

Sep. 29, 2014

Sector Rating Rating: Overweight

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Key Data

Avg.14E P/E (x)	16.90
Avg.15E P/E (x)	13.56
Avg.14E Dividend Yield (%)	0.93

Source(s): Bloomberg, ABCI Securities

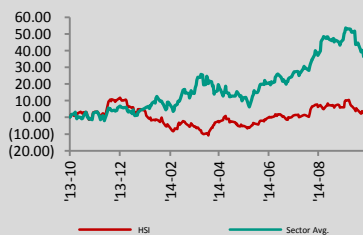
Sector performance (%)

	Absolute	Relative
1-month	(9.41)	(2.94)
3-month	15.06	11.53
6-month	22.59	14.56
12-month	36.42	33.40

*: Relative to Hang Seng Index

Source(s): Bloomberg, ABCI Securities

Sector performance



Source(s): Bloomberg, ABCI Securities

Internet finance Overview and Investment Outlook

- We assign an “overweight” rating to China’s internet finance sector. Led by the internet enterprises, the rise of internet financing cross-industry integration would herald significant changes in the traditional financial industry and new leaders will emerge
- Internet finance could eliminate information asymmetry to enhance efficiency of resource allocation. The arising force can erode the power of traditional banks that have long-dominated China’s financial market and eventually propel changes in their operations.
- Companies with a large user base and strong financial resources will likely be the leaders in the internet finance sector. New opportunities will arise for financial institutions that have been actively expanding their online platforms. In addition, financial data and software providers would benefit.
- Our top picks include Tencent (700 HK, BUY) based on its leadership in internet finance, vast financial resources and its proven ability to respond swiftly to changes. We are also keen on third-party payment services and software application providers.

Great potentials for China’s internet finance. Flourishing e-commerce has spurred demands for online payment and money transfer services; robust development of mobile internet have further consolidated the role of internet finance. Upgrading of internet infrastructure and the increasing wealth of young consumers would provide solid foundation for further industry development.

Internet finance could accelerate financial reform in China. In China, there have been strong financing needs among the private enterprises and SMEs. Yet, the traditional financial sector in China, with the liberalization of interest rate and exchange rate still underway, lacks transparency and effective financial platforms to serve the need of these SMEs. Companies therefore have taken the opportunity to develop internet finance. We believe the government would support development of the new industry and space for growth will be ample

Industry risk is manageable. Although there were previous incidents of the government suspending mobile phone payment systems and default in P2P platforms, the level of risk is still manageable in the emerging field. However, proper regulation is necessary to ensure the development of internet finance.

Our top picks include internet finance providers with strong user bases and their tech partners. Mobile internet is revolutionizing conventional modes of consumption and investment. We are optimistic on internet finance providers with vast user bases. Among the Hong Kong-listed companies, Tencent (700 HK) is our top pick; we are also keen on tech companies specializing in mobile payment-related products and services.

Risks: 1) Government policy on internet finance; 2) Industry risk due to disorderly competition and unregulated operation among in internet financing platforms; 3) Overly stringent control by regulators may constrain industry development.

Exhibit 1: Performance and valuation of related stocks (as of Sep. 26)

Company	Code	Rating	Shares Price (HKD)	Target Price (HKD)	FY14E P/E(x)	FY15E P/E(x)	FY14E PEG(x)	FY15E PEG (x)	FY14E EPS(HKD)	FY15E EPS(HKD)
Tecent-ABCI Predict	0700 HK	BUY	116.5	158	34.27	23.87	0.57	0.55	2.66	3.81
China Smartpay	8325 HK	Unrated	1.39	NA	NA	NA	NA	NA	NA	NA
ChinaSoft Int'l	0354 HK	BUY	2.61	3.27	20.62	15.86	0.60	0.46	0.10	0.13
Kingdee	0268 HK	Unrated	2.45	NA	22.24	17.59	NA	NA	0.09	0.11
Pax Global	0327 HK	Unrated	6.55	NA	18.88	15.41	NA	NA	0.35	0.43
Citic Bank	0998 HK	Hold	4.79	4.92	4.23	3.88	0.24	0.22	0.89	0.97
Cm Bank	3968 HK	BUY	13.68	17.2	4.76	4.27	0.62	0.56	2.27	2.53
Ping An	2318 HK	Unrated	59.6	NA	10.57	9.17	0.51	0.45	4.46	5.13
Econtext Asia	1390 HK	Unrated	2.65	NA	18.28	15.59	NA	NA	0.15	0.17

Source(s): Bloomberg, ABCI Securities estimates



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China internet finance: Overview and investment outlook

Internet finance is entering the lane of fast-track growth

China internet enterprises are expanding into the financial industry.

Growing population of young and affluent consumers spur demand for financial management and online shopping. With the implementation of Basel III and the CBRC's no.8 Document, non-standardized assets would necessitate the development of a new platform.

Rapid expansion of China's internet infrastructure and mobile networks support the increases in network services.

Internet finance is strategically important to China's economic development

i) Internet finance is a financial innovation in China; it is more than the internetization of traditional financial services.

ii) The Chinese internet companies, by actively eliminating information asymmetries, facilitate more efficient allocation of resources. Subversive cross-industry innovations by the internet companies will deepen China's financial reforms (accelerate interest rates and exchange rate liberalization) and trigger changes in traditional financial institutions

iii) The business model of internet finance is still evolving, with products, services and customers still undergoing major changes. The disintermediation and internetization of traditional finance will eventually result in a more stable and efficient financial ecosystem in China

Investment Outlook: "Outperform" rating

Platforms with a huge user base and mature business model of internet finance will be the first to benefit. These include Tencent Holdings, Alibaba (to be listed), and Baidu (BIDU US)

Traditional financial institutions that have been actively developing their online platforms will be able to capitalize on emerging opportunities. These include CM Bank (3968 HK), CITIC Bank (0998 HK) and Ping An (2318 HK).

Companies providing internet finance related services and tech support services will benefit. These include CSI (0354 HK), Kingdee (0268 HK), Chanjet (1588 HK), PAX Global (0327 HK), Ecotext Asia (1390 HK), HC International (8292 HK) and China Smartpay (8325 HK)

P2P and crowdfunding companies; there are very few listed enterprises of such nature. We expect industry leaders will emerge in the next three years. Risk control and profit growth will be concerns.

Stock in focus

Tencent (700 HK; Buy). The leading internet enterprise with the largest user base in China. Leveraging on its huge user base of its messengers, WeChat and QQ, Tencent's market share in mobile game, video, O2O, internet financial applications are expanding. The Group is likely to be a market leader in these areas in 2014-15. Relevant initiatives are expected to generate substantial earnings in the next 2 years.

CSI (354 HK; Buy) collaborates closely with Alibaba, providing cloud migration and third-party payment. Alipay partners up with ChinaSoft to enable mobile payment in 70,000 pharmacies. The mobile payment system will be integrated to Tmall pharmacies. In this way, customers can place their orders online while the products will be distributed by pharmacies nearby. Such initiatives will open up new business opportunities for CSI.



China Smartpay (8325 HK; unrated) has a nationwide prepaid license. Scarcity of such license offers the company a strong competitive edge. The large amount of user data obtained via its O2O payment service would engender more business opportunities.

Rapid rise of China's Internet finance

From rhetoric to reality: internet finance in China

Although internet finance has started in China years ago, it has only drawn much attention in the past two years with the rapid expansion of mobile internet and online financial innovations by internet companies. In China, internet finance starts to be recognized as the third mode of financing, other than the traditional mode of indirect financing from the commercial banks and direct financing from capital markets. This model will mature with the evolving mobile payment, social networking, search engines and cloud computing and other information technologies.

According to our research, the Chinese internet financial industry has the following features:

1. Awareness and use of internet finance services are rising

Despite the long history of internet finance in China, many see 2013 as the year when internet finance truly takes off. During the year, P2P financing platform, financial ecommerce (e.g. CCB's ecommerce platform, buy.ccb.com), digital currency (e.g. Bitcoin, etc.), various types of financial applications, online brokerage, online insurance, crowdfunding and other innovations became more widely known. Till present, however, third-party payment services and online banking are still the most well-known internet finance products in China.

