



August 26, 2015  
Company Report  
Rating: BUY  
TP: HK\$ 8.70

Share price (HK\$) 4.47  
Est. share price return 94.6%  
Est. dividend yield 4.4%  
Est. total return 99.0%

Previous Rating & TP BUY; HK\$ 12.00  
Previous Report Date May 8, 2015

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**Key Data**

52Wk H/L(HK\$)	10.78/4.46
Issued shares (mn)	3,382
Market cap	15,193
3-mth avg daily turnover (HK\$ mn)	119.03
Major shareholder(s) (%):	
SUN Hongbin	47.1

Source(s): Company, Bloomberg, ABCI Securities

**FY14 Revenue breakdown (%)**

Property Development	98.6
Property Management	1.4

Source(s): Company, ABCI Securities

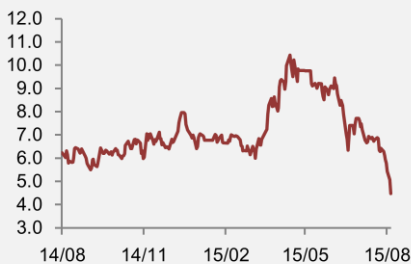
**Share performance (%)**

	Absolute	Relative*
1-mth	(34.0)	(23.9)
3-mth	(51.4)	(36.9)
6-mth	(33.5)	(22.1)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

Sunac (1918 HK)  
Disappointing 1H15 results

- Sunac's core profit dropped 2% YoY to RMB 1.0bn
- Weak margin of 11.4% (-11.0ppt YoY) and rising net gearing (+26.2ppt YoY to 70.7%) surprised on downside
- After terminating the Kaisa/ Greentown transactions, Sunac is devoting more resources to boost organic growth. Sunac will focus on enhancing profitability instead of scale
- Maintain **BUY** on Sunac with TP at HK\$ 8.70 based on a 60% discount to end-15E NAV

**Weak interim results.** Sunac announced its 1H15 results. Excluding accounting treatments such as gain from acquisitions and impairment provision, core profit dropped 2% YoY to RMB 1,003mn. However, Sunac booked a one-off exceptional pretax gain of RMB 1,590mn (or ~RMB 1.2bn post-tax) on disposal of several projects to Greentown, after Sunac had dissolved its JV with Greentown in 1H15. Stripping out such exceptional gain, Sunac registered a loss of ~RMB 200mn during the period, as booked GFA declined 45% YoY to 0.28mn sqm. Gross margin also dropped from 22.4% in 1H14 to 11.4% in 1H15, surprising the market on the downside. Excluding impairment provision and impact of fair value re-measurement, adjusted gross margin should be 23.6% in 1H15 (1H14: 30.9%), the lower-end of the sector average. Net gearing also surged from 44.5% in Dec 2014 to 70.7% in June 2015. Sunac acquired an attributable landbank of 3.374mn sqm in 1H15 and expect full-year land capex to reach RMB 9.6bn.

**From scale to profitability.** Sunac's presales rose slightly by 5% YoY to RMB 27.3bn, as ASP improved 3%YoY and GFA presold rose 1% YoY. Sunac's presales growth lagged behind the peer average of 11% YoY during the period, and was slower than its historical YoY growth of 20%+ for the past 5 years. In our view, management has devoted significant resources in the failed Greentown/Kaisa transactions over the past 12 months and this may have contributed to the weakened performance.

