



Company Rating:

Buy

Target price: HK\$5.62

Key data

H-share price (HK\$)	4.78
Upside potential (%)	17.6
52Wk H/L(HK\$)	8.58/4.61
Issued shares (mn)	996
H-share	402
A-share	594
H-share market cap (HK\$mn)	1,922
30-day avg daily vol (HK\$mn)	11.1
Auditors	Baker Tilly
Major shareholder (%)	
YTO Group	44.57

Source: Company & Bloomberg

Revenue breakdown by product (%)

Agricultural machinery	84.97
Power machinery	10.81
Other machinery	3.41
Financial operations	0.81

*Based on FY12 results

Source: Company

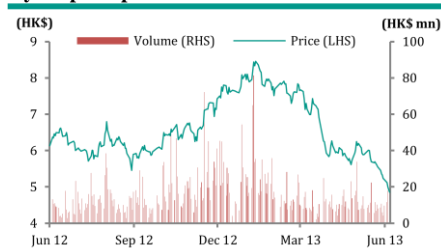
Share performance (%)

	Absolute	Relative ¹
1-mth	-18.85	-10.81
3-mth	-33.05	-28.06
6-mth	-38.72	-33.93

1: Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst Information

Steve Wong

Tel: (852) 2147 8869

Email: stevecwong@abci.com.hk

Previous report

Date: April 29, 2013

Rating: Hold

Target price: HK\$6.14

First Tractor (38 HK)

Construction & Farm Machinery Industry

Buy on Dips

We expect First Tractor to post poor half-year result due to weak tractor sales and the stock price has tumbled by 33.05% in 3 months. But we believe the sales drop will bottom out in 2H13 as the gov't subsidy program will kick start in July. Its PBR has plunged to 0.85x, the lowest point since 2010. New TP of HK\$5.62 represent FY13E PBR of 1.0x, based on the expected earnings recovery in 2HFY13. The recent correction provides bargain hunting opportunity.

Sluggish sales expected in 1H13. After discussing with the management, we estimate the sales volume on hi-powered, mid-powered and low-powered tractor to drop by 5.77% YoY, 19.57% YoY and 30.00% YoY in 1H13 respectively, as buyers postpone their purchases and wait for the implementation details of the government's subsidy program.

Industry expects recovery in 2H13. Players in tractor industry believe tractor sales will recover in 2H13 as the new subsidy program will commence in July. The subsidy program for 2012 was released in July last year. The output of hi-powered tractor narrowed from -21.0% YoY in 1-3M13 to -5.8% 1-4M13, while that of mid- and low- powered tractor were up 7.1% YoY and 10.0% YoY, respectively in 1-4M13 (vs. that for 1Q13 were 0.5% YoY and 10.2% YoY, respectively).

Buy on bad news. We expect to First Tractor to post poor results for 1H13 and we lower our earnings projection by 26.9% for FY13. Looking forward, we believe the new subsidy program will boost the tractor sales in 2H13 and FY14. We estimate its ROAE to improve from 7.04% in FY13E to 12.61% in FY15E. Our new target price, HK\$5.62, is based on FY13 PBR of 1.0x, and we believe this target valuation is justified as profitability is improving in coming 12-18 months. We believe the bad news has largely factored into the share price. Bargain hunting arises ahead of the sales recovery in 2H13. Upgrade to "Buy".

Risk factors: Product concentration risk; Development of agricultural machineries subject to policy risk; Raw material inflation risk

Forecast and Valuation

FY ended Dec 31	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (Rmb mn)	11,703	11,318	10,779	12,319	14,283
Chg (%YoY)	14.00	-3.29	-4.76	14.28	15.94
Net Income (Rmb mn)	440	349	312	480	690
Chg (%YoY)	-18.97	-20.68	-10.68	53.83	43.83
EPS (Rmb)	0.520	0.351	0.313	0.482	0.693
Chg (%YoY)	-18.97	-32.56	-10.68	53.83	43.83
PER (x)	-	10.95	12.25	7.97	5.54
PBR (x)	-	0.87	0.85	0.75	0.65
Yield (%)	-	2.61	2.45	3.77	5.42
ROAA (%)	5.52	3.97	3.04	4.18	5.41
ROAE (%)	13.25	8.97	7.04	10.02	12.61
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, ABCI Securities estimates