2. Acceleration of cross-industry development and O2O integration

As the Internet companies foray into the field of asset management, as shown by the ballooning fund balance of Yuebao (余额宝), the development in internet finance is widened from money market funds to areas such as P2P platform, crowdfunding, online insurance and etc.

3. Insufficient risk awareness toward financial products and tools

Internet use helps improve information disclosure and reduces intermediate trading links. The risk of financial business, however, is not reduced despite the various degrees of risk migration. Based on our channel checks, emphasis on investor education and investment safety is inadequate; security of internet finance also remains a major concern among users.



Reasons behind the success of internet finance

1. Macro background: Financial reform lags behind the economic reform in China

The Chinese government has always been regulating the financial industry by means of administrative intervention. While the economy is gradually liberalizing and turning more market-oriented, development of the financial system is lagging behind.

Although the Chinese government has loosened its control on interest and exchange rates, the freedom to determine deposit rates is rather limited among banks. In terms of foreign exchange reform, the control on exchange rate has been relaxing. Major adjustments have been made in the capital policies, including strengthening of review and preview of RMB internationalization, relaxation of cross-border guarantees, and optimized management of cross-border capital. However, the pace of financial reform is lagging behind that of the expansion of China's economy mainly in the following fields:

- Interest rate: still not marketization but decided by the government and banks do not have the freedom to set their own prices based on the market conditions
- Loans to SMEs: traditional and national banks are still reluctant to give loans to SMEs;
- Personal loans are difficult to obtain: mainly due to insufficient personal credit record

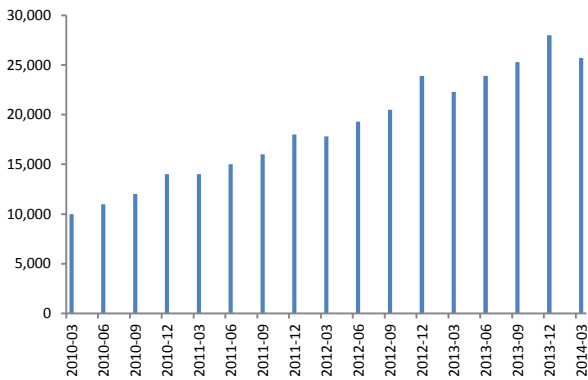
2. Direct drivers of success: Rise of e-commerce and online shopping

Throughout history, trade always engenders relevant financial demand. Ecommerce (including B2B, B2C, C2B, C2C) has been growing rapidly in China in recent years, spurring huge demand for complementary financial services platforms.

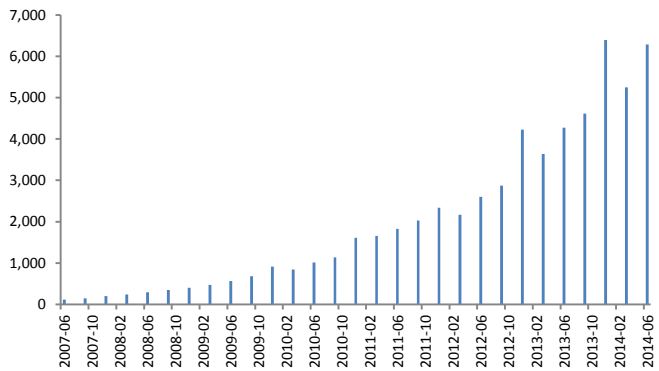
- Ecommerce transactions: requires online platform to provide convenient payment and settlement services
- Payment deposit: requires online platform to provide saving and credit services
- Trading profit: online financing, wealth management, investment demands
- Convenience: T + 0; free money transfer

Development of ecommerce has to be supported by complementary online payment and settlement systems deemed safe and convenient. Deposits of payment on platform facilitate the need for saving and financing services, which in turn is conducive to the development of wealth management services.

Development of ecommerce continued to be robust. However, size of online shopping amounted to RMB 628.8bn, taking up 24% of the total value of ecommerce at RMB 2.57tr in 2Q14. The ample space for expansion will prompt further development of internet finance.

Exhibit 2: Chinese e-commerce quarterly transaction value (RMB 100mn)


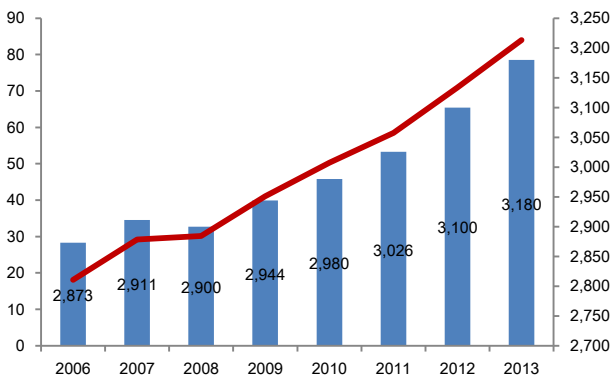
Source(s) : WIND, ABCI Securities

Exhibit 3: China's online shopping quarterly transaction value (RMB 100mn)


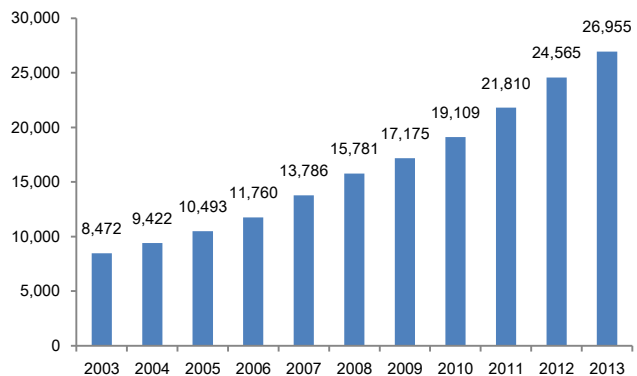
Source(s) : WIND, ABCI Securities

3. Five factors promoting continued prosperity of Internet finance

- Small and micro financing needs in China –a market that is usually overlooked by most traditional banks
- The Chinese government is supportive of internet finance considered as a healthy complement to traditional finance
- Chinese consumers are increasingly receptive to online transactions and online shopping;
- The rapid growth of China's young and affluent population accustomed to online purchases of wealth management products
- Chinese government is raising internet speed and broadband prevalence, greatly enhancing the infrastructure of the internet economy

Exhibit 4: No. of high net worth individuals (LHS, in 10k) and investable amount per capita in China (RHS, in 10k)


Source(s) : WIND, ABCI Securities

Exhibit 5: Disposable income per capita among urban residents in China (RMB)


Source(s) : WIND, ABCI Securities



Exhibit 6: Goals of “Broadband China” strategy

Target of Broadband China	Unit	2013	2015	2020
1. Broadband subscribers				
Fixed broadband access users	100mn	2.1	2.7	4
--Fiber-to-home (FTTH) Users	100mn	0.3	0.7	—
--Urban Broadband Users	100mn	1.6	2	—
--Rural broadband users	100mn	0.5	0.7	—
--3G/LTE Users	100mn	3.3	4.5	12
2. Broadband penetration levels				
Fixed broadband household penetration	%	40	50	70
-- City household penetration	%	55	65	—
-- Rural household penetration	%	20	30	—
--3G/LTE user penetration	%	25	32.5	85
3. Broadband network capabilities				
City broadband access capabilities	Mbps	20 (80%users)	20	50
-- Developed Cities	Mbps	—	100 (partially)	1000 (partially)
--Rural broadband access	Mbps	4 (85%users)	4	12
--Large enterprises access bandwidth	Mbps	—	>100	>1000
--International Internet bandwidth	Gbps	2,500	6,500	—
----FTTH Family coverage	100mn	1.3	2	3
--3G/LTE base(s) scale	10k	95	120	—
--% of administrative villages with broadband coverage	%	90	95	>98
--National cable TV network interconnection platform coverage	%	60	80	>95
4. Broadband information application				
Internet users	100mn	7	8.5	11
--Where: rural users	100mn	1.8	2	—
Internet data (pages total bytes)	TB	7,800	15,000	—
E-commerce transactions	RMB tn	10	18	—

