



Company Report

Hopefluent (733 HK) – Buy

Real Estate Service Industry

12-month target price: HK\$3.05

Key data

Share price (HK\$)	2.23
Target price (HK\$)	3.05
Upside potential (%)	36.6
52Wk H/L(HK\$)	2.55 / 1.20
Issued shares (mn)	459.3
Market cap (HK\$mn)	1,048
30-day avg turnover (HK\$mn)	2.21
Major shareholder (%):	
Fu Wai Chung	35.70

Source: Company & Bloomberg

Revenue composition in 1H12 (%)

Primary market	62.8
Secondary market	29.2
Property management	8.0

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	0.0	(3.5)
3-mth	(1.3)	(9.9)
6-mth	16.1	12.6

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 24 October 2012

Vivian Li

Tel: (852) 2147 8897

Email: lisailee@abci.com.hk

Stronger growth ahead

Riding on favorable industry trend, we expect Hopefluent, a leading real estate agent to present stronger growth ahead, due to (i) increasing recognition from property developers for the primary property market business, (ii) resuming uptrend for the secondary property market business. We initiate the stock with BUY at TP of HK\$3.05.

Positive on growth potential: We are expecting EPS of the group to grow above 30% p.a. for the coming three financial years, judging by (i) the primary property business to grow by CAGR 19.5% in FY11-14. Such a growth rate far exceeds 4.9% CAGR growth for the industry on strong reputation and diversified client base, (ii) the secondary property market reaching an inflection point, resuming uptrend as the group now has better foresight on predicting turning points and strong adaptability to the dynamic market.

A yield play: The group has a strong track record in dividend payout for the last 6 six financial years except FY08, with (i) DPS of HK\$0.09-plus and (ii) payout ratio of ~20% for FY09 and ~30% for the other 4 financial years. Meanwhile management guides a consistent 30%-plus payout ratio going forward. As we expect that the earnings of the group will be in uptrend, a consistent 30%-plus DPR make us view the group as a yield play among the PRC property industry. The dividend yield of the group is calculated at 5.1% for FY12E, 6.7% for FY13E and 7.8% for FY14E.

Initiating coverage with BUY rating, TP of HK\$3.05: We set out target price for Hopefluent at HK\$3.05, at 8.0x forward PE, which is the mid-cycle mean level. Our TP equates to (i) 54.8% discount to our appraised FY12E NAV, (ii) 1.0x FY12E PB and (iii) 5.1% FY12E dividend yield. Our TP represents a 36.6% upside potential from the current share price of HK\$2.23. Therefore, we initiate coverage of Hopefluent with BUY recommendation.

Risk factors: Lower than expected sales; liquidity risk

Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue (HK\$ mn)	995	1,328	1,611	1,714	2,021
Chg (%YoY)	45.5	33.4	21.3	6.4	17.9
Net Income (HK\$ mn)	126	171	134	178	234
Chg (%YoY)	-267.1	36.6	-21.7	32.7	31.2
EPS (HK\$)	0.424	0.412	0.290	0.381	0.418
Chg (%YoY)	-241.5	-3.0	-29.5	31.1	9.8
DPS(HK\$/share)	0.090	0.150	0.090	0.114	0.150
PE (x)	-	-	7.7	5.9	5.3
PB (x)	-	-	1.0	0.7	0.8
ROAA (%)	16.7	17.0	10.6	11.8	12.9
ROAE (%)	23.1	22.3	13.7	14.6	15.7
Net D/E (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield(%)	-	-	4.0	5.1	6.7

Source: Company, ABCI Securities estimates



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Investment Merits

We are initiating coverage on Hopefluent, a leading national real estate agent, with BUY rating and target price of HK\$3.05. We price the stock at 8.0x forward PE, mid-cycle mean level. Our target price equates to (i) 54.8% discount to our appraised FY12E NAV, (ii) 1.0x FY12E PB and (iii) 5.1% FY12E dividend yield. We believe the group will benefit from favorable industry trend, an industrial specialization in the PRC for the primary property market business. It is expected to secure increasing numbers of new projects from property developers, which will serve as key growth drivers in coming years. For the secondary property market business, although it is more sensitive to downturn in terms of business nature, there is huge growth potential for exploring going forward.

We forecast the combined net profit of the group to hit HK\$178mn in FY12, up 32.7% YoY, and further grow by 31.2% YoY in FY13 and 37.9% YoY in FY14. That is, a stronger upward trend towards bottom line is foreseen. Key investment highlights of the group are as follows,

Primary property market – above industry growth rate

In our opinion, a stronger-than-industry growth rate for the primary property market business is one of the key investment merits for Hopefluent.

We expect that the group will grow its primary property business by CAGR 19.5% in FY11-14. Such a growth rate far exceeds 4.9% CAGR growth for the industry.

We are positive on the outlook of this division, judging by (i) strong reputation. Devoted to the industry for 17 years, Hopefluent has No.1 market share in the home market Guangdong for years, No.1 in Hefei (principal city of Anhui province) in 2011 and one of top 10 agents in Shanghai in 2011 (ii) a strong and diversified client base. Per management they currently have over 500,000 customers, including sizable property developers such as Vanke(000002 A), Evergrande(3333 HK), Poly(600048 A) and Gemdale(600383 A) and KWG(1813 HK). CRL(1109 HK) and Yuexiu(123 HK) are newly added customers recently.

Leveraging on its established brand name and customer base and also thanks to favorable industry trend, we believe the group will gain more recognition from developers and hence secure increasing amount of projects on hand.

Secondary property market – reaching an inflection point

The group has a strong and unique vision for its secondary property market business. They believe this segment will serve as major growth engine when the property markets in the first tier cities become mature. Beijing, Shanghai, Guangzhou and Shenzhen will grow alike to Hong Kong 3-5 years later, in which the secondary property market business becomes the major revenue stream, contributing ~60-80% to the agents' revenue.

Despite of hurting more by curbing measures, we are of view that the secondary property market business is reaching an inflection point, and will resume uptrend from now on.

Tamed by the market, the group now has better foresight on predicting turning points and strong adaptability to the dynamic market, in our view. We

Primary property market business serves as key growth drivers in coming years

Strong market position for primary property market business

*-No.1 in Guangzhou
-No.1 in Hefei
-Top 10 in Shanghai*

Unique angle on secondary property market business

Secondary reaching an inflection point in FY13



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forecast this division will make breakeven in operating level in FY12. Further supported by rebound in transaction value and slowing down in branches opening pace, we expect to see a recovery in operating margin (OP margin) going forward, at 2.9% in FY13 and 10.0% in FY14. As such, the division will generate operating profit (OP) of HK\$15mn in FY13 and HK\$64mn in FY14, representing a strong growth of 100.0% YoY in FY13 and 313.8% YoY in FY14.