Major change of our forecast

	FY13E			FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (Rmb mn)	12,208	10,779	-11.70	14,004	12,319	-12.03	16,275	14,283	-12.24
Agricultural machineries	10,469	9,181	-12.31	12,003	10,503	-12.50	13,933	12,161	-12.72
Power machineries	1,285	1,164	-9.46	1,515	1,372	-9.46	1,818	1,646	-9.46
Financial operations	107	89	-17.10	122	81	-33.73	142	94	-33.61
Others	347	347	0.00	364	364	0.00	382	382	0.00
Gross profit (Rmb mn)	1,658	1,453	-12.33	1,993	1,723	-13.57	2,347	2,147	-8.51
GPM (%)	13.58	13.48	-0.10ppts	14.23	13.98	-0.25ppts	14.42	15.03	0.61ppts
Net income (Rmb mn)	426	312	-26.90	596	480	-19.50	771	690	-10.60
Net margin (%)	3.49	2.89	-0.60ppts	4.25	3.89	-0.36ppts	4.74	4.83	0.09ppts
EPS (Rmb)	0.429	0.313	-26.90	0.599	0.482	-19.50	0.775	0.693	-10.60
BVPS (Rmb)	4.591	4.510	-1.76	5.272	5.110	-3.08	6.103	5.884	-3.60
DPS (Rmb)	0.129	0.094	-26.90	0.180	0.145	-19.50	0.233	0.208	-10.60

Source: ABCI Securities estimates

Financial highlights of the Group

	FY11	1Q12	1H12	1-3Q12	FY12	1Q13	FY12	1Q13
							(%YoY)	(%YoY)
Revenue (Rmb mn)	11,703	3,529	6,304	9,104	11,318	3,107	-3.29	-11.96
Agricultural machineries	9,356		5,208	7,546	9,617		2.79	
Power machineries	1,470		735	1,091	1,224		-16.74	
Financial operations	66		49	72	92		39.39	
Others	811		313	395	385		-52.51	
Gross Profit	1,660	499	884	1,267	1,543	454	-7.05	-9.02
Agricultural machineries	1,002		624		1,093		9.04	
Power machineries	272		168		226		-16.65	
Other machineries	162		44		83		-48.89	
Financial operations	224		48		141		-37.07	
GPM (%)	14.18	14.14	14.02	13.92	13.63	14.61	-0.55ppts	0.47ppts
Agricultural machineries	10.71		11.98		11.36		0.65ppts	
Power machineries	18.48		22.85		18.50		0.02ppts	
Other machineries	245.45		90.00		90.00		-155.45ppts	
Financial operations	27.66		15.42		36.66		8.99ppts	
Major cost (Rmb mn)								
Selling cost	(364)	(96)	(190)	(277)	(349)	(92)	-4.12	-4.17
Administrative cost	(713)	(193)	(351)	(548)	(744)	(195)	4.35	1.04
Finance cost	(50)	(23)	(31)	(30)	(57)	(22)	14.00	-4.35
Cost ratio (%)								
Selling cost	3.11	2.72	3.01	3.04	3.08	2.96	-0.03ppts	0.24ppts
Administrative cost	6.09	5.47	5.57	6.02	6.57	6.28	0.48ppts	0.81ppts
Finance cost	0.43	0.65	0.49	0.33	0.50	0.71	0.08ppts	0.06ppts
Net profit (Rmb mn)	440	138	286	326	349	112	-20.68	-18.84
Net profit margin (%)	3.76	3.91	4.54	3.58	3.08	3.60	-0.68ppts	-0.31ppts
Net operating cash flow (Rmb mn)	719	(234)	4	(498)	555	(343)	-22.81	46.58
OCF/Net income (%)	163.41	-169.57	1.40	-152.76	159.03	-306.25	-4.38ppts	-136.68ppts

Source: Company

Consolidated income statements forecast

FY ended Dec 31 (Rmb mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	11,703	11,318	10,779	12,319	14,283
Agricultural machineries	9,356	9,617	9,181	10,503	12,161
Power machineries	1,470	1,224	1,164	1,372	1,646
Financial operations	66	92	89	81	94
Others	811	385	347	364	382
Cost of sales	(10,043)	(9,775)	(9,326)	(10,597)	(12,136)
Gross profit	1,660	1,543	1,453	1,723	2,147
Selling and distribution cost	(364)	(349)	(334)	(370)	(428)
General administrative cost	(713)	(744)	(718)	(756)	(861)
Financial income	5	6	19	25	30
Financial cost	(55)	(63)	(111)	(97)	(97)
Profit from operations	533	393	310	525	790
Other income (loss), net	66	92	101	111	122
Pre-tax profit	599	485	411	637	913
Tax expenses	(85)	(71)	(62)	(96)	(137)
Net profit	514	414	349	541	776
Attributable to:					
Minority interests	74	65	37	62	86
Net profit to equity owner	440	349	312	480	690