Source(s): CNNIC, ABCI Securities

Major business model of China's internet finance

The rise of third-party online payment

1. Third-party online payment in China is growing rapidly

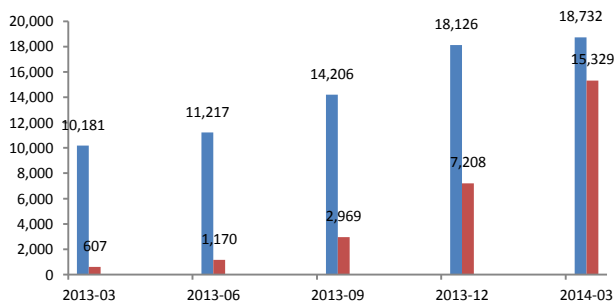
There are three main types of China's third-party payment licenses: 1) Prepaid card issuance and acceptance; 2) Online payment; 3) Bank card acceptance

As of July 15, 2014, PBOC issued a total of five batches of centralized third-party payment licenses. To date, there were a total of 269 licensed enterprises.

Nationwide prepaid license is the scarcest among the licenses issued. Among the first batch of licenses issued by PBOC in 2011, there were only 6 business licenses approved for nationwide prepaid card services; the rest were for prepaid card services at the provincial or inter-provincial level. According to PBOC in 2011, the number of prepaid licenses issued would be limited. Among the listed companies in Hong Kong, China SmartPay (8325 HK) and Ping An (2328 HK) were granted a business license for nationwide prepaid card services.

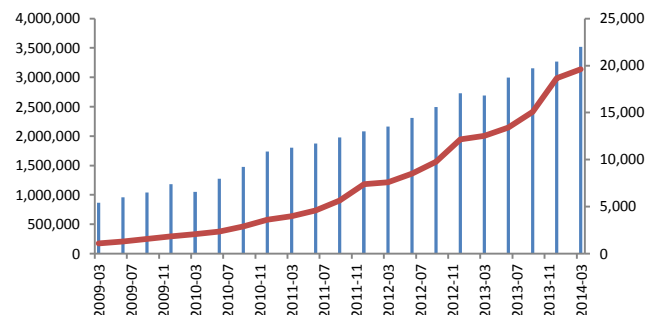
We believe that: (1) despite the rapid development of third-party online payment, the total value of such payment still lags behind that of online banking and accounts for only a tiny portion of the overall payment market. Space for growth is still massive (Exhibit 8 illustrate market size of online banking has reached RMB 35.21tr); (2) within the third-party online payment business, we believe mobile payment possesses a higher growth potential. The development of mobile payment will improve the ecosystem of internet finance, raising effectiveness of internet transactions and services. Growth in mobile payment exceeds that of third-party online payment (Exhibit 7)

Exhibit 7: Chinese third-party online payment (100mn) and mobile payment scale (100mn)



Source(s) : WIND, ABCI Securities

Exhibit 8: Online banking (left axis, bar graph) and third-party internet payment (right axis, curve) scale (100mn)



Source(s) : WIND, ABCI Securities



2. Overview of China's third-party online payment: Earnings model and products

In China, income sources of third-party online payment providers mainly include:

- Online administration fee (mainly for online transactions)
- POS acceptance fee (mainly for offline transactions)
- Foreign exchange business
- Foreign card acceptance business
- Credit income
- Prepaid card income (especially for prepaid cards)
- Deposited capital interest income (especially for prepaid cards)
- Income from other derivative business: including ecommerce advertising, data analysis and processing

A third-party payment company, by virtue of their specific network advantages, can extend to markets or regions inaccessible to banks. Therefore, the banks are willing to share the merchant fees (e.g.1% from the sellers) with the third-party payment providers.

In view of this, we believe that third-party online payment providers with cross-regional and cross-industry capabilities will dominate in the field of internet finance.

Among the internet payment licensees, Alibaba's Alipay and Tencent's Tenpay are the better known ones. Currently, both are integrating online and offline services.

- Transportation payment: Didi Dache (滴滴打车) / KuaiDaDi (快的打车)
- Restaurant Spending: Dianping's (大众点评) restaurant online booking service
- Low-value payments or transfers: Wechat's "virtual red envelopes"(微信红包); Weixin's "AA receivables" (微信 AA 收款)
- Online Shopping: Alipay, Tenpay

(1) Alibaba's Alipay

Alipay is China's leading third-party payment platform. Since Nov 2013, Alipay's mobile client "Alipay wallet" has begun to operate independently with Yuebao (余额宝) being built in. Currently, Alipay's face-to-face payment service is accepted in retails, cinemas, chain supermarkets, taxis and numerous businesses.

As of Dec 2013, Alipay's single-day transaction volume peaked at 188mn. Among which, single-day mobile payment transaction reached 45.18 mn, or RMB 11.3 billion.

Alipay has formed strategic alliances with 180 domestic and foreign banks, including VISA, MasterCard and other international organizations. By end-2013, Alipay has nearly 300mn real-name users. Transaction volume through Alipay mobile payment reached 2.78bn or RMB 900bn for the year, making the Group the largest mobile payment provider in China.



(2) TenPay of Tencent

TenPay by Tencent Group is China's leading third-party online payment platform committing to providing safe and convenient online payment services. Launched in Apr 2005, the group has developed more than 200 services and application scenarios for users and provided professional capital settlement solutions to more than 400,000 mid-to-large enterprises.

After years of development, individual users and corporate clients of TenPay services exceeded 200mn and 0.4mn, covering sectors including games, travel, ecommerce, insurance, telecommunications, logistics, steel, and asset management. TenPay provide services such as quick direct payment, payment by balance, installment payment, entrusted withholding, epos payment, micro-payment and more.

3. Major risks related to China's Internet third-party payment products

In China, the risks of the third-party payment agencies mainly involves risks related to policy changes and constrictions imposed by commercial banks.

Since 2014, Chinese regulators and banking institutions have taken several measures to regulate and restrict third-party payment companies:

On Mar 11, 2014, PBOC dispatched the draft of "Management approach for online payment business of payment institution" (《支付机构网络支付业务管理办法》) and " Supervisory comment on development of mobile payment business" (《手机支付业务发展指导意见》) which restrict the transaction amount that can be processed by third-party payment providers.

On Mar 14, 2014, PBOC halted the two-dimensional code (bar code) and virtual credit card payments.

On Apr 2014, CBRC and PBOC jointly issued the "No. 10 document" containing numerous restrictions on third-party payment companies:

- Amount limits: require banks to set individual and single-day transaction limits of third-party payment
- Strengthen identity authentication: must obtain identity authentication from both the banks and third-party payment institutions for first-time transaction
- Strengthen transaction verification: strengthen identity authentication in high-value transfer
- Prevent cross-border access: cooperated business of banks and third-party payment should be included in the supervisory scope of operational risk monitoring system for all banks; prevent any third-party institutions from interfering or accessing the unauthorized banking system.
- Prevent unauthorized collaboration: without the written authorization of the head office, branches of all banks are not allowed to work directly with any third-party payment parties to develop payment deposit business; strengthen supervision and management of payment reserves.