A yield play

The group has maintained a consistent dividend payout except FY08 for the last six financial years, with (i) DPS of HK\$0.09-plus and (ii) payout ratio of ~20% for FY09 and ~30% for other four financial years. Meanwhile management guides a consistent 30%-plus dividend payout ratio going forward.

As we hold a strong view that the earnings of the group will be in uptrend, a consistent 30%-plus DPR make us view the group as a yield play among PRC property industry. Based on the latest closing, the dividend yield of the group is calculated at 5.1% for FY12E, 6.7% for FY13E and 7.8% for FY14E.

Strong balance sheet

The group has been in net cash position for FY06-11. It held net cash of HK\$244mn or HK\$0.52/share by end-June. Per our estimations, net cash will further surge to HK\$507 or HK\$1.1/share by end of this year. As most of property developers are haunted by liquidity and/or high leverage issues, strong balance sheet could be a valuable metric of Hopefluent.

Management guides a consistent 30%-plus dividend payout ratio going forward



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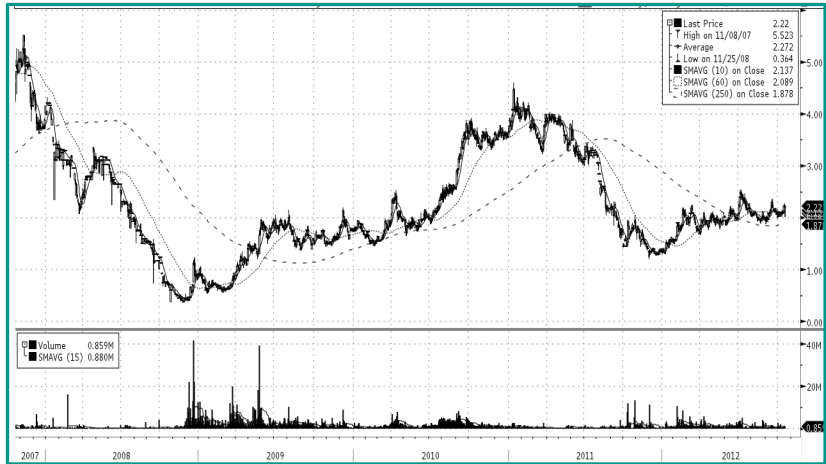
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Hopefluent Group Holdings Ltd.

A Leading National Real Estate Agent

Exhibit: 5-yr share price graph



Source: Bloomberg

Brief introduction

Based in Guangzhou, Hopefluent is one of the top national real estate agent for the primary and secondary property markets in the PRC. It has more than 25 offices serving 100 cities across the nation, besides Guangzhou, including Dongguan, Foshan, Tianjin, Shanghai, Anhui, Hubei, Hunan, Shandong and Guizhou, etc. Guangzhou is the group's home market, where Hopefluent captures approx. 70% market share in the primary property market and approx. 25% in the secondary property market.

Strong customer base:

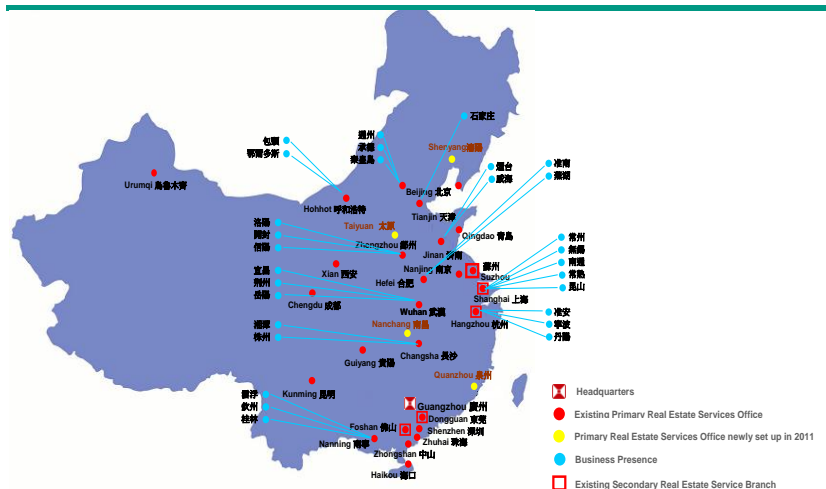
Vanke, Evergrande, Poly Gemdale and KWG

As the partner of leading property developers, such as Vanke, Evergrande, Poly, Gemdale and KWG, Hopefluent provides services ranging from planning of marketing programs and related consultancy services to handling of sales and mortgage arrangements to facilitating exclusive distribution of real estate of projects undertaken. The Groups was founded in 1995 and listed on the Hong Kong Stock Exchange on 15 Jul 2004.

Extensive network:

More than 25 offices serving 100 cities across the nation

Exhibit: Branch networks



Source: Company data; ABCI Securities



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Chairman and Founder, Fu Wai Chung keep increasing its stake

Major shareholders

Mr. Fu Wai Chung (Chairman), founded the group with its family members in 1995. Owning 167.0mn shares or 35.70% of the total share capital, Mr. Fu is the largest shareholder of the group. Mr. Fu has kept buying shares in the secondary market, with the latest purchase at HK\$2.11/share on Oct 12, 2012.

With over 15 years of experience in real estate agency business management and administration in the PRC, Mr. Fu now is responsible for the strategic planning and overall management of the group.

Mutual Fund Populus is the second largest shareholder of Hopefluent, holding 29.2mn shares or 6.35% of the total share capital. Mutual Fund Populus is an independent fund management company, seeking value increases through active portfolio management.

Exhibit: Transaction history of Mutual Fund Populus

Date	% of issued shares after the increasing	Average price/share (HK\$)
10/07/2012	6.35 %	2.450
14/06/2012	7.91 %	2.740
03/04/2012	8.18 %	1.832
03/11/2011	7.00 %	1.792
13/10/2011	6.17 %	1.847
09/08/2011	5.05 %	2.581

Source: HKEX dated by Aug 7 2012



Industry Outlook

We believe that the real estate agencies in the PRC face favorable macro changes,

- **Primary property market is benefiting from industrial specialization**
- **Secondary property market possesses huge potential to explore**

Primary property market – benefiting from industrial specialization

As a result of industrial specialization, real estate agent performs as an increasingly important role in the value chain of property development sector. This is an irreversible trend, which has already happened in developed areas such as US, Europe and HK.