**Management said the company will switch its focus from scale to profitability by 1) disciplined land cost control.** Believing that land price has already been severely overpriced in tier-1 cities, Sunac only acquired one site in Shanghai in 1H15. Sunac prefer to enter new tier-2 cities (e.g. Chengdu, Nanjing, Jinan) where demand and supply are healthy; **2) finance cost reduction.** By raising low-cost onshore debt to replace the high-cost USD bond in early years, the Group lowered its effective interest rate from 9.1% in FY14 to 7.7% in 1H15; **3) Increasing stakes in existing projects.** After its split with Greentown, Sunac's stakes in the high-margin projects in Shanghai (Central Garden, Dynasty on the Bund) will increase, while negative impacts from Wuxi and Changsha projects (where margins are low) should fade away. Although gross presales only increase 5%YoY in 1H15, attributable presales grew 16%YoY to RMB 18.6bn. (Continue next page)

**Results and Valuation**

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	30,837	25,072	41,246	51,028	55,951
Chg (% YoY)	48.0	(18.7)	64.5	23.7	9.6
Core net profit (RMB mn)	3,523	3,729	3,005	3,892	4,092
Chg (% YoY)	28.8	5.9	(19.4)	29.5	5.2
Underlying EPS (RMB)	1.06	1.12	0.91	1.17	1.23
Chg (% YoY)	17.1	5.9	(19.4)	29.5	5.2
BVPS (RMB)	4.10	4.93	5.68	6.64	7.65
Chg (% YoY)	30.4	20.2	15.1	17.0	15.2
Underlying PE (x)	3.5	3.3	4.1	3.1	3.0
PB (x)	0.9	0.7	0.7	0.6	0.5
ROE (%)	25.9	22.8	16.0	17.7	16.1
ROA (%)	3.6	3.3	2.5	2.7	2.5
DPS (RMB)	0.19	0.19	0.16	0.21	0.22
Dividend yield (%)	5.2	5.1	4.4	5.7	6.0
Net gearing (%)	69.7	44.5	Net cash	Net cash	Net cash

\*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates



**Acquisition of seven Chengdu projects from CC Land at reasonable valuation.** In July, Sunac acquired 7 Chengdu projects from CC Land (1224 HK) at RMB 3.2bn. The total unsold GFA of these projects is ~1.392mn sqm, which translates to RMB 2,303/sqm. ASPs of these projects are RMB 5,500-1,5000/sqm, which we expect a gross margin of 25% on average (vs. 20-25% gross margin for Sunac in the past two years).

**The Chengdu projects are readily profitable.** In 2014, the projects generated HK\$2.4bn in revenue and HK\$333mn in net profit (equivalent to ~7% of Sunac's 2014 core profit). In 5M15, these projects delivered HK\$904mn in revenue and HK\$208mn in net profit. Most of the projects are 50% completed, hence risks associated with operation (e.g. delays in construction or grant of presales permit, etc.) are low. This transaction marks the first meaningful M&A after the Group's unsuccessful attempts in acquiring Greentown and Kaisa. Sunac would focus on asset acquisition where the deal structure tends to be less complicated and required less management resources.

**Currency risks are well under control.** As of Dec 2014, Sunac has a total forex debt of RMB13.058bn, mainly denominated in USD, representing 38% of total debt. The Group also has RMB 3.2bn in cash denominated in USD/HKD. Total net forex exposure of RMB 9.8bn represents only 15% of our 15E NAV estimate. Sunac also issued RMB 5bn of five-year domestic bond in PRC at 4.5-5.7% coupon. As RMB borrowing increases, Sunac's forex risk should be reduced and remain manageable.