4. Main Online Payment tools in the world

Exhibit 9: Overview of the world's major online payment tools

Company Name	Nation	Website
eWAY	澳大利亚 – Australia	www.eway.com.au
Paymate	澳大利亚 – Australia	www.paymate.com
AlertPay	加拿大 – Canada	www.alertpay.com
Smartpay	中国 – China	www.172.com
19pay	中国 – China	www.19pay.com
99Bill	中国 – China	www.99bill.com
Alipay	中国 – China	www.alipay.com
BilltoBill	中国 – China	www.billtobill.com.cn
Chinabank	中国 – China	www.chinabank.com.cn
UnionPay	中国 – China	www.chinapay.com
Chinapnr	中国 – China	www.chinapnr.com
Cncard	中国 – China	www.cncard.com
Ctopay	中国 – China	www.ctopay.com
ChinaPay	中国 – China	www.gnete.com
Baifubao	中国 – China	https://www.baifubao.com/
iPay	中国 – China	www.ipay.cn
IPS	中国 – China	www.ips.com.cn
Netpat	中国 – China	www.netpat.cn
NPS	中国 – China	www.nps.cn
PayEase	中国 – China	pay.beijing.com.cn
PaybyFinger	中国 – China	www.paybyfinger.com.cn
UMP	中国 – China	www.umpay.com.cn
YeePay	中国 – China	www.yeepay.com
paydollar	中国香港 – Hong Kong	www.paydollar.com
WEBMONEY	俄罗斯 – Russia	www.wmtransfer.com
MONEYBOOKERs	英国 – UK	www.MoneyBookers.com
ukash (英国 – UK	www.ukash.com
worldpay	英国 – UK	www.worldpay.com
2checkout	美国 – US	www.2checkout.com
Google checkout	美国 – US	http://checkout.google.com
ClickandBuy	美国 – US	www.clickandbuy.com
GSPAY	美国 – US	www.gspay.cn
ikobo	美国 – US	www.ikobo.com
MoneyGram	美国 – US	www.moneygram.com
Paypal	美国 – US	www.paypal.com

Source(s): ABCI Securities

Asset management services by internet firms

Financial services provided by the internet companies mainly focus on asset management. These products are sold online. In China, internet giants such as Baidu, Alibaba and Tencent are expanding in this area.

1. Yuebao - supported by ecommerce

It eliminates the boundary between internet and financial management, and introduces fragmented financial management. In addition, it innovates a new financial management model of making payment based on asset value

2. Tencent's Tenpay - supported by social network

Tencent combined Tenpay with its mobile platform WeChat on Jan 15, 2014. It has expanded its online asset management product rapidly.

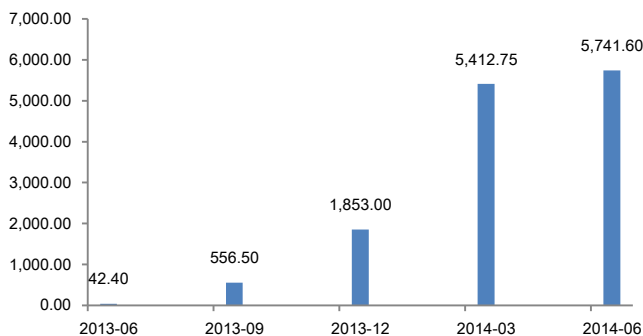
Weixin Wealth Manager was launched officially on Jan 15, 2014. Its first product, Huaxia 's wealth treasure, had a size of RMB 80bn in 1Q14.

3. Baidu's financial platform products - supported by search engine

Baidu search leverages on huge user traffic to support its financial platform. The Baidu financial platform was started on Apr 23, 2014.

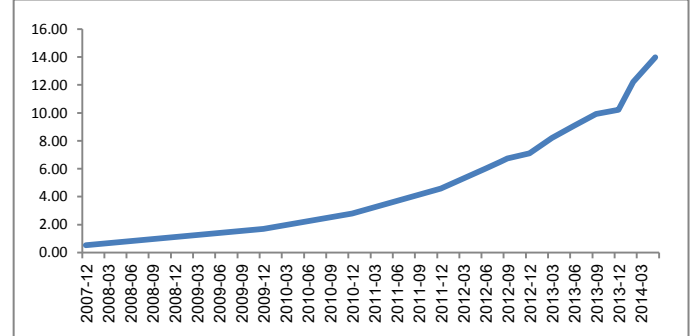
One of its advantages is that it enables individual investors to enjoy a relatively favorable saving interest at times.

Exhibit 10: Yuebao scale (RMB 100mn)



Source(s) : WIND · ABCI Securities

Exhibit 11: Balance of financial banking products (RMB tr)



Source(s) : WIND · ABCI Securities

New internet financing platforms: P2P & Crowdfunding

1. P2P Internet finance model

What is peer-to-peer lending

Different from the traditional centralized network, each node in the peer-to-peer system serves as a client as well as a server without the need of a central server. Since the P2P system replicates data through multiple nodes, collapse of a single node is unlikely to paralyze the entire network.

Based on the above concept, the P2P lending operator can directly contact the lender and borrower through the internet and avoid traditional financing intermediaries such as the banks.

Exhibit 13: Traditional Centralized network

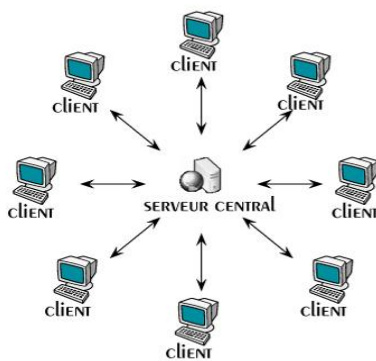


Exhibit 14: P2P network

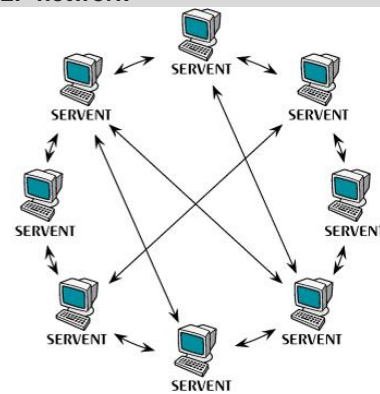


Exhibit 15: P2P platforms directly connect borrowers and investors



Source(s): Internet, ABCI Securities

P2P is a practice of lending money to borrowers by gathering loans from numerous lenders. In China, P2P is not a new practice, as evidenced by the occurrence of “Biaohui” (标会), or pooled funds union in the society. The difference is that these pooled funds mainly extend loans only to relatives or friends .

P2P lending platform shifts the offline financing model to an online one and extend small loans to more potential borrowers. P2P lending is expanding rapidly. As the borrowers become strangers instead of people that the lenders have a relationship with, the associated lending risk also surge and more stringent credit checks are required.

In China, investors of P2P lending are usually risk-tolerant individuals with wealth management needs and a desire to obtain investment returns higher than those offered by the banks.



The current Chinese P2P platforms mainly focus on:

- Personal finance projects
- Loan resale of traditional institutions
- Short-term financing for SMEs

As P2P platform, these companies profit from:

- Commission or loan management fees (mainly paid by borrowers)
- Interest management fees and other Investor expenses
- Spread difference (handling fees)
- Platform advertising revenue, etc.

Chinese P2P internet finance development- An Overview:

Up till Apr 2014, there are 714 online P2P platforms in China; at end-2012, the figure was 110. Geographically, most of these platform providers are located in cities along southeast coast; Shenzhen, Gunagzhou, Shanghai and Beijing are cities with the largest number of P2P financing companies. The number of investors with prior experience have reached 1 mn by end-2013.