Source: Company, ABCI Securities estimates

Income statement key ratios forecast

FY	FY11A	FY12A	FY13E	FY14E	FY15E
Sales mixed (%)					
Agricultural machineries	79.95	84.97	85.17	85.26	85.14
Power machineries	12.56	10.81	10.80	11.13	11.52
Financial operations	0.56	0.81	0.82	0.65	0.66
Others	6.93	3.41	3.21	2.95	2.67
Total	100.00	100.00	100.00	100.00	100.00
Profit & loss ratios (%)					
Gross margin	14.18	13.63	13.48	13.98	15.03
Operating profit margin	4.55	3.47	2.87	4.27	5.53
Pre-tax margin	5.12	4.29	3.81	5.17	6.39
Net profit margin	3.76	3.08	2.89	3.89	4.83
Selling & distribution cost/revenue	3.11	3.08	3.10	3.00	3.00
General administrative cost/revenue	6.09	6.57	6.66	6.13	6.03
Effective tax rate	14.19	14.64	15.00	15.00	15.00
Growth (%)					
Revenue	14.00	-3.29	-4.76	14.28	15.94
Gross profit	9.43	-7.05	-5.81	18.52	24.65
Profit from operations	8.79	-26.27	-21.21	69.69	50.41
Net profit	-18.97	-20.68	-10.68	53.83	43.83

Source: Company, ABCI Securities estimates

Consolidated balance sheets forecast

As of Dec 31 (Rmb mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Current assets	6,533	7,534	7,892	9,607	10,215
Cash and equivalent	1,541	1,958	2,820	3,495	4,008
Trade and bill receivables	2,446	2,269	2,220	2,370	2,482
Financial leasing receivables	632	839	559	709	774
Inventories	1,195	1,364	1,079	1,697	1,482
Other current assets	719	1,104	1,214	1,336	1,469
Non-current assets	3,240	3,546	3,995	4,391	4,449
Property, plant and equipment	2,168	2,414	2,796	3,114	3,099
Intangible assets	773	855	897	938	978
Long term investments	199	167	184	202	222
Other non-current assets	100	110	118	136	150
Total assets	9,773	11,080	11,887	13,998	14,664
Current liabilities	5,465	5,362	4,775	6,209	6,017
Trade and bill payables	2,345	2,548	2,051	3,175	2,810
Receipts in advance	1,058	1,110	1,046	1,418	1,439
Short term borrowings	969	451	300	100	100
Other current liabilities	1,093	1,253	1,378	1,516	1,668
Non-current liabilities	356	826	2,047	2,070	2,095
Long term payables	-	-	-	-	-
Long term borrowings	186	618	1,818	1,818	1,818
Other non-current liabilities	170	208	229	252	277
Total liabilities	5,821	6,188	6,822	8,278	8,111
Minority Interest	538	525	578	635	699
Shareholder's equity	3,414	4,367	4,488	5,084	5,854

Source: Company, ABCI Securities estimates

Balance sheets key ratios forecast

FY	FY11A	FY12A	FY13E	FY14E	FY15E
Balance sheet ratios					
Current ratio (x)	119.54	140.51	165.27	154.73	169.78
Quick ratio (x)	97.68	115.07	142.69	127.40	145.15
Cash ratio (x)	28.20	36.52	59.05	56.29	66.61
Total receivable turnover days	57.70	66.08	64.50	51.39	45.55
Trade and bill receivable turnover days	63.02	76.03	76.00	68.00	62.00
Total payable turnover days	56.84	66.19	68.10	68.10	68.10
Trade and bill payable turnover days	81.61	91.35	90.00	90.00	90.00
Inventory turnover days	47.65	47.78	47.80	47.80	47.80
Total debt / equity ratio (%)	29.23	21.85	41.82	33.53	29.27
Net debt / equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROAA	5.52	3.97	3.04	4.18	5.41
ROAE	13.25	8.97	7.04	10.02	12.61
Payout ratio	0.00	28.54	30.00	30.00	30.00
Per share data (Rmb)					
EPS	0.520	0.351	0.313	0.482	0.693
BVPS	4.035	4.389	4.510	5.110	5.884
DPS	0.000	0.100	0.094	0.145	0.208