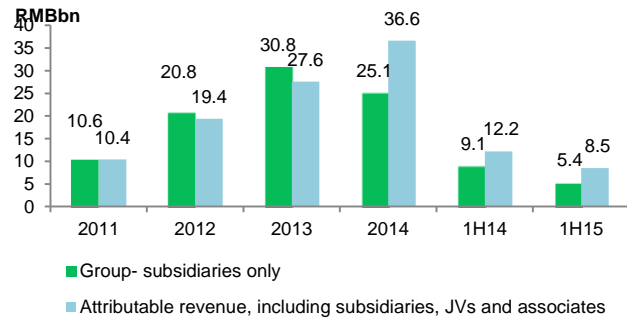
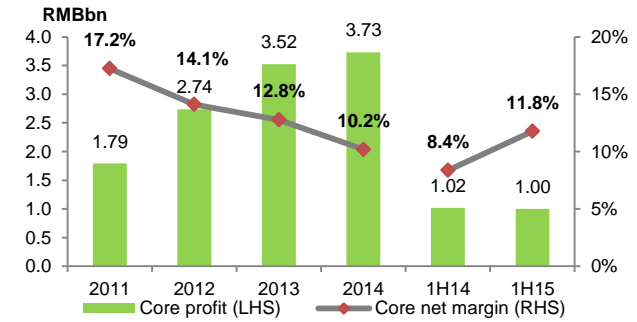
**Maintain BUY with lowered TP at HK\$ 8.70.** Due to the worse-than-expected interim results, we revise down our FY15E core profit forecast by 14% to RMB 3bn and lower our NAV estimates from HK\$ 24.1/share to HK\$ 21.6/share. After terminating its acquisition of Greentown and Kaisa, management is devoting more resources to boost organic growth and will focus on asset acquisition going forward. This should help alleviate investors' concerns over increasing leverage and potential integration issues. However, we slash our TP to HK\$ 8.70 (from HK\$ 12.00) as we raise the discount to NAV from 50% to 60% on the ground that recent RMB depreciation would impact the sector negatively. In addition, by changing its strategy from scale to profitability, Sunac could be perceived as a company of slower growth from now on. We maintain **BUY** on Sunac as the counter is severely undervalued at the moment. However, the Group is no longer our favorite pick among the small-mid cap developers.

**Risk factors:** 1) Higher gearing on sizeable M&A; 2) Forex risk of offshore debt.

Exhibit 1: Sunac's 1H15 results

Sunac's P&L	1H15	1H14	YoY Chg	Operating statistics	1H15	1H14	YoY Chg
	RMBm	RMBm	(%)	Presales GFA (mn sqm)	1.37	1.37	0.0
<b>Turnover</b>	<b>5,443</b>	<b>9,067</b>	<b>(40.0)</b>	Presales ASP (RMB/sqm)	22,280	21,817	2.1
Cost of Sales & direct operating costs	(4,825)	(7,033)	(31.4)	<b>Presales Sales (RMBm)</b>	<b>30,434</b>	<b>29,802</b>	2.1
<b>Gross Profit</b>	<b>618</b>	<b>2,034</b>	<b>(69.6)</b>	GFA Delivered (mn sqm)	0.28	0.52	(45.4)
<b>Gross Margin (%)</b>	<b>11.4</b>	<b>22.4</b>		Booked ASP (RMB/sqm)	18,414	17,193	7.1
Selling and distribution costs	(285)	(267)	6.7	<b>Property sales booked (RMBm)</b>	<b>5,222</b>	<b>8,927</b>	<b>(41.5)</b>
Administrative expense	(401)	(278)	44.1				
<b>EBIT</b>	<b>(68)</b>	<b>1,488</b>	<b>(104.6)</b>	<b>Balance sheet</b>	<b>Jun-15</b>	<b>Dec-14</b>	<b>HoH %</b>
<b>EBIT Margin (%)</b>	<b>(1.2)</b>	<b>16.4</b>			<b>RMBm</b>	<b>RMBm</b>	
Other income	713	227	213.8	Gross debt	31,173	34,384	(9.3)
Gain on disposal of projects to Greentown	1,590	0	NA	Cash	16,785	25,041	(33.0)
Share of profit from JCE/ Associates	452	281	60.7	<b>Net debt</b>	<b>14,389</b>	<b>9,342</b>	54.0
Finance cost	(699)	(510)	37.1	<b>Net gearing (%)</b>	<b>70.7</b>	<b>44.5</b>	+26.2ppt
<b>Profit before tax</b>	<b>1,989</b>	<b>1,487</b>	33.7				
<b>Tax</b>	<b>(732)</b>	<b>(790)</b>	<b>(7.4)</b>				
- LAT	(702)	(480)	46.2				
- Enterprise tax	(29)	(309)	(90.5)				
<b>Profit after tax</b>	<b>1,258</b>	<b>698</b>	80.2				
Minority Interest	(306)	115	(366.9)				
<b>Net profit</b>	<b>951</b>	<b>813</b>	17.1				
<b>Core net profit</b>	<b>1,003</b>	<b>1,023</b>	<b>(2.0)</b>				
<b>Core net margin</b>	<b>11.8%</b>	<b>8.4%</b>					