Rapid development of P2P lending platform showed the following characteristics:

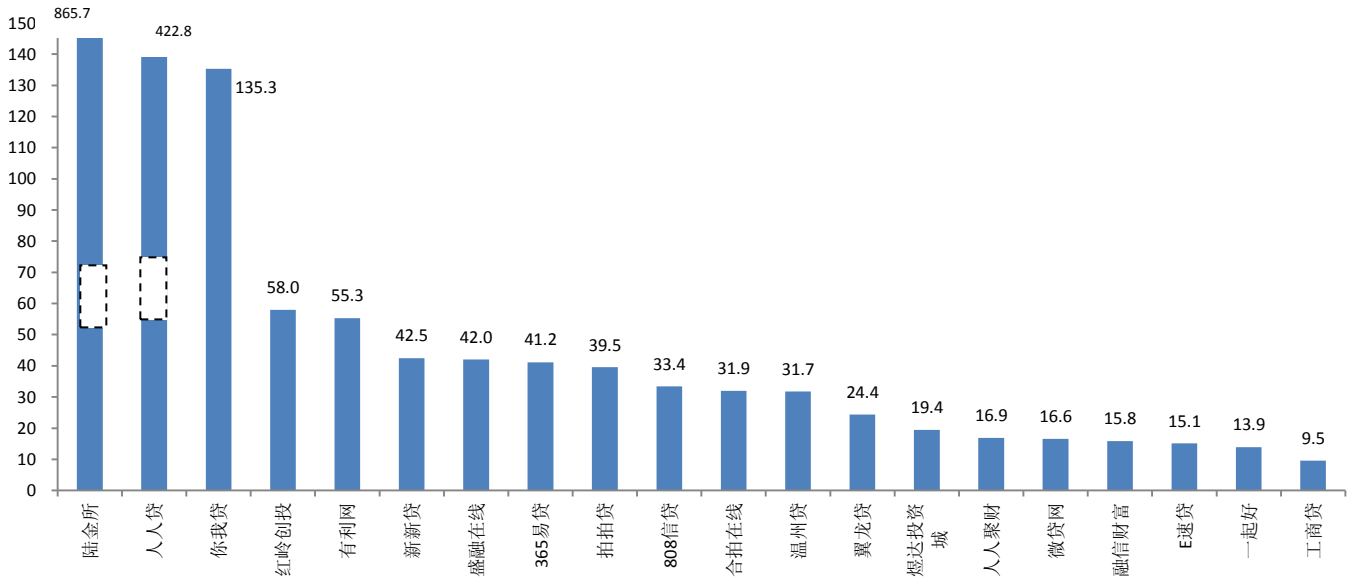
- Diversified platform business model: the emergence of pure online transactions, P2P debt in the secondary market, O2O model, third-party guarantees and other multi-modes;
- Various types of financing projects from personal projects to SMEs projects
- Active participation of traditional financial institutions: National banks and JSBs (i.e. CITIC Bank and CM Bank)
- Rising industry risk: i) default risks increases, as there has been more incidents of P2P platform collapsing or fraud cases where the owners fled with clients' money; ii) with banks transferring their non-standard assets to P2P platform, the shadow banking issue emerges and accentuates systemic risks.

Exhibit 16: Geographical distribution of Chinese P2P agencies

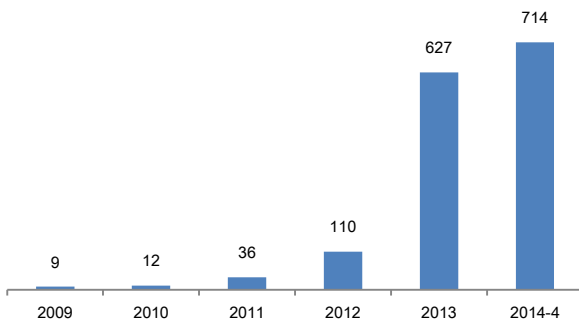

Source(s) : 01Caijing, ABCI Securities

Exhibit 17: China P2P platforms have been developing rapidly

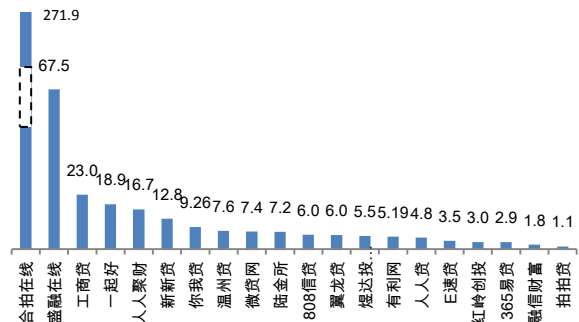

Source(s) : Companies, ABCI Securities

Exhibit 17: Weighted turnover of China's 20 P2P lending platform in 2013 (RMB 100mn)


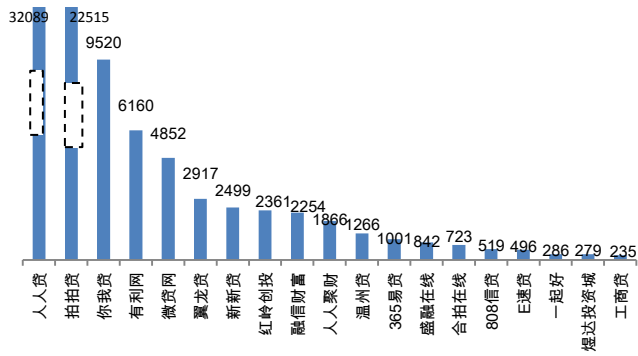
Source(s) : 01Caijing, ABCI Securities

Exhibit 18: Rapid growth in the no. of P2P platforms


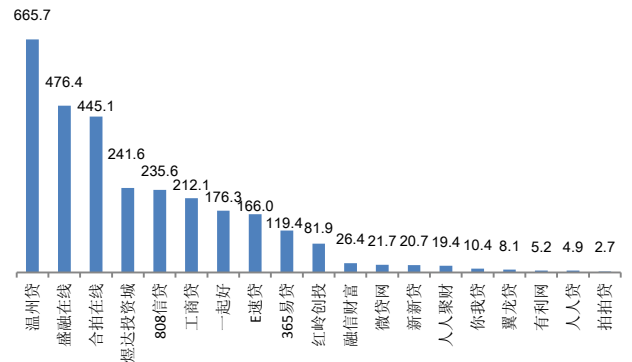
Source(s) : 01Caijing, ABCI Securities

Exhibit 19: Average borrowing transaction amount in the 20 P2P platforms in China (RMB 10,000)


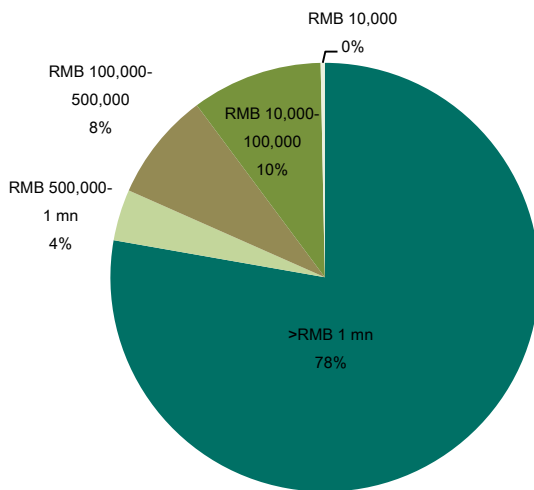
Source(s) : 01Caijing, ABCI Securities

Exhibit 20: Accumulated no. of borrowers on P2P platforms


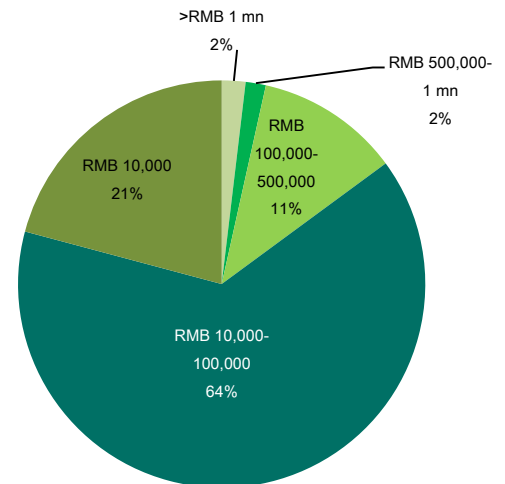
Source(s) : 01Caijing, ABCI Securities

Exhibit 21: Average amount perperson borrowed on P2P platform in China (RMB 10th)


Source(s) : 01Caijing, ABCI Securities

Exhibit 22: Accumulated borrowings of various P2P platforms in China


Source(s) : 01Caijing, ABCI Securities

Exhibit 23: Cumulative number distribution of borrowers in China's P2P platform


Source(s) : 01Caijing, ABCI Securities



P2P platform investment outlook: Industry M&A activity to rise with increased participation of foreign investors

The booming P2P industry in 2013 in China has buoyed M&A activities and attracted much attention from foreign investors. Private equity financing activities have been active in P2P industry, reflecting its emerging value. Similar to the Lending Club in the U.S., it is possible that some P2P platforms may get listed.