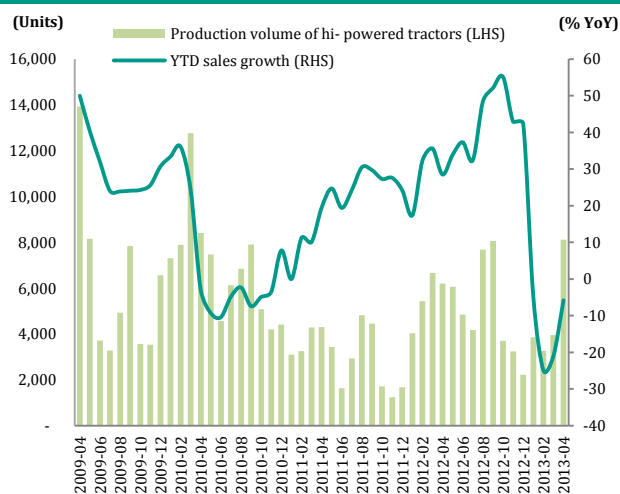
Source: Company, ABCI Securities estimates

Consolidated cash flow statements forecast

FY ended Dec 31 (Rmb mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Profit before tax	599	485	411	637	913
Change in depreciation and amortization	140	191	206	210	246
Change in working capital	67	(13)	419	63	12
Income tax paid	(83)	(99)	(63)	(97)	(139)
Interest received	5	6	19	25	30
Others	(9)	(15)	92	72	67
CF Operating	719	555	1,085	910	1,129
Increase in PP&E	(362)	(405)	(560)	(500)	(200)
Increase in intangible assets	(565)	(82)	(42)	(41)	(40)
Other	117	(260)	-	-	-
CF Investing	(810)	(747)	(602)	(541)	(240)
Capital injection	7	866	-	-	-
Net debt financing	386	(86)	1,049	(200)	-
Dividend payout	(106)	(76)	(100)	(94)	(144)
Interest paid	(54)	(83)	(111)	(97)	(97)
Others	31	(13)	(459)	696	(135)
CF Financing	264	608	380	305	(376)
Net change in cash	173	416	862	675	513
Cash at the beginning	1,393	1,541	1,958	2,820	3,495
Effect of foreign exchange rate	(25)	1	-	-	-
Cash at the end	1,541	1,958	2,820	3,495	4,008

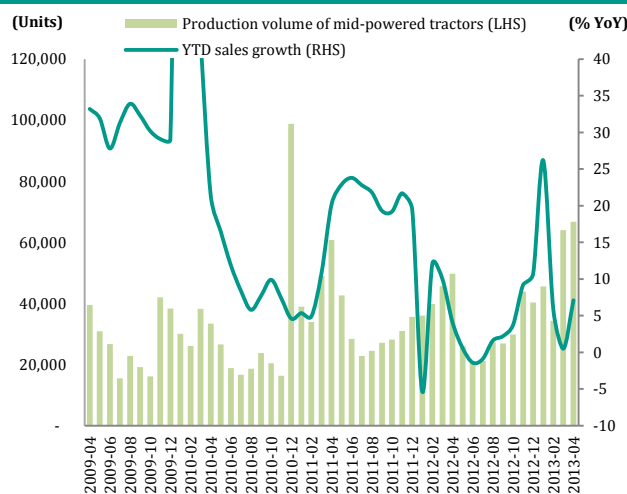
Source: Company, ABCI Securities estimates

Production volume and YTD growth of hi-powered tractor, 4M2009-4M2013



Source: NBS

Production volume and YTD growth of mid-powered tractor, 4M2009-4M2013



Source: NBS

Peer group valuation and earnings forecasts summary of construction and farm machinery sectors

