21.87
WEICHAI POWER-H	2338 HK	50,414	HKD	28.10	12.45	10.68	20.87	16.60	1.58	1.39	13.65	14.01
TAIYUAN HEAVY-A	600169 CH	7,863	RMB	2.56	18.96	25.60	(198.47)	(25.93)	1.10	1.05	5.95	4.19
CHINA YUCHAI	CYD US	5,671	USD	19.62	6.91	5.91	16.87	16.90	0.73	0.67	10.86	11.82
Sector Weighted Average					14.52	12.54	(6.29)	17.20	2.61	2.23	20.34	19.43
Industrial Machinery Maker												
VOLVO AB-B	VOLVB SS	241,081	SEK	96.40	24.28	12.81	(27.00)	89.47	2.53	2.27	10.26	19.65
ATLAS COPCO-A	ATCOA SS	249,488	SEK	178.00	16.89	15.87	(7.95)	6.40	5.32	4.65	33.21	30.27
HYUNDAI HEAVY	009540 KS	120,866	KRW	227,500	8.68	7.21	45.28	20.38	0.91	0.87	10.55	12.32
SANDVIK AB	SAND SS	130,954	SEK	88.85	14.66	12.75	(6.90)	15.00	3.05	2.74	19.34	18.95
DOOSAN HEAVY	034020 KS	31,561	KRW	42,650	5.31	4.83	(447.41)	10.00	0.99	0.94	20.08	19.94
MANITOWOC CO	MTW US	20,888	USD	20.17	16.56	12.30	58.18	34.65	3.65	3.02	24.48	28.30
ANHUI HELI CO-A	600761 CH	5,829	RMB	8.95	10.47	9.00	25.74	16.26	1.37	1.22	13.86	14.41
Sector Weighted Average					17.00	12.55	(20.83)	35.88	3.20	2.83	19.72	21.94
Overall Weighted Average					13.45	11.32	(4.57)	18.75	2.62	2.27	22.33	23.36

¹ The market capital value of the companies are translated into HKD
 Source(s): Bloomberg, ABCI Securities estimates

Exhibit 8: P/E band of Lonking (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 9: P/B band of Lonking (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	12,721	7,896	7,772	8,786	9,785
Wheel loaders	8,867	5,161	4,867	5,567	6,221
Excavators	1,713	880	930	965	1,092
Fork lifts	929	819	942	1,130	1,243
Road rollers	367	115	116	125	135
Financial Leasing Income	205	105	19	11	7
Others	640	816	898	987	1,086
COGS	(9,507)	(6,367)	(6,151)	(6,920)	(7,708)
Gross profit	3,214	1,529	1,621	1,865	2,077
SG&A	(1,230)	(907)	(871)	(997)	(1,167)
Other income and gains	84	(346)	(147)	(106)	(74)
Pre-tax profit	2,068	276	602	762	836
Income tax	(338)	(124)	(102)	(130)	(142)
Net profit	1,730	152	500	632	694
Profit attributable to:					
Minority interests	0.40	0.09	0.18	0.23	0.25
Equity shareholders of the Company	1,730	151	499	632	694
Basic EPS (RMB)	0.404	0.035	0.117	0.148	0.162
DPS (RMB)	0.122	-	0.029	0.037	0.041

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	11,347	7,960	8,239	8,049	8,379
Cash and equivalent	2,155	967	2,170	1,634	2,499
Trade and bill receivables	3,130	2,944	2,592	2,222	2,067
Financial leasing receivables	852	216	109	85	52
Inventories	4,380	2,731	2,156	2,774	2,295
Other current assets	830	1,102	1,212	1,333	1,467
Non-current assets	4,793	5,714	5,845	5,950	6,055
Property, plant and equipment	3,638	3,822	3,875	3,924	3,971
Intangible assets	206	321	342	363	383
Long-term investments	59	66	73	80	88
Long-term receivables	446	66	27	15	6
Other non-current assets	444	1,439	1,528	1,568	1,608
Total assets	16,140	13,674	14,084	13,999	14,435
Current liabilities	4,808	3,257	3,151	2,997	3,050
Trade and bill payables	2,723	1,048	1,311	1,154	1,169
Receipts in advance	170	67	89	87	109
Short term borrowings	820	1,184	697	597	497
Other current liabilities	1,095	958	1,054	1,159	1,275
Non-current liabilities	4,926	4,172	4,005	3,363	2,987
Long-term payables	-	-	-	-	-
Long-term borrowings	4,542	3,921	3,729	3,068	2,672
Other non-current liabilities	384	251	276	295	314
Total liabilities	9,734	7,429	7,156	6,360	6,037
Minority interests	2	2	3	3	3
Shareholders' equities	6,404	6,243	6,926	7,636	8,395
BVPS (RMB)	1.496	1.459	1.618	1.784	1.961

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	2,068	276	602	762	836
Changes in depreciation and amortization	293	249	256	260	263
Changes in working capital	(718)	195	1,358	(371)	714
Income tax paid	28	37	39	48	52
Financial cost	395	341	241	219	204
Others	(767)	(19)	(154)	(191)	(209)
CF Operating	1,299	1,079	2,341	726	1,860
Increase in PP&E	(887)	(425)	(300)	(300)	(300)
Increase in intangible assets	(21)	(122)	(30)	(30)	(30)
Others	(338)	(582)	-	-	-
CF Investing	(1,246)	(1,129)	(330)	(330)	(330)
Capital injection	-	-	-	-	-
Net debt financing	2,148	(257)	(679)	(760)	(496)
Dividend payout	(356)	(314)	-	(125)	(158)
Interest paid	(395)	(341)	(241)	(219)	(204)
Others	(71)	161	112	171	193
CF Financing	1,326	(751)	(808)	(932)	(665)
Net change in cash	1,379	(801)	1,203	(536)	865
Cash at the beginning	634	2,155	967	2,170	1,634
Adjustment (Time deposit & FX effect)	142	(387)	-	-	-
Cash at the end	2,155	967	2,170	1,634	2,499

Source(s): Company, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq 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 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ 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.

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