Investment risks of P2P Platform: Cost of credit checks

China's P2P financing platforms incur heavy credit-checking costs. This is mainly because the lack of a comprehensive and effective nationwide credit-check system. P2P platforms have to carry out the investigation offline, collecting information concerning on the borrower's credit status for evaluation on their own. Therefore, credit-checking cost of China P2P lending platforms is much higher than their European and American counterparts. Companies conducting insufficient checks would face higher default risks.

Credit difficulties faced by Chinese P2P lending platforms are:

- Personal credit-check system is underdeveloped;
- PBOC's credit-check system is not accessible to P2P lending platforms
- Commercial credit-check business is in its early stage of development
- Conducting private credit checks are difficult and expensive



2. Crowdfunding (Funding Platform for Creative Projects)

Crowdfunding enables small businesses, artists or individuals to obtain the necessary funds for their creative projects.

In China crowdfunding provides a low cost financing channel for entrepreneurs while offering risk-tolerant investors to participate in innovative projects. Since the funding amount of these projects is usually small, most investors can afford to partake in them.

1) Overview of crowdfunding in China

- Crowdfunding in China is mainly divided into 4 categories: product crowdfunding, charity crowdfunding, equity crowdfunding, and bond crowdfunding. In product crowdfunding, the contributor invests in the project to obtain the particular service or product. Such crowdfunding has a wider audience and has lower legal and credit risks. However, equity crowdfunding is increasing and has gained more attention in 2014.
- Crowdfunding in China is still in its initial stage and is developing slowly; failure often occurs due to the lack of investors or creative projects.
- Crowdfunding, to a large extent, relies heavily on integrity to attract investors.

2) Some China's crowdfunding platforms include:

- Demohour (<http://www.demohour.com/>)
- JUE.SO (<http://www.jue.so/>)
- Dreamore (<http://www.dreamore.cn/index.php>)

Traditional financial institutes embraces internet integration

1. Banking sector: rapid development in ecommerce platform, online loans, online P2P platforms and online asset management system

As the Internet companies are swiftly expanding in the realm of internet finance, traditional banks also deepen its explorations in various areas of internet finance:

- Enterprise: enhanced online loaning and approval; simplify procedures; combining procedures of offline credit-checks with online loaning
- Personal: providing free or low-cost online money transfer, remittance, exchange and other services
- Sales of financial products online
- Established online P2P platforms

Exhibits 24: Online operations of traditional banks

Bank	Corresponding platform and business content
CCB	<ul style="list-style-type: none"> ● Expand ecommerce services covering B2B and B2C business
BoCom	<ul style="list-style-type: none"> ● Ecommerce, consumption, online banking, etc.
BoC	<ul style="list-style-type: none"> ● Cloud Shopping system
ICBC	<ul style="list-style-type: none"> ● E-shopping: covering digital and home appliances, automobiles, financial products, apparel, food and beverage, jewelry gifts, transportation and tourism
ABC	<ul style="list-style-type: none"> ● Founded Internet finance lab: developing Internet finance services
CITIC	<ul style="list-style-type: none"> ● Joint development of new digital credit card with Alibaba and Tencent ● Tencent teamed up with ZHONGAN online and CITIC Bank to launch the Weixin virtual credit card (suspended due to policy changes)
SRCB	<ul style="list-style-type: none"> ● Cooperate with Ali Finance for credit payment financial products
CM BANK	<ul style="list-style-type: none"> ● Establish "e + robust financing" project (online since Sep 2013)

Source(s): Company, ABCI Securities

2. Securities Brokers: expand online business and cooperate with internet firms

Other than cooperating with traditional banks, brokers also increased their cooperation with internet firms to leverage on the latter's huge user base.

Sinolink Securities (国金证券) has cooperated with Tencent to promote its online brokerage and financing planning business.

Haitong Securities has cooperated with Tencent to sell its financial products through its mobile internet platform and WeChat.

3. Insurance industry: from online insurance sales to virtual property insurance

In Jan 2012, the CIRC issued the trial measure on " Business supervision on insurance agents, brokers, and internet Insurance ", which is considered as a breakthrough development of online insurance sales

In Feb 2013, Tencent, Alibaba and Ping An jointly established the ZhongAn online property insurance company, further integrating the insurance industry with the internet finance.

We believe that online insurance sales platform has certain advantages in terms of providing standardized products; sales of customized insurance products remain to be further developed.

Other Internet finance business models

1. F2F (Financial to financial)

F2F, a concept derived from P2P, focuses on institution-to-institution lending. While it is difficult for P2P lenders to gauge repayment ability of individual borrowers, credit checking is generally easier for institutions. On the F2F platform, information exchange between investors and borrowers are more transparent. More financial institutions have been considering to join the market since 2014.

2. Innovative crowdsource Insurance

China's anti-cancer commune (<http://www.kangaigongshe.com>) follows a typical crowdsourcing insurance (P2P Insurance) model. Its rules are as follows:

- (1) Free membership
- (2) 1-year waiting period; members are not entitled to any benefits during this period
- (3) If a member is diagnosed with cancer, other members must contribute no more than RMB 10
- (4) All donations go directly to the patient instead of being distributed through the commune platform
- (5) Joining members should be at or under 45 years of age; members over 75 must withdraw



China's anti-cancer commune, established on May 8th, 2011, aims to provide health care and dealing with medical bills.

Overseas Internet finance

Hong Kong Octopus: Pioneer of Internet finance

Compared to Alipay and other third-party payment products in China, Octopus is more developed in terms of security and risk control. Octopus has provided services including:

- Offline payment: Public transportation, retail, online payment, parking, self-service, recreational, access control, government, healthcare, schools, etc.
- Online payment: Near-field communication function (NFC) enabled
- Deposit-taking: Acquire the deposit-taking company license
- Credit Card alliance: Reloading by transfers and via credit card
- Cross-border use: Can be used in Mainland China
- Access control system in buildings

Research on the development and application of the Octopus card can help understand the future trajectories of China's internet financial products.

Foreign Internet Financial Case

Exhibits 25: International P2P and crowdfunding platforms

P2P financing platform	Crowdfunding
Lending Club	Kickstarter
ZOPA	Motif Investing
Funding Circle	Second Market
Rate Setter	
Lending Works	
Wellesley P2P	
Prosper P2P	
The receivables exchanges	

Source(s): Company, ABCI Securities



Exhibit 26: Overall analysis of the financing activities in Kickstarter

Category	Launched Projects	Total Dollars, mn	Successful Dollars, mn	Unsuccessful Dollars, mn	Live Dollars, mn	Live Projects	Success Rate, %
All	176,630	1,306	1,137	156	20.62	6,833.00	43.05
Dance	2,187	7.43	6.85	0.48587	0.10	64	68.68
Theater	6,886	27.69	24.27	3.10	0.33	151	63.19
Music	32,735	123.42	111.7	10.30	1.42	768	54.11
Comics	4,619	31.4	28.49	2.36	0.55	167	49.82
Art	14,120	42.02	36.09	5.27	0.66	478	45.99
Film & Video	39,621	237.3	198.13	37.25	1.93	898	39.59
Crafts	2,251	3.65	2.97	0.57021	0.10	121	30.06
Food	9,758	53.11	43.74	8.36	1.00	766	32.41
Design	9,940	203.15	178.2	21.11	3.83	540	36.53
Photography	5,644	15.45	12.74	2.36	0.36	238	32.63
Games	12,302	271.6	239.63	28.34	3.64	564	34.67
Journalism	1,528	4.643	3.96	0.58182	0.10	121	30.06
Technology	7,457	195.3	168.61	22.07	4.61	791	28.11
Publishing	19,693	56.38	46.68	8.53	1.17	748	31.16
Fashion	7,889	41.13	35.04	5.26	0.83	418	27.53