Company	Ticker	MKT CAP ¹ (HKD mn)	Share Price	PER (x)		EPS Change (%)		PBR (x)		ROAE (%)		
				FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Construction Machinery Makers												
CATERPILLAR INC	CAT US	434,648	USD	85.14	12.45	10.72	-21.47	16.11	2.76	2.32	29.93	37.67
KOMATSU LTD	6301 JP	185,064	JPY	2303	11.71	10.65	48.24	10.02	1.71	1.55	13.28	15.73
SANY HEAVY INDUS	600031 CH	80,134	RMB	8.31	8.83	6.93	25.47	27.42	2.19	1.75	25.59	27.46
ZOONLION HEAVY-H ²	1157 HK	8,923	HKD	6.24	5.41	4.49	-2.65	20.57	0.80	0.68	16.06	16.45
ZOONLION HEAVY-A ²	000157 CH	53,237	RMB	6.70	7.24	6.00	-2.65	20.57	1.07	0.91	16.06	16.45
XCMG CONSTRUCT-A	000425 CH	24,575	RMB	9.41	6.30	5.97	24.42	5.63	1.00	0.86	15.46	15.76
GUANGXI LIUGONG	000528 CH	10,955	RMB	7.69	10.83	7.54	184.00	43.66	0.88	0.83	4.97	7.70
TEREX CORP	TEX US	27,957	USD	32.39	12.73	9.45	165.10	34.66	1.47	1.26	12.56	13.87
TADANO	6395 JP	12,914	JPY	1220	15.06	13.55	40.10	11.14	1.63	1.47	7.95	11.40
SHANTUI CONST-A	000680 CH	5,623	RMB	3.90	24.38	18.31	433.33	33.13	1.05	1.03	4.31	5.68
XIAMEN XGMA-A	600815 CH	5,864	RMB	4.83	38.64	17.25	-21.88	124.00	0.96	0.91	-1.82	5.43
LONKING HOLDINGS ²	3339 HK	6,720	HKD	1.57	8.95	6.34	299.47	41.03	0.77	0.68	9.09	11.37
Sector Weighted Average					11.63	9.88	15.81	17.80	2.18	1.85	22.74	27.61
Agricultural Machinery Makers												
DEERE & CO	DE US	257,829	USD	85.60	10.04	9.73	10.48	3.17	3.30	2.64	38.90	29.62
MAHINDRA & MAHIN	MM IN	78,346	INR	946.80	12.45	10.25	9.41	21.51	2.39	2.04	17.73	16.17
CNH GLOBAL NV	CNH US	80,414	USD	42.75	8.53	8.19	7.14	4.11	1.08	0.95	15.58	16.51
FIRST TRACTOR-H²	38 HK	1,922	HKD	4.78	12.25	7.97	-10.68	53.83	0.85	0.75	7.04	10.02
FIRST TRACTOR-A ²	601038 CH	6,203	RMB	8.25	26.33	17.12	-10.68	53.83	1.83	1.61	7.04	10.02
ESCORTS LTD	ESC IN	1,180	INR	71.45	7.25	5.94	59.32	21.91	0.47	0.44	7.46	7.65
Sector Weighted Average					10.43	9.62	9.38	7.74	2.68	2.18	29.91	24.24
Mining Machinery Makers												
JOY GLOBAL INC	JOY US	44,408	USD	53.84	9.18	9.67	-18.56	-5.03	1.83	1.59	26.52	24.66
ZHENGZHOU COAL-H ²	564 HK	1,451	HKD	5.97	6.81	5.03	-28.15	35.26	0.79	0.70	12.02	14.80
ZHENGZHOU COAL-A ²	601717 CH	13,329	RMB	7.64	10.85	8.02	-28.15	35.26	1.26	1.12	12.02	14.80
TIAN DI-A	600582 CH	12,449	RMB	8.10	7.71	6.60	12.41	16.84	1.17	1.00	23.20	16.37
SANY HEAVY EQUIP ²	631 HK	8,415	HKD	2.74	12.01	10.10	14.21	18.85	1.15	1.05	9.78	10.73
LINZHOU HEAVY-A	002535 CH	4,355	RMB	6.39	9.05	6.68	64.19	35.41	1.44	1.20	17.19	19.58
SUNWARD INTELL-A	002097 CH	3,475	RMB	6.67	29.00	44.47	955.05	-34.78	1.57	1.53	5.66	3.49
Sector Weighted Average					10.23	10.18	29.95	7.96	1.54	1.35	20.72	19.40
Machinery Part Makers												
CUMMINS INC	CMI US	174,184	USD	118.27	14.77	12.18	-7.84	21.28	2.91	2.48	22.82	22.00
WEICHAI POWER-H	2338 HK	51,107	HKD	25.05	11.02	9.42	21.67	16.99	1.40	1.23	13.83	14.07
TAIYUAN HEAVY-A	600169 CH	8,900	RMB	2.90	21.48	29.00	-198.47	-25.93	1.24	1.18	3.72	4.17
CHINA YUCHAI	CYD US	5,201	USD	17.98	6.49	5.53	14.94	17.33	0.71	0.66	11.32	12.33
Sector Weighted Average					14.04	12.07	-8.13	18.52	2.48	2.13	19.94	19.44
Industrial Machinery Makers												
VOLVO AB-B	VOLVB SS	244,958	SEK	95.95	22.04	12.05	-19.98	82.91	2.43	2.19	11.07	20.27
ATLAS COPCO-A	ATCOA SS	235,632	SEK	165.90	15.33	14.24	-5.49	7.63	4.93	4.23	34.00	31.22
HYUNDAI HEAVY	009540 KS	102,075	KRW	195000	7.44	6.18	45.28	20.38	0.78	0.73	10.54	12.25
SANDVIK AB	SAND SS	132,815	SEK	88.25	13.72	11.56	-1.23	18.69	2.97	2.60	20.55	20.61
DOOSAN HEAVY	034020 KS	31,206	KRW	42800	5.33	4.84	-447.41	10.00	0.93	0.87	19.41	18.57
MANITOWOC CO	MTW US	20,145	USD	19.44	16.77	11.58	50.52	44.87	3.46	2.88	24.06	29.70
ANHUI HELI CO-A	600761 CH	5,883	RMB	9.04	10.67	9.46	24.56	12.87	1.40	1.27	13.04	13.51
Sector Weighted Average					15.74	11.54	-18.80	36.19	3.03	2.65	20.31	22.74
Weighted Average					12.94	10.60	1.55	21.68	2.55	2.18	22.88	24.30
Median					11.02	9.46	12.41	20.38	1.40	1.20	13.28	15.73