Increasing numbers of Chinese developers choose real estate agencies to do marketing and sales work, particularly for the sizeable Joint Venture projects. For the 16 developers in our statistics pool, except for Sunac, all the other 15 use third party agents as the main sales strength instead of own sales force. Property developers themselves concentrate resources on positioning, land selection and property devolvement. This is more common among top developers such as Vanke, Poly, Gemdale, Evergrande and China Overseas.

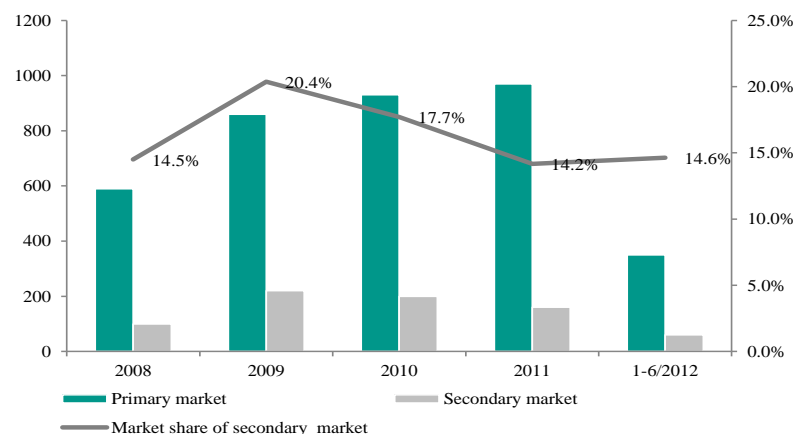
With competition becomes more intensive, developers need to focus on specialization. Real estate agencies are set to benefit from this industry trend. Securing increasing numbers of new projects from property developers are their key growth drivers in coming years.

Secondary property market – huge potential to explore

Small market share from a national perspective

Unlike mature markets, the secondary property market in the PRC is at the very beginning stage. Per CEIC, the transaction area of secondary property market accounted for ~16% of the total transaction area from 2008-Jun 2012. Compared to developed areas, secondary property market in China is far from mature. Taking HK as an example, the transaction area of secondary property market accounted for ~80% of the total transaction area.

Exhibit: share of the secondary property market in the PRC



Source: CEIC; ABCI Securities



Bigger market share in eastern China and even higher in top cities

As for relative prosperous regions in the nation, such as eastern China and top cities, the situation is quite different. The secondary property market plays a bigger role given scarcity for land supply, particularly in the core locations. According to CEIC, for sample cities in eastern China, on average, the secondary market transaction occupied 36% of total market share during 2010-Jun 2012, followed by 25% in central China and 21% for western China. In terms of 1st tier cities, the percentages are even higher. For the same period, the secondary market transaction occupied avg. 49% of total market share in the four cities, Beijing, Shanghai, Guangzhou and Shenzhen, against the nation's 17%. In addition the secondary market transaction in the above four cities represented 20% of China's total secondary market transaction. This could be one of representatives of imbalance development in China while this imbalance is generating huge opportunities for real estate agencies to explore. Second-hand home transaction, we believe, will play a dominant position in upcoming 3-5 years in these regions.

Exhibit: share of the secondary property market among different regions

	Sample cities in eastern China	Sample cities in central China	Sample cities in western China
2010	57%	23%	9%
2011	47%	17%	9%
1-6/2012	44%	17%	9%
Avg.	36%	25%	21%

Source: CEIC; ABCI Securities

Exhibit: share of the secondary property market among different cities

	Nation	40 mid-large cities		
		1st tier cities	2st tier cities	Others
2010	17%	57%	23%	9%
2011	17%	47%	17%	9%
1-6/2012	17%	44%	17%	9%
Avg.	17%	49%	19%	9%

Source: CEIC; ABCI Securities

More sensitive to downturn

Compared to the property developers, the owners of second-hand properties have less cash flow constraint and their willingness to sell is more driven by profitability. Hence, secondary property market is more susceptible to the appalling market.

Referring to the above set of figures, the sales of second-hand properties were hit harder in 2008, when financial crisis broke out. Their market share shrank to 14.5% subsequently. However, stimulated by stimulus package in China, this segment witnessed a stronger V-shape rebound in 2009 with the market share jumping to 20.4%. In 2011, again, the sales suffered more from the introduction of Home Purchase Restriction and therefore, its market share dropped sharply to below 14.2%.

For the agents engaged in the second property market business, the key to differentiate is flexibility, that is, a brave cut in branches and staff in downturn and timely expansion ahead of booming market.

Company Business Analysis

The group has three business segments. Contributing to 62.8% of total revenue in 1H12, the primary property real estate agency service serves as major revenue stream. The secondary property real estate agency service contributed to 29.2% of total revenue in 1H12 and property management business took the remaining 8.0%. For the revenue bases, we would like to highlight three points,

- **Primary property market will present above industry growth**
- **Secondary property market – reaching an inflection point**
- **New value-added service, mortgage referral businesses and online services will be launched for growth**

Primary property market – above industry growth rate

In our opinion, a stronger-than-industry growth rate for the primary property market business is one of the key investment merits for Hopefluent. We believe the group is able to expand its market share and secure more projects on hand in future. An established brand name, strong and diversified customer base and favorable industry trend are major reasons led to our conclusion.

A nationwide market leader

Devoted to the industry for 17 years, the group has No.1 market share in the home market Guangdong for years, NO.1 in Hefei (principal city of Anhui province) in 2011 and Top 10 in Shanghai in 2011.

A geographical breakthrough was a milestone for the group. Starting in 2001, Hopefluent has been progressively expanding its nationwide footprint through solid cooperation with Guangzhou-based developers. In 2011, revenue generated from outside Guangzhou constituted 52% of total revenue (51% for 1H12), surging from 9% in 2001.