Source(s): Company, ABCI Securities

Exhibit 27: Successfully funded projects of Kickstarter

Category	Successfully Funded Projects	<\$1K	\$1k -10K	\$10k-20K	\$20k-100K	\$100K-1M	> \$1M
All	69,908	7,888	43,013	9,602	7,858	1,465	82
Music	17,298	1,664	12,718	2,082	794	39	1
Film & Video	15,331	1,507	9,132	2,430	2,057	201	4
Art	6,274	1,211	4,241	541	262	18	1
Publishing	5,904	901	3,826	728	423	26	0
Theater	4,256	549	3,182	336	181	8	0
Games	4,070	266	1,542	761	1,110	355	36
Design	3,434	216	1,178	654	1,039	335	12
Food	2,914	312	1,292	695	582	32	1
Comics	2,218	258	1,360	327	234	38	1
Fashion	2,057	209	1,079	356	363	49	1
Photography	1,764	281	1,116	235	127	5	0
Technology	1,874	98	558	264	576	353	25
Dance	1,458	128	1,177	118	35	0	0
Crafts	633	213	357	37	23	3	0
Journalism	423	75	255	38	52	3	0

Source(s): Company, ABCI Securities

Exhibit 28: Failed projects of Kickstarter

Category	Unsuccessfully Funded Projects	0 Funded	1%~20% Funded	21%~40% Funded	41%~60% Funded	61%~80% Funded	81%~99% Funded
All	99,770	18,624	63,205	11,417	4,319	1,481	724
Film & Video	23,392	4,741	15,071	2,420	795	258	107
Music	14,669	3,381	8,453	1,888	670	207	70
Publishing	13,041	2,854	8,289	1,245	456	146	51
Games	7,668	667	5,316	929	459	178	119
Art	7,368	1,499	4,499	884	332	106	48
Design	5,966	441	3,958	906	409	155	97
Fashion	5,414	1,125	3,390	601	184	74	40
Food	6,078	1,138	3,878	655	268	89	50
Technology	4,792	593	3,359	487	204	83	66
Photography	3,642	840	2,178	428	130	53	13
Theater	2,479	439	1,534	328	120	38	20
Comics	2,234	206	1,459	350	147	53	19
Crafts	1,378	322	811	136	76	20	13
Journalism	984	277	610	65	21	4	7
Dance	665	101	400	95	48	17	4

Source(s): Company, ABCI Securities

Sector outlook and Companies in focus

Sector Outlook: Huge space for growth

1. Market will continue to expand, and the business model will continue to evolve

- China's internet finance has a strong potential as China's financial reform continues
- The Chinese government supports internet finance as a complement to traditional finance
- China's economic growth is rapidly expanding, creating a large base of high net worth investors, and these investors are accustomed to purchasing of financial products
- Sharp increases in micro, small and medium enterprises engender needs for internet finance
- "Broadband China" strategy provides infrastructure and ecosystem support
- Increasing acceptance of online consumption and purchases
- New technological development lead to new business model of internet finance and enhance internet security

2. Both internet companies and traditional financial institutions are propelling progress in internet finance

- Alibaba has connected their users' salary accounts with Alipay and enable instant money transfer from Alipay to Yuebao
- Tencent continues to improve the mobile financial ecosystem, including integration of online and offline savings, payments and investment accounts. Tencent invested in Sino Marketing Co., a wholly subsidiary of SinoPec (0386.HK) with over 30,000 gas stations; these gas stations will generate useful data regarding customers' wealth. This will support development of relevant financial products for Tencent. Crowdsourcing insurance may continue to develop and challenge traditional insurance products.

3. Internet finance to accelerate financial reforms in China

- Credit System Reform: Improved identification through the combination of IT and biotechnology can facilitate the establishment of personal credit record. Individuals may be able to open an account at PBOC directly. If implemented, the existing credit system will be transformed. Through accumulation of big data and technological innovation, personal and organizational credit record can be more readily available, thus improving the credit-check system in the country.
- SME financing will be easier with the development of third-party payment institutions and P2P financial platforms.
- New settlement system: Bitcoin and Ripple (reboxetine currency) have changed the existing billing and settlement system, and provided a new management tool for currency settlement and monitoring system. As the Chinese banks are not as internationalized as the western ones, the Ripple protocol is better suited for the Chinese financial institutions and it is possible that relevant investment will increase in the future.



Industry rating and stock watch

Industry rating: Outperform

We believe the development of mobile internet will expand user base and enhance penetration of internet finance. Convenience of mobile internet, high penetration of smartphones and continuous innovations of mobile apps will generate higher user demand and trigger internet financial activities.

Stock selection: evaluation based on competitive advantages

It is important to understand the basic business models, competitive advantages, costs and risks when evaluating players in the internet finance sector.

i. Pay attention to the market/sector-leaders. The use of internet help eliminate information asymmetry but it also makes high profits less attainable for internet financial companies - only the market/sector leaders with unique resources (such as special licenses, large investor base or attractive projects) will be able to maintain high margins.

ii. Select those that can develop their business at low cost. For most internet companies, the cost of developing P2P and crowdsourcing platforms are still high. The costs of marketing can vary between a hundred to a few hundred yuan per user, much higher than the RMB 25-50 per user in mobile game industry. User retention is limited because it is mostly determined by the returns generated by the financial products. In contrast, companies with large client base such as Tencent and Baidu would have an edge in engaging in this kind of cross-industry development.

iii. Select those can keep their edges amid financial deregulation. The rise in internet finance is highly correlated with PBOC's firm regulation on interest and forex, as well as the unwillingness of traditional financial institutions to provide financial services for SMEs. As the financial reforms deepen in China, competition in the internet finance industry will stiffen. However, internet firms with strong technical capabilities in financial big data or cloud services can maintain their advantages in the fierce competition.

Stock selection

In internet finance industry, online payment is currently the most promising business in China. With the increased use of smartphones, mobile payment will become one of the major payment methods in the near future. Due to the tightening licensing requirement and regulatory controls on third-party payment companies, the entry barrier is becoming higher.

Both the policy and business risks faced by the P2P operators are higher than those in internet payment. In the past, P2P platforms benefited from : 1) capital requirements for traditional banks based on the Basel III agreement; 2) the requirement of non-standardized asset stripping among the Chinese banks and 3) Chinese deposit rates being subject to government control. With the liberalization of interest rate in China, the development of P2P platforms will also change accordingly.

However, due to lower financing costs, high information transparency and simplified procedure of P2P platforms, we believe they would still be welcomed by the small and micro enterprises and continue to be a complement to traditional bank financing. These platforms would also be favored by high-risk investors seeking for high returns. With the IPO of U.S Lending Club, more companies of this nature will follow suit to propose listing.



For the crowdfunding platform, most operate like a group purchasing platform in China. Though equity crowdfunding platforms are becoming more popular, the development is limited by investors and competitiveness of the creative projects. Therefore, only those with large investor basis and/or project basis will develop stably.