* The data in the table is as at June 14, 2013;

1: The market capital value of the companies are translated into HKD;

2: ABCI Securities estimates;

Source: Bloomberg, ABCI Securities estimates

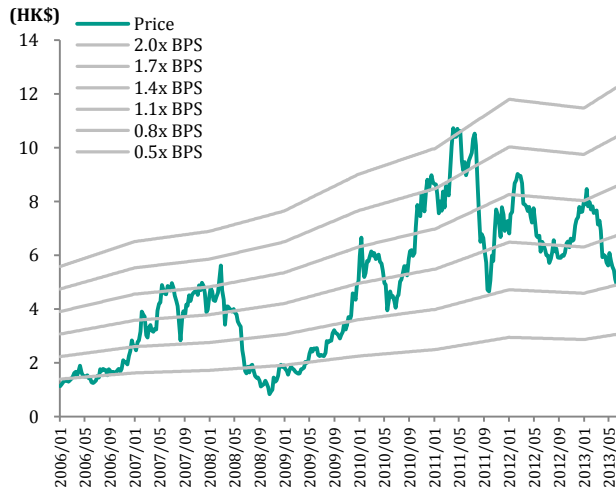


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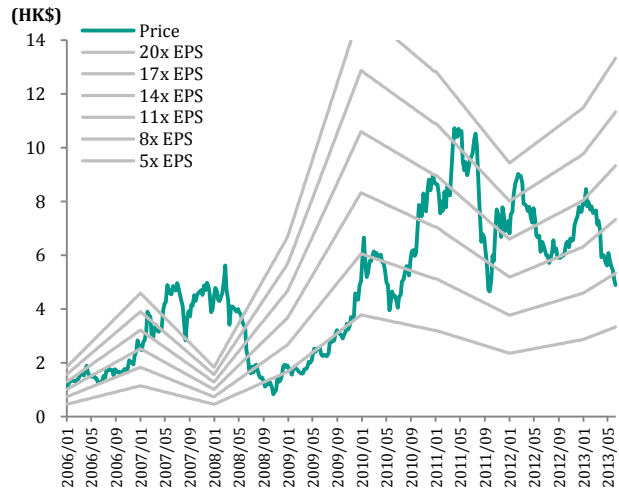
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PB band of the Group



Source: Company, Bloomberg, ABCI Securities estimates

PE band of the Group



Source: Company, Bloomberg, 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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183