Strong market position for primary property market business

*-No.1 in Guangzhou
-No.1 in Hefei
-Top 10 in Shanghai*

Exhibit: major large-scale residential real estate projects handled

Guangzhou	Non-Guangzhou	Non-Guangzhou
Riviera 天銮	Evergrande City (Anhui) 恒大城 (安徽)	Pudong Star River (Shanghai) 上海浦东星河湾 (上海)
Asian Game City 亚运城	Citic Lake (Foshan) 中信山语湖 (佛山)	Shanghai Industrial Sea Melody (Dali) 上实洱海庄园 (大理)
Vanke Nobilissima 万科红郡	Gemdale Bund Eighth (Dongguan) 金地外滩 8 号 (东莞)	Poly Upper River (Tianjin) 保利上河雅颂 (天津)
City of Poly 保利城	COLY Dragon Bay (Zhongshan) 中海龙湾国际 (中山)	Skyfame City (Guizhou) 天誉城 (贵州)
Agile Cambridgeshire 雅居乐剑桥郡	Times Eolia City (Zhuhai) 时代山湖海 (珠海)	Danyang Evergrande Metropolis (Jiangsu) 丹阳恒大名都 (江苏)
Central Park-View 凯旋新世界	Kaiser Metro City (Shenzhen) 佳兆业大都汇 (深圳)	Times King City (Hunan) 时代倾城 (湖南)
Parc Oasis 瑞安创逸花园	Midea City (Zhuzhou) 美的城 (株洲)	Imperial Commercial Centre (Shaanxi) 皇城壹号商场 (陕西)
Star River Peninsula 星河湾海怡半岛	The Lakedale (Chengdu) 东骏湖景湾 (成都)	The Central (Changsha) 华远·华中心 (长沙)
International Creative Valley 合景科汇金谷	Evergrande Splendor (Kunming) 恒大金碧天下 (昆明)	Million Mall (Shandong) 万象城 (山东)

Source: Company data; ABCI Securities



With strong and diversified client base

The group currently has over 500,000 customers per management, including sizable property developers such as Vanke, Evergrande, Poly, Gemdale and KWG. CRL and Yuexiu are newly added customers recently. With strong branding in this field, Hopefluent has been gaining more recognition from the property developers. The group is the exclusive sales agent of well-known projects, including Riviera, Asian Game City, Vanke Nobilisima, Evergrande City (Anhui) and COLY Dragon Bay.

Strong earnings driver

We witnessed a strong growth for sales amount of projects on hand for the group, which grew at CAGR 25.3% for 2007-11, and is estimated to further expand at CAGR15.0% for 2011-14. In the past five years the group handled over 1,000 projects and by end-Jun it possesses 435 projects or ~ Rmb500bn sales amount on hand.

Secured increasing amount of projects is the key growth driver in coming years. We expect this will bring in CAGR 19.5% for primary property sales in FY11-14. Such a growth rate far exceeds 4.9% CAGR growth for the industry.

Exhibit: Operational statistics

	2007	2008	2009	2010	2011	1H12
Primary property real estate agency revenue(HK\$m)	251	375	342	494	763	496
No. of projects	127	180	250	308	356	435
Total saleable GFA(mn sq.m.)	2.7	3.4	3.5	4.7	7.0	5.6
ASP/unit(HK\$/sq.m.)	7,593	9,321	8,646	10,581	10,689	9,228
Total transaction value(HK\$m)	20244	31,951	30,202	50,232	75,040	52,046
No. of transactions	28,800	32,900	36,000	51,000	70,050	54,164
Revenue/transaction(HK\$)	8,726	11,395	9,498	9,687	10,889	9,166
No. of staff	2,300	2,200	2,500	3,900	5,600	5,600
Growth rate(YoY)						
Primary property real estate agency revenue	49%	-9%	44%	54%	27%	13%
No. of projects	42%	39%	23%	16%	24%	20%
Total transaction value	58%	-5%	66%	49%	26%	25%

Source: Company data; ABCI Securities

Unique angle on secondary property market business

Secondary property market – reaching an inflection point

Future growth engine

The group has a strong and unique vision for its secondary property market business. Management believe this division will become major growth engine when the property markets in the first tier cities are mature. Beijing, Shanghai, Guangzhou and Shenzhen will grow alike to Hong Kong 3-5 years later, in which the secondary property market business becomes the major revenue stream, contributing ~60-80% to the agents' revenue.

Volatile business nature

Yes, we agree that secondary property market possesses huge potential to explore, while this segment is quite volatile given its sensitiveness to the industry cycle. As such, in 2008 the secondary property real estate service of the group suffered most from market downturn which dropped 17.4% YoY to Rmb274mn and registered a deep operating loss at Rmb101mn(OP margin at -36.7%). However, the volatile business nature also enables the group enjoy a strong V-shape rebound when market resumed uptrend. In FY09, the revenue of this segment registered a 52.3% YoY growth to Rmb418mn with sweet OP



at Rmb62mn (OP margin hit 14.9%).

Secondary reaching an inflection point in FY13

Reaching an inflection point

In our view, the secondary property market business is reaching an inflection point. In FY12, we forecast this segment will make a breakeven in operating and resume uptrend in FY13.

Our views are based on the two effective strategies implemented by the group, i) cut or shift secondary property market workforce to the primary market, secondary property market workforce was trimmed by 15.6% to 3800 in 2011, and further scaled back by 5.3% to 3600 by the end-Jun, ii) brave cut in loss-making branches, rearranged the locations and scale of the branches. Number of branches remained 362 in 2011, but per management they have rearranged the locations and scale of the branches, and they will close down around 10 branches by end-12.

Tamed by the market, we believe the group now has better foresight on predicting turning points and strong adaptability to the dynamic market. The learning curve is set to smooth the volatility of the secondary property market business.

Exhibit: Operational statistics

	2007	2008	2009	2010	2011	1H12
Secondary property real estate agency revenue(HK\$m)	332	274	418	457	511	231
No.of branches	350	260	285	350	362	362
No. of transactions(including rental transactions)	33,500	35,100	40,700	50,120	51,260	17,640
Average no. of transactions per branch	96	103	142	143	142	49
No.of staff	4,400	2,500	3,400	4,500	3,800	3600
Growth rate(YoY)						
Primary property real estate agency revenue	109%	-17%	52%	9%	12%	-6%

Source: Company data; ABCI Securities

Value-added services to launch

To solidify its market share and seek for new growth, the group is prepared to launch value-added service. Amount of HK\$218.4mn was raised this Aug by issuing exchangeable bond due 2015 with exercise price at HK\$2.40. This will be used to finance its mortgage referral business and online services, per management.

Currently, property sellers must settle down their mortgage before selling the property, mortgage referral is a service providing such bridging loan, lending to sellers in the secondary property market to pay back their bank loans before the re-sale. This business will be a great value-added service for improving secondary property market transaction. On the other hand, it is expected to bring in attractive profitability for the group, with interest rate at ~10-15% p.a. for HK\$30mn initial injected capital.

There are around 6-7 licenses holders in Guangzhou. One of its primary property real estate agency competitors, Shenzhen World Union Properties (002285 A) also conducts this business. The group is in the process of applying for the license and the business is expected to commence full operation in 2013, per management.

In terms of on-line services business, it is in initial planning period while a great partner, the largest on-line travel agency in China, Ctrip(CTRP US) has been identified. They will together build a portal, focusing on Guangzhou

secondary market. Potential clients 80's, who are main users of internet and on-line purchasers, are expected to be the target customers of this portal. Leverage on this, Hopefluent may reduce its reliance on current sales channels and hence trim its fixed cost, further reducing volatility of this business.