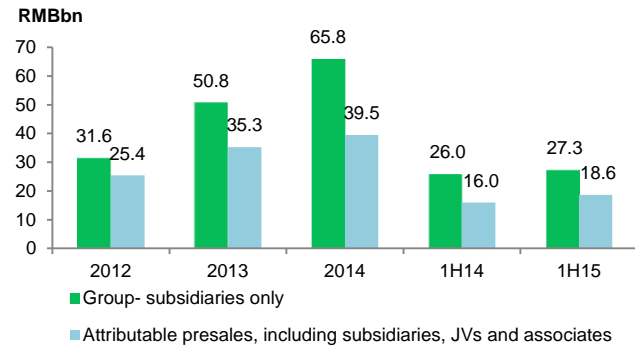
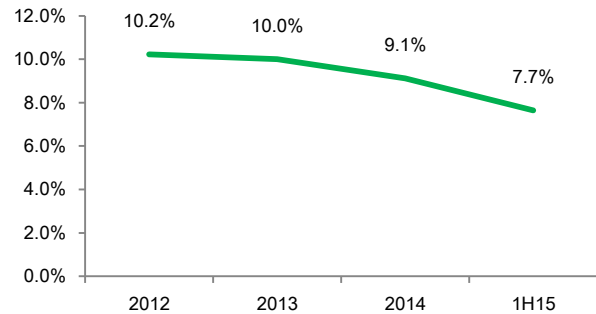
Source(s): Company, ABCI Securities

**Exhibit 2: Attributable booked revenue**

**Exhibit 3: Core profit and core net margin**


\* Calculated by core profit/ attributable revenue

Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities

**Exhibit 4: Attributable presales**

**Exhibit 5: Weighted average finance costs**


Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities

**Exhibit 6: Sunac's FY15E NAV**

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Method	Implied value per sqm (RMB)
<b>Property development</b>					
Tianjin	4.0	14,105	23%	DCF at WACC of 11.3%	3,513
Beijing	1.3	5,276	9%		4,164
Chongqing	6.1	6,758	11%		1,111
Wuxi	1.9	951	2%		494
Suzhou	0.2	1,293	2%		5,963
Shanghai	1.5	16,048	26%		10,971
Others	1.8	13,971	23%		7,720
<b>Subtotal</b>	<b>16.8</b>	<b>58,403</b>	<b>95%</b>		
<b>Property investment &amp; management</b>		3,085	5%	6.5% cap rate on 2015E net rental income	
<b>Total 2015E GAV</b>		<b>61,488</b>	<b>100%</b>		
2015E Net cash/ (debt)		(2,220)	-4%		
<b>Total 2015E NAV</b>		<b>59,268</b>	<b>96%</b>		
No. of share outstanding (diluted)		3,315			
<b>NAV per share (RMB)</b>		<b>17.9</b>			
Ex rate		1.21			
<b>NAV per share (HKD)</b>		<b>21.6</b>			
Target discount (%)		60%			
<b>Target Price (HKD)</b>		<b>8.70</b>			
<b>WACC</b>					
WACC		11.3%			
Cost of Debt		9.6%			
Cost of Equity		20.0%			
<b>Debt/ (Debt + Equity)</b>		<b>68%</b>			

Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2013A-2017E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Revenue</b>	<b>30,837</b>	<b>25,072</b>	<b>41,246</b>	<b>51,028</b>	<b>55,951</b>
Cost of sales	(23,660)	(20,197)	(33,271)	(38,384)	(41,857)
<b>Gross Profit</b>	<b>7,177</b>	<b>4,875</b>	<b>7,975</b>	<b>12,644</b>	<b>14,094</b>
SG&A expenses	(1,136)	(1,378)	(1,500)	(1,679)	(1,712)
<b>EBIT</b>	<b>6,041</b>	<b>3,497</b>	<b>6,475</b>	<b>10,965</b>	<b>12,382</b>
Finance cost	(580)	(1,267)	(255)	(275)	(355)
Share of profit of associates	72	2,181	1,110	913	607
Other income/ (expenses)	75	908	1,122	1,192	1,314
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	77	(417)	1,590	-	-
<b>Profit before tax</b>	<b>5,684</b>	<b>4,902</b>	<b>10,042</b>	<b>12,795</b>	<b>13,948</b>
Tax	(2,191)	(1,669)	(4,798)	(6,060)	(6,615)
<b>Profit after tax</b>	<b>3,494</b>	<b>3,233</b>	<b>5,243</b>	<b>6,735</b>	<b>7,333</b>
Minority interest	(315)	(11)	(2,239)	(2,843)	(3,241)
<b>Reported net profit</b>	<b>3,178</b>	<b>3,222</b>	<b>3,005</b>	<b>3,892</b>	<b>4,092</b>
<i>Less: exceptional items</i>	<i>344</i>	<i>507</i>	<i>(0)</i>	<i>0</i>	<i>0</i>
<b>Underlying net profit</b>	<b>3,523</b>	<b>3,729</b>	<b>3,005</b>	<b>3,892</b>	<b>4,092</b>
<b>Per share</b>					
Underlying EPS (RMB)	1.06	1.12	0.91	1.17	1.23
DPS (RMB)	0.19	0.19	0.16	0.21	0.22
Payout ratio (%)	18%	17%	18%	18%	18%
BVPS (RMB)	4.10	4.93	5.68	6.64	7.65
<b>Growth %</b>					
Revenue	48.0%	-18.7%	64.5%	23.7%	9.6%
Gross Profit	33.3%	-32.1%	63.6%	58.5%	11.5%
EBIT	34.3%	-42.1%	85.1%	69.3%	12.9%
Underlying net profit	28.8%	5.9%	-19.4%	29.5%	5.2%
<b>Margin %</b>					
Gross margin	23.3%	19.4%	19.3%	24.8%	25.2%
Gross margin (post-LAT)	20.5%	16.3%	12.0%	17.4%	17.9%
EBIT margin	19.6%	13.9%	15.7%	21.5%	22.1%
Core net margin	10.9%	5.4%	7.1%	11.4%	12.0%
<b>Key assumptions</b>					
Contracted Sales (RMB mn)	52,055	65,800	78,407	90,925	88,001
GFA sold (mn sqm)	2.54	3.10	4.06	4.99	4.96
ASP (RMB/sqm)	20,520	21,246	19,327	18,211	17,750
Booked Sales (RMB mn)	30,596	24,719	40,876	50,639	55,543
GFA delivered (mn sqm)	1.75	1.65	2.16	2.74	3.07
Booked ASP (RMB/sqm)	17,530	15,009	18,905	18,489	18,077