In summary, we are keen on three types of companies :

Exhibits 26: Type 1- Internet financial operators with large client base

Company	Internet finance-related business
Tencent (0700 HK)	Third-party payment include mobile payments, mobile banking, internet banking, etc.;
Baidu (BIDU US)	Third-party payment services include mobile payment, mobile banking, financial supermarkets, etc.;
Alibaba (BABA US)	Third-party payment services include mobile payment, financial supermarkets, etc.; actively applying for banking license
Facebook (FB US)	Applying for mobile payment license; recruit management from PayPal
Google (GOOG US)	Launched Google Checkout online payment service, developing ecommerce business; invest in Lending Club and P2P platform
Twitter (TWTR US)	Acquire payment startups CardSpring, achieving online and offline (O2O) payment channels
Amazon (AMZN US)	Started microfinance project <i>Amazon Lending</i> and entered the microfinance market

Source(s): Companies; ABCI Securities

Exhibits 27: Type 2 - Service providers of internet finance companies

Company	Internet finance related business
ChinaSoft INT'L (0354 HK)	Strategic cooperator of Alibaba; provide third-party payment software for Alipay and was the sole all-around service provider under the Ali-Cloud ecosystem
Kingdee INT'L (0268 HK)	Financial software provider benefiting from continuous development of ecommerce and third-party payment
PAX Global (0327 HK)	Manufacturer of POS machine; benefit from expanding digital currency usage and third-party payment
Econtext Asia (1390 HK)	Solutions provider for online payment services and ecommerce in Japan
China Smartpay (8325 HK) Credit China (8207 HK)	Nationwide prepaid card license; vast offline business resources; developing personal financial services platform P2P platform effectively provide short-term financing services in real-estate and auto sectors

Source(s): Companies, ABCI Securities

Exhibits 28: Type 3 - Traditional financial institutions with expanding internet finance business

Company	Internet finance related business
CM Bank (3968 HK)	Internet financial platform, actively cooperate with internet companies and put forward innovative services
CITIC Bank (0988 HK)	Cooperating internet financial business with Alibaba and Tencent
Ping An (2318 HK)	Has the largest P2P & F2F platform in China

Source(s): Companies; ABCI Securities

We believe the following Hong Kong stocks will benefit from the development of internet finance in China:

- Tencent (0700 HK; BUY): Tencent have a steady user flow and strong foundation of mobile payment. With its huge user bases in Weixin /WeChat and mobile QQ, applications such as AA payment and Weixin red envelope would increase its mobile payment market shares.
- China Smartpay (8325 HK; unrated): has a nationwide prepaid payment license (with only 6 licenses being approved in China). Based on this advantage, the company may be able to establish nationwide O2O payment network and obtain large quantities of consumers' data.
- ChinaSoft (0354 HK; BUY) cooperate closely with Alibaba to provide big data migration and system required for third-party payment services. The two announced to jointly provide mobile payment covering 70,000 pharmacies nationwide..
- Ping An (2328 HK; unrated): Ping An successfully integrated P2P and traditional business via Lufax, combining banking, insurance, asset management and private equity financing to create synergies.
- Credit China (8207 HK; unrated): Through self-managed P2P platforms, the company provides short-term financing services in real-estate and auto sectors. Online products are strongly supported by offline businesses and credit-check system.



Industry risk and regulatory controls

Policy risks

1. Currently, there is no official and direct law to regulate internet finance activities and protect investors' benefit. However, in China, some internet finance activities could be easily considered as illegal fundraising, especially if the regulators are not familiar with the innovative fundraising models.
2. Regulator's surveillance on internet finance may escalate, raising costs of operation. The draft regulation documents are expected to be released soon. It is highly possible that PBOC will increase the entry barriers by setting up more stern procedures and/or larger capital requirement.

Our view:

- (1) Limit on payment amount has been established by the government on third-party payment companies, such behavior may not cause too much negative effect on relevant stocks.
- (2) As for more strict registration and the capital requirements, we believe that existing internet companies with a large platform will benefit since the competitors' number will be restricted.
- (3) Tightening regulations of internet payment will raise barriers of entry, benefiting existing licensed operators, too.

Operating risk of internet finance platforms

Platform operators and providers will face the following risks:

1. Poor financial management skills; lack of credit-checking, evaluation and risk control capabilities;
2. Rely on personal relationship for loan approval
3. Maturity mismatch: such mismatch may trigger the incentive of building capital pools, but this could easily violate the fundraising laws in China;
4. Revolving loan (high leverage risk):
 - (a) Allow investors to take the existing debt right as mortgage and finance another loans to gain from the spread
 - (b) Investors borrow from low-interest platform to invest in projects with higher returns

Peer competition

1. Sharp increase in the number of platforms may result in customers borrowing on several platforms.
2. To remain competitive, the platforms would need to offer higher returns to investors while lowering interest rates to attract customers. Margins could be pressured.

Macro economic risks

China's economic restructuring may bring risk to P2P platforms. In particular, deepening financial reform may drive up volatility in interest rate and exchange rate.



Overview of regulations on internet finance

1. China's market: Regulatory standard is yet to mature

At present, Chinese financial regulators for the internet is still in the exploratory stage and rely on industry self-monitoring. The central bank's predominant attitude is:

- Internet finance will complement traditional finance,
- Internet finance should serve the real economy
- Enforce system regulation, classification regulation, synergy regulation and innovation regulation. The key monitoring areas would be on online payment, P2P, online financing, crowdfunding, online fund selling and internet insurance.
- Payment amount is limited; high-value transactions are regulated
- Online financing should be executed between individuals, or individual to micro enterprises. Formation of capital pool is prohibited

2. Hong Kong: Official regulation and industry self-regulation

Hong Kong's regulatory control on retail payment system still follow an informal approach based on the "Code of Practice for Payment Card Scheme operators" (the "Code" was recognized by the HKMA).

Hong Kong Financial Services and the Treasury Bureau and the HKMA are proposing to amend the "Clearing and Settlement Systems Ordinance" to implement the new monitoring system for stored-value payment products and retail payment. A public consultation document was issued on May 22, 2013.

A license will be required from HKMA before any stored-value payment products can be issued in Hong Kong.

Other regulatory controls on internet finance business in Hong Kong include:

- Regulatory controls on financial products and services are determined primarily by the nature of the product or service
- There are no distribution restrictions regarding to activities related to the design and sales of financial products
- Non-bank institutions that provide lending are governed by the Money Lenders Ordinance and shall apply for a lending license
- Internet financing companies would not violate existing laws as long as there is no crowdfunding activities
- In addition to regulation by the HKMA, the internet finance may also be governed by multiple authorities : i) Investment products by the SFC and the Securities and Futures Ordinance; ii) Supervision of insurance products by the Office of the Commissioner of Insurance and the Insurance Companies Ordinance

3. Other countries

United Kingdom: PS14/4, the FCA's regulatory approach to crowdfunding over the internet, and the promotion of non-readily realisable securities by other media

United States: JOBS Act

Exhibit 29: Stock comparison of Hong Kong – listed Chinese internet finance companies (as of Sep. 26)

Code	Company	Price	Mkt Value (mn HKD)	2014E P/E(x)	2015E P/E(x)	2014E PEG	2015E PEG	2014E EPS(HKD)	2015E EPS(HKD)
700 HK Equity-ABCI	Tencent	116.50	1,090,890	34.27	23.87	0.57	0.55	2.66	3.81
700 HK Equity	Tencent	116.50	1,090,890	35.61	26.72	1.06	0.80	2.58	3.44
8325 HK Equity	China Smartpay	1.39	1,346	NA	NA	NA	NA	NA	NA
8207 HK Equity	Credit China	1.66	5,347	49.19	40.24	1.17	0.96	0.03	0.03
354 HK Equity	Chinasoft Int'L	2.61	4,888	20.88	16.06	0.60	0.46	0.10	0.13
268 HK Equity	Kingdee	2.45	6,288	22.53	17.82	NA	NA	0.09	0.11
327 HK Equity	Pax Global	6.55	7,204	15.10	12.33	NA	NA	0.35	0.43
998HK Equity	Citic Bank	4.79	254,377	4.29	3.93	0.24	0.22	0.89	0.97
3968 HK Equity	Cm Bank	13.68	335,892	4.82	4.32	0.62	0.56	2.27	2.53
2328 HK Equity	Ping An	59.60	440,045	10.70	9.29	0.51	0.45	4.46	5.13
1390 HK Equity	Econtext Asia	2.65	1,375	14.62	12.47	NA	NA	0.15	0.17

Source(s): Bloomberg,

Disclosures

Analyst Certification

I, Mark Chen, 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 \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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