Guangzhou market – good exposure to stabilize revenue base

Guangzhou market continues to contribute a big part of total revenue for the group, at 48% in 2011(49% in 1H12). We regard this is a good exposure in terms of stabilizing the revenue base. Compared to other three top cities, Beijing, Shanghai and Shenzhen, the property market in Guangzhou is the healthiest one in our view.

More end-user exposure, less impacted by policy

Owner-occupation constituted the mainstream demand in Guangzhou, our conclusion is based on the fact that affordability there is the lowest among the four top cities.

We use home value/ household disposal income to examine affordability ratios with major assumptions of GFA at 70sq.m. and 2 labors per household. Our 2012 affordability ratio calculations are as follows: Beijing; 20.9x, Shanghai: 19.8x, Guangzhou; 13.0x and Shenzhen: 20.9x.

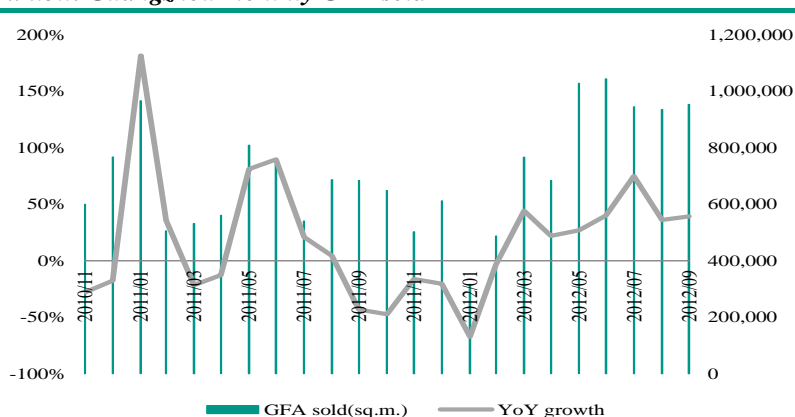
Exhibit: Affordability ratio examination

	Home ASP Rmb/sqm	Home value Rmb/mn	Disposal income/household	Affordability
Beijing	21,726	1.5	71,846	20.9
Shanghai	22,283	1.6	80,773	19.8
Guangzhou	14,434	1.0	76,797	13.0
Shenzhen	24,224	1.7	81,406	20.9

Source: Wind; ABCI Securities

The more affordable home in Guangzhou would mean that the market is less impacted by the curbing policy. Per Wind data, the GFA sold in Guangzhou, has picked up since Mar and stabilized at 0.9-1mn sq.m. during the past 6 months. We expect to see a continuously steady release of genuine demand in this area, which providing a strong cushion for the group in the market downturn.

Exhibit: Guangzhou monthly GFA sold



Source: CEIC; ABCI Securities

Financials Review and Earnings Outlook

Based on our analysis of its historical financials and our forecast, we draw three major conclusions towards the financial aspect of the group,

- **Strong balance sheet**
- **A yield play**
- **Earnings with double-digit growth, in strong upward trend**

Strong balance sheet

The group has been in net cash position for FY06-11. It held net cash of HK\$244mn or HK\$0.52/share by end-June. Per our estimations, net cash will further surge to HK\$507 or HK\$1.1/share by end of this year. As most of property developers are haunted by liquidity and/or high leverage issues, strong balance sheet could be a valuable metric of Hopefluent.

Exhibit: Liquidity glance

	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash balance in BS	210	253	156	338	397	330	573	452	672
Total debt	8	8	68	60	40	53	40	50	60
Net cash/(debt) in BS	203	245	88	278	356	276	533	402	612
Current ratio	3.01	3.87	3.01	2.92	3.22	3.48	4.60	4.47	4.55
Net cash/share(HK\$/share)	0.91	0.99	0.35	0.94	0.86	0.60	1.14	0.72	1.10
L/A	24.3%	21.8%	26.9%	26.3%	21.6%	20.0%	16.4%	16.8%	16.7%

Source: Company data; ABCI Securities

A yield play

The group has maintained a consistent dividend payout except FY08 for the last six financial years, with (i) DPS of HK\$0.09-plus and (ii) payout ratio of ~20% for FY09 and ~30% for other four financial years. Meanwhile management guides a consistent 30%-plus dividend payout ratio going forward.

As we hold a strong view that the earnings of the group will be in uptrend, a consistent 30%-plus DPR make us view the group as a yield play among PRC property industry. Based on the latest closing, the dividend yield of the group is calculated at 5.1% for FY12E, 6.7% for FY13E and 7.8% for FY14E.

Exhibit: Dividend glance

	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Net profit(HK\$m)	79	118	(79)	128	176	135	179	209	287
FY dividend(HK\$m)	27	36	-	27	56	42	53	62	86
Interim(HK\$m)	10	14	-	-	14	16	-	-	-
Final(HK\$m)	17	22	-	27	42	25	53	62	86
FY DPS(HK\$/share)	0.115	0.145	0.000	0.090	0.150	0.090	0.114	0.133	0.153
Dividend payout ratio	34.3%	30.3%	0.0%	20.8%	31.7%	30.8%	30%	30%	30%
Dividend yield	-	-	-	-	-	4.0%	5.1%	6.7%	7.8%

Source: Company data; ABCI Securities

Earnings with double-digit growth, in strong upward trend

We forecast the combined net profit of the group to hit HK\$178mn in FY12, up 32.7% YoY, and further grow by 31.2% YoY in FY13 and 37.9% YoY in



FY14. That is, a strong upward trend towards bottom line is projected.

Primary continues to be the major profit and growth driver

Primary property market business

Driven by surging number of secured projects and hence sales value, we forecast that the division will generate revenue of HK\$1,091mn in FY12 (HK\$496mn in 1H FY12), up 12.9% YoY. Revenue is expected to further grow by 23.5% YoY in FY13 and 22.4% YoY in FY14.

Compared to history, we expect to see a better OP margin in FY12, at 24.0% (25.7% in 1H FY12) given the group are more capable in running its business and slowing down in geographical expansion. As such, the division will generate OP of HK\$262mn in FY12 (HK\$127mn in 1H FY12), up 34.7% YoY. For the coming FY13-14, OP margin is expected to stabilize at FY12 level. And, OP is expected to grow by 23.5% YoY in FY13E and further 22.4% YoY in FY14E.