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2013A-2017E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Current assets</b>	<b>87,590</b>	<b>97,467</b>	<b>107,798</b>	<b>131,679</b>	<b>152,156</b>
Cash	13,414	20,657	22,779	55,932	83,674
Restricted cash	2,595	4,384	4,384	4,384	4,384
Trade & other receivables	1,214	2,475	2,475	2,475	2,475
Property under development	58,106	49,383	57,592	48,321	41,055
Other current assets	12,261	20,568	20,568	20,568	20,568
<b>Non-current assets</b>	<b>9,765</b>	<b>14,895</b>	<b>13,091</b>	<b>13,569</b>	<b>13,985</b>
Property, plant & equipment	65	62	57	52	48
Investment properties	252	239	239	239	239
Investment in Associate and JCE	7,909	12,049	10,249	10,731	11,153
Other non-current assets	1,539	2,546	2,546	2,546	2,546
<b>Total Assets</b>	<b>97,355</b>	<b>112,362</b>	<b>120,889</b>	<b>145,248</b>	<b>166,141</b>
<b>Current Liabilities</b>	<b>51,789</b>	<b>64,949</b>	<b>68,278</b>	<b>86,653</b>	<b>101,000</b>
Short term borrowings	7,835	13,840	8,840	18,840	28,840
Trade & other payables	12,402	11,616	11,616	11,616	11,616
Pre-sales deposits	13,647	12,271	20,600	28,975	33,322
Other current assets	17,905	27,223	27,223	27,223	27,223
<b>Non-current liabilities</b>	<b>27,355</b>	<b>26,431</b>	<b>26,431</b>	<b>26,431</b>	<b>26,431</b>
Long term borrowings	20,872	20,544	20,544	20,544	20,544
Other payables	-	-	-	-	-
Other non-current assets	6,483	5,887	5,887	5,887	5,887
<b>Total Liabilities</b>	<b>79,144</b>	<b>91,380</b>	<b>94,709</b>	<b>113,084</b>	<b>127,430</b>
<b>Net Assets</b>	<b>18,211</b>	<b>20,983</b>	<b>26,180</b>	<b>32,164</b>	<b>38,711</b>
<b>Shareholders Equity</b>	<b>13,605</b>	<b>16,353</b>	<b>18,817</b>	<b>22,008</b>	<b>25,364</b>
Minority Interest	4,606	4,630	7,363	10,156	13,347
<b>Total Equity</b>	<b>18,211</b>	<b>20,983</b>	<b>26,180</b>	<b>32,164</b>	<b>38,711</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	28,706	34,384	29,384	39,384	49,384
Net debt (RMB mn)	12,698	9,342	2,220	(20,932)	(38,675)
Net gearing (%)	70%	45%	8%	-65%	-100%
Contracted sales/ Total assets (x)	53%	59%	65%	63%	53%

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2013A-2017E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
EBITDA	6,065	3,522	6,500	10,989	12,407
Change in Working Capital	5,049	6,227	2,416	20,122	14,808
Tax payment	(2,790)	(1,852)	(4,798)	(6,060)	(6,615)
<b>Operating Cash flow</b>	<b>8,324</b>	<b>7,897</b>	<b>4,117</b>	<b>25,051</b>	<b>20,600</b>
Purchase of PP&E	(27)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(9,567)	-	-	-	-
Others	(5,473)	1,353	5,622	1,623	1,500
<b>Investing Cash flow</b>	<b>(15,067)</b>	<b>1,333</b>	<b>5,602</b>	<b>1,603</b>	<b>1,480</b>
Debt raised	26,215	10,943	10,000	10,000	10,000
Debt repaid	(18,243)	(9,214)	(15,000)	-	-
Interest expenses	(2,500)	(3,036)	(2,551)	(2,751)	(3,551)
Equity raised	1,628	-	-	-	-
Dividend to shareholders	(261)	(630)	(541)	(701)	(737)
Others	4,924	(50)	495	(50)	(50)
<b>Financing Cash flow</b>	<b>11,763</b>	<b>(1,987)</b>	<b>(7,597)</b>	<b>6,499</b>	<b>5,663</b>
<b>Net cash inflow/ (outflow)</b>	<b>5,020</b>	<b>7,243</b>	<b>2,122</b>	<b>33,153</b>	<b>27,742</b>
Cash- beginning	8,394	13,414	20,657	22,779	55,932
<b>Cash- year-end</b>	<b>13,414</b>	<b>20,657</b>	<b>22,779</b>	<b>55,932</b>	<b>83,674</b>

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Tung Yiu Kei Kenneth, 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.

### Disclosures of Interests

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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 2010-2014

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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