Secondary property market business

Secondary reaching an inflection point in FY13

Dragged by lackluster transaction in secondary property market which is hurt more by sector-wide curbing measures, we forecast that the division will generate revenue of HK\$485mn in FY12 (HK\$231mn in 1H FY12), down 5% YoY. Revenue is expected to rebound by 10.0% YoY in FY13 and 20.0% YoY in FY14.

On the back of above-mentioned strategies, we forecast this segment will make breakeven in operating level in FY12. Further supported by rebound in transaction value and slowing down in branches opening pace, we expect to see a recovery in OP margin going forward, at 2.9% in FY13 and 10.0% in FY14. As such, the division will generate OP of HK\$15mn in FY13 and HK\$64mn in FY14, representing a strong growth of 100% YoY in FY13 and 313.8% YoY in FY14. Therefore, we are of view that the secondary market business is reaching an inflection point, and will resume uptrend from now on.

Property management business

Mild growth for property management business

In view of relatively stable customer base and limited upside for managing fee, we forecast this division will present mild growth in terms of both revenue and OP.

For FY12, we forecast that the division will generate revenue of HK\$138mn (HK\$64mn in 1H FY12), up 2.5% YoY. Revenue is expected to grow by 2.0% YoY in FY13 and 3.0% YoY in FY14.

With stable of 1.8% OP margin, we forecast that the division will generate OP of HK\$2mn in FY12 (HK\$1mn in 1H FY12), up 13.2% YoY. OP is expected to grow by 2.0% YoY in FY13 and 3.0% YoY in FY14.

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Hopefluent Group Holdings Ltd.**Exhibit: Segment revenue**

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Total revenue(HK\$mn)	774	684	995	1,328	1,611	1,714	2,021	2,435
Primary property real estate agency	375	342	494	763	966	1,091	1,348	1,650
Secondary property real estate agency	332	274	418	457	511	485	534	640
Property management	67	68	84	108	134	138	140	145
Composition								
Primary property real estate agency	48.4%	50.0%	49.6%	57.4%	60.0%	63.7%	66.7%	67.8%
Secondary property real estate agency	42.9%	40.1%	42.0%	34.4%	31.7%	28.3%	26.4%	26.3%
Property management	8.6%	9.9%	8.4%	8.1%	8.3%	8.0%	6.9%	5.9%
Growth(YoY)								
Total revenue	71.2%	-11.6%	45.5%	33.4%	21.3%	6.4%	17.9%	20.5%
Primary property real estate agency	49.2%	-8.8%	44.5%	54.4%	26.7%	12.9%	23.5%	22.4%
Secondary property real estate agency	109.4%	-17.4%	52.3%	9.4%	11.7%	-5.0%	10.0%	20.0%
Property management	57.8%	1.8%	23.5%	28.9%	24.4%	2.5%	2.0%	3.0%

Source: Company data; ABCI Securities

Exhibit: Segment operating profit

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Total OP(HK\$mn)	(62)	181	268	211	264	341	463
Primary property real estate agency	41	122	220	194	262	323	396
Secondary property real estate agency	(101)	62	48	15	-	15	64
Property management	(3)	(3)	1	2	2	3	3
Operating profit margin							
Total	-9.1%	18.2%	20.2%	13.1%	15.4%	16.9%	19.0%
Primary property real estate agency	12.0%	24.7%	28.8%	20.1%	24.0%	24.0%	24.0%
Secondary property real estate agency	-36.7%	14.9%	10.4%	2.9%	0.0%	2.9%	10.0%
Property management	-4.1%	-3.1%	0.5%	1.6%	1.8%	1.8%	1.8%
Composition							
Primary property real estate agency		67.2%	82.1%	92.0%	99.1%	94.7%	85.6%
Secondary property real estate agency		34.2%	17.7%	6.9%	0.0%	4.5%	13.8%
Property management		-1.5%	0.2%	1.0%	0.9%	0.7%	0.6%
Growth(YoY)							
Total OP			47.8%	-21.2%	25.1%	29.1%	35.5%
Primary property real estate agency			80.3%	-11.6%	34.7%	23.5%	22.4%
Secondary property real estate agency			-23.4%	-69.2%	-100.0%	+100.0%	313.8%
Property management			-121.2%	292.1%	13.2%	2.0%	3.0%

Source: Company data; ABCI Securities

Peer Group Profitability Comparison

We identify three major listing companies as peer group of Hopefluent, which are E-house, Shenzhen World Union Properties and SYSWIN. They are all engaged in primary property market business in China. However, as high value-added service, consultancy business contributing a bigger part of Shenzhen World Union Properties, we render E-house and SYSWIN are more directly comparable to the group.

Exhibit: Profitability of peers group

		FY09	FY10	FY11	CAGR (FY09-11)
733 HK Equity	Revenue (HK\$ mn)	995	1,328	1,611	27.2%
HOPEFLUENT GROUP	Operating profit (HK\$ mn)	171	256	187	4.4%
合富輝煌	Net income (HK\$ mn)	126	171	134	3.4%
	EPS (HK\$)	0.321	0.415	0.293	
	<i>Operating margin(%)</i>	17.2	19.3	11.6	
	<i>Net margin(%)</i>	12.6	12.9	8.3	
	<i>ROAA (%)</i>	16.7	17.0	10.6	
	<i>ROAE (%)</i>	23.1	22.3	13.7	
EJ US Equity	Revenue (US\$ mn)	300	357	402	15.8%
E-HOUSE CHIN-ADS	Gross profit (US\$ mn)	103	53	(48)	N/A
易居中国控股有限公司	Net income (US\$ mn)	100	36	(270)	N/A
	EPS (US\$)	1.260	0.450	(3.390)	
	<i>Operating margin(%)</i>	34.5	14.9	(12.0)	
	<i>Net margin(%)</i>	33.5	10.1	(67.3)	
	<i>ROAA (%)</i>	10.1	2.4	(20.0)	
	<i>ROAE (%)</i>	15.9	4.1	(35.2)	
SYSW US Equity	Revenue (Rmb mn)	433	629	595	17.2%
SYSWIN INC-ADS	Gross profit (Rmb mn)	217	280	30	(62.5%)
思源	Net income (Rmb mn)	152	190	8	(77.8%)
	EPS (Rmb)	0.980	4.770	0.040	
	<i>Operating margin(%)</i>	50.1	44.5	5.1	
	<i>Net margin(%)</i>	35.2	30.1	1.3	
	<i>ROAA (%)</i>	34.6	23.3	0.7	
	<i>ROAE (%)</i>	50.3	29.5	0.9	
002285 CH Equity	Revenue (Rmb mn)	484	698	1,202	57.5%
SHENZHEN WORLD-A	Gross profit (Rmb mn)	116	189	299	60.8%
世联地产	Net income (Rmb mn)	66	151	242	90.9%
	EPS (Rmb)	0.271	0.553	0.740	
	<i>Operating margin(%)</i>	23.8	27.1	24.8	
	<i>Net margin(%)</i>	13.7	21.6	20.1	
	<i>ROAA (%)</i>	19.7	19.2	17.3	
	<i>ROAE (%)</i>	34.0	24.7	22.2	

Source: Company data; Bloomberg; ABCI Securities

A stronger growth on revenue in FY09-11

The revenue of the group grew at CAGR of 27.2% in FY09-11, higher than 15.8% for E-house and 17.2% for SYSWIN. Thanks to its strong branding, the group has been able to expand its market shares.

A moderate profitability

The return of average equity ("ROAE") of the Group was at 13.7% in FY12, higher than -35.2% for E-house and 0.9% for SYSWIN. But it was lower than these two peers in FY09-10. We expect that the group is achieving higher ROAE by boosting up asset turnover.



Valuation and Sensitivity Analysis

DCF valuation

We appraise the equity value of the group by using the discounted cash flow method. According to our estimates, the projected FY12E net asset value (NAV) of Hopefluent is HK\$3,155mn, or HK\$6.74/share. The current share price of HK\$2.23 represents a 66.9% of discount to our appraised NAV.

Based on the historical trading pattern, we adopt mid-cycle mean PE level of 8.0x to derive our 12-mth target price, at HK\$3.05. Our target price represents (i) 54.8% discount to our appraised FY12E NAV (ii) 1.0x FY12E PB and (iii) 5.1% FY12E dividend yield. Given a 36.6% upside potential, we initiate coverage on Hopefluent with a BUY rating.

Exhibit: DCF valuation

Yr to Dec 31 (HK\$mn)	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	302	385	515	556	601	649	668	688	709
Chg in WC	(58)	(221)	8	9	9	10	10	11	11
Tax paid	(60)	(78)	(108)	(117)	(126)	(136)	(140)	(144)	(149)
CAPEX	(100)	(120)	(130)	(100)	(100)	(300)	(100)	(100)	(100)
Free cash flow	84	(34)	285	348	384	223	439	455	471
Terminal value									3,634
Free cash flow	(21)	356	394	(21)	356	394	(21)	356	394
Terminal value									3,196
PV of free cash flow	75	(27)	200	217	213	110	192	177	163
PV of terminal value									1,331
Total PV	2,652								
Less: Net debt	533								
Less: MI	(29)								
PV of equity	3,155								
Share value(HK\$)	6.74								

Source: ABCI Securities estimates

Exhibit: PE band chart



Note: we use 4-yr average EPS to smooth the volatility

Source: Bloomberg and ABCI Securities



Peer compassion

Compared to both of domestic and international peers, we believe our 8.0x FY12E PE valuation is quite conservative, which is located in the lower end of PE range of peers. Based on the Bloomberg data, the group's domestic peers are valued at 8.1-16.8x FY12E PE while its international peers are valued at 10.6-13.0x FY12E PE.

Exhibit: Market valuation comparison

Ticker	Stock name	Currency	Price	FY2011 PE(x)	FY2012 PE(x)	Historical PB(x)
733 HK Equity	HOPEFLUENT GROUP	HK\$	2.23	7.7	5.9	1.0
Domestic peers						
EJ US Equity	E-HOUSE CHIN-ADS	US\$	4.02	27.2	8.1	0.6
SYSW US Equity	SYSWIN INC-ADS	US\$	1.85	14.0	9.6	0.7
002285 CH Equity	SHENZHEN WORLD-A	Rmb	11.37	17.9	16.8	2.8
International peers						
1200 HK Equity	MIDLAND HOLDINGS	HK\$	4.44	12.9	10.6	2.0
CBG US Equity	CBRE GROUP INC-A	US\$	19.31	15.8	13.0	5.1
JLL US Equity	JONES LANG LASAL	US\$	77.10	14.1	12.0	1.9

Source: Bloomberg and ABCI Securities

Major assumption and sensitivity analysis

Our NAV is derived using DCF method, which can vary substantially depending on assumed discount rate. In our base case, we apply a discount rate of 12.51% based on our WACC calculation. Our assumptions on discount rate are as followings: 1.4% risk free rate (HK), 12.0% risk premium (HK), trading beta 1.1x (Hopefluent), cost of Equity of 13.2% (CAPM), cost of debt at (8.0%), debt/asset of 10 % (target). Our other major assumptions are that the group will grow asset by 8.0% p.a. for 2015-17 and 3.0% p.a. for 2017-20 and the terminal growth rate is assumed at 2.0% p.a.

Exhibit: Major assumptions

WACC	12.51%
Growth (2015-2017)	8.0%
Growth (2017-2020)	3.0%
Terminal growth rate	2.0%
Risk-free rate (10-year HK government bond yield)	1.4%
Hong Kong market return rate	12.0%
Trading Beta	1.1
D/A	10%
Cost of equity	13.2%
Cost of debt	8%
Tax rate	25%

Source: Bloomberg, ABCI Securities estimates

WACC may change due to interest rate and market return fluctuations. In our best case, we apply an 11.51% discount rate in our DCF valuation, and our appraised NAV is therefore at 9.6% higher than our base case. In our worst case, we apply a 13.51% discount rate in our DCF valuation, and our appraised NAV is therefore at 8.2% lower than our base case. In conclusion, our NAV ranges from HK\$6.19-7.39 on discount assumptions. We don't



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consider our NAV estimates as highly sensitive to such assumptions. Therefore, we consider our valuation methodology fair and reasonable.



Risk Factors

Economy risk

Fundamentally, the group is exposed principally to the residential property market in the PRC, for which the most downside risk should be economy and policy related.

In terms of economic risk, any weaker-than-expected GDP growth for the Chinese and and/or global economy, particularly the risk of hard landing in the domestic economy could dampen home buyers sentiment and/or negatively impact purchasing power of home buyers. Our forecast will therefore be negatively impacted.

In addition, a stronger-than-expected pickup in inflation could result in mounting pressures in interest rate, affecting affordability and increasing the financial burden of the group.

Policy risk

On the policy front, any further tightening measures with regard to mortgage applications and approvals, down payment, mortgage rate, related tax and HPR for buyers as well as property pre-sales, credit availability, lending rate and project financing for developers could adversely affect our forecast, as for new tightening moves such as property tax.

On the positive side, a larger-than-expected credit loosening may boost up volume rebound and positively impact our forecast.

Specific regional risk

With high business exposure in Guangzhou, the group is exposed specific economy, policy and/or other kinds special risk related to the city.

Business risk

Faster than expected opening in branches and/or expansion into new cities may expose the group business risk, that is, the group may not identify right timing for expansion. Also, fixed cost of new branches in the initial period will drag down overall profit growth in the near term.

Liquidity risk: Characterized by small-cap list co (market cap at HK\$1.0bn), Hopefluent is subject to liquidity risk. The average daily turnover was at HK\$2.2mn over the past 30 trading days.



Profit Forecast

Consolidated income statements

For the year ended 31/12(HK\$mnn)	2009	2010	2011	2012E	2013E	2014E
Turnover	995	1,328	1,611	1,714	2,021	2,435
Primary property real estate agency	494	763	966	1,091	1,348	1,650
Secondary property real estate agency	418	457	511	485	534	640
Property management	84	108	134	138	140	145
Operating profit	181	268	211	264	341	463
Primary property real estate agency	122	220	194	262	323	396
Secondary property real estate agency	62	48	15	-	15	64
Property management	(3)	1	2	2	3	3
Other income	11	5	7	6	6	6
Central administrative costs	(21)	(15)	(28)	(28)	(30)	(32)
Share of losses of an associate	-	-	(1)	(1)	(1)	(1)
Finance costs	(3)	(3)	(3)	(2)	(3)	(4)
Profit before tax	168	255	185	238	313	432
Income tax expense	(40)	(79)	(50)	(60)	(78)	(108)
Profit for the year	128	176	135	179	235	324
Owners of the Company	126	171	134	178	234	322
Non-controlling interests	3	5	1	1	1	1
FD EPS(HK\$)	0.424	0.412	0.290	0.381	0.418	0.577
Chg(YoY)		-3.0%	-29.5%	31.1%	9.8%	37.9%
PE(x)	5.3	5.4	7.7	5.9	5.3	3.9
Target price/EPS(x)	7.2	7.4	10.5	8.0	7.3	5.3
DPS(HK\$)	0.090	0.150	0.090	0.114	0.150	0.173
Dividend yield	-	-	4.0%	5.1%	6.7%	7.8%

Source: company data and ABCI Securities estimates

Financial ratios

	2009	2010	2011	2012E	2013E	2014E
Profitability						
OP margin	18.2%	20.2%	13.1%	15.4%	16.9%	19.0%
Primary property real estate agency	24.7%	28.8%	20.1%	24.0%	24.0%	24.0%
Secondary property real estate agency	14.9%	10.4%	2.9%	0.0%	2.9%	10.0%
Property management	-3.1%	0.5%	1.6%	1.8%	1.8%	1.8%
Net profit margin	12.9%	13.3%	8.4%	10.4%	11.6%	13.3%
ROAA	16.7%	17.0%	10.6%	11.8%	12.9%	15.6%
ROAE	23.1%	22.3%	13.7%	14.6%	15.7%	18.9%
Efficiency ratio						
Asset turnover	129.4%	128.0%	126.3%	112.6%	111.5%	117.4%
Liquidity						
Current ratio	2.9	3.2	3.5	4.6	4.6	4.7
Equity/ Assets	74%	78%	80%	84%	84%	84%
Net Debt/ Total Equity	-44%	-38%	-26%	-37%	-28%	-35%

Source: company data and ABCI Securities estimates

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Consolidated balance sheets

As of 31/12(HK\$m)	2009	2010	2011	2012E	2013E	2014E
Fixed Assets	260	439	491	530	581	631
Investment properties	25	33	34	34	34	34
Property, plant and equipment	219	253	299	339	391	443
Others	15	5	16	16	153	158
Current Assets	604	772	849	1,174	1,341	1,595
Accounts receivables	201	307	468	551	796	827
Other receivables and prepayment	55	67	51	50	52	55
Held for trading investments	10	1	0	-	-	-
Bank balances and cash	338	397	330	573	492	714
Total Assets	864	1,210	1,340	1,704	1,921	2,226
Current Liabilities	207	240	244	255	291	342
Payables and accruals	97	135	127	152	177	219
Tax liabilities	50	64	64	64	64	64
Bank borrowings	60	40	53	40	50	60
Long Term Liabilities	20	22	24	24	24	24
Bank borrowings – due after one year	-	-	-	-	-	-
Deferred tax liabilities	20	22	24	24	24	24
Total Liabilities	227	261	268	279	315	367
Total Equity	637	949	1,072	1,425	1,606	1,860
Equity attributable to owners of the Company	615	924	1,043	1,395	1,576	1,828
Non-controlling interests	21	26	29	29	30	32
Net cash	278	356	276	533	442	654
Current ratio	2.9	3.2	3.5	4.6	4.6	4.7
L/A	26.3%	21.6%	20.0%	16.4%	16.4%	16.5%
Net cash/share(HK\$/share)	0.9	0.9	0.6	1.1	0.8	1.2
BVPS(HK\$)	2.1	2.2	2.3	3.0	2.8	3.3
P/B(x)	1.1	1.0	1.0	0.7	0.8	0.7
Target price/BVPS(x)	1.5	1.4	1.4	1.0	1.1	0.9

Source: company data and ABCI Securities estimates

Consolidated cash flow statements

For the year ended 31/12(HK\$m)	2009	2010	2011	2012E	2013E	2014E
PBT	168	255	185	238	313	432
Adjustments for NCC	67	56	66	64	72	83
Chg in WC	4	(72)	(143)	(58)	(221)	8
Tax paid	(26)	(66)	(53)	(60)	(78)	(108)
Operating cash flow	213	173	56	184	86	415
Acquisition	-	(2)	-	-	-	-
Purchase PP&E	(21)	(82)	(98)	(100)	(120)	(130)
Divesture	2	1	1	-	-	-
Others	1	1	1	-	-	-
Investing cash flow	(18)	(82)	(96)	(100)	(120)	(130)
Chg in net debt	(8)	(21)	13	(13)	10	10
Common stock issuance/repurchase	-	21	5	216	-	-
Dividend paid(common&pref)	-	(40)	(58)	(42)	(53)	(70)
Others	(6)	(2)	0	(2)	(3)	(4)
Cash flow from financing	(14)	(44)	(40)	159	(46)	(64)
Chg in cash flow	181	47	(81)	243	(81)	221
Cash and cash equivalents at beginning of year	156	338	397	330	573	492
Effect of exchange rate	1	11	14	-	-	-
Cash and cash equivalents at end of year	338	397	330	573	492	714

Source: company data and ABCI Securities estimates



Disclosures

I, Li Hongying, Vivian, 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.

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

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.

Li Hong-ying Vivian, has financial interest in Evergrande Real Estate Group Limited as at 24 Oct 2012.

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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