



August 26, 2015  
Company Report  
Rating: BUY  
TP: HK\$ 2.90

Share price (HK\$) 1.92  
Est. share price return 51.0%  
Est. dividend yield 5.9%  
Est. total return 56.9%

Previous Rating & TP BUY; HK\$ 4.50  
Previous Report Date May 8, 2015

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**Key Data**

52Wk H/L(HK\$)	3.34/1.79
Issued shares (mn)	10,671
Market cap (HK\$ mn)	21,449
3-mth avg daily turnover (HK\$ mn)	44.27
Major shareholder(s) (%):	
Sinochem Group	53.98
New China Life	9.50

Source(s): Company, Bloomberg, ABCI Securities

**FY14 Revenue breakdown (%)**

Property Development	46.9
Property Leasing	6.0
Hotels	9.9
Land Development	34.6
Others	2.6

Source(s): Company, ABCI Securities

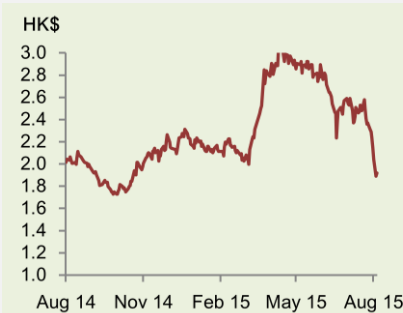
**Share performance (%)**

	Absolute	Relative*
1-mth	(19.0)	(6.5)
3-mth	(28.7)	(7.2)
6-mth	(6.5)	9.8

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

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



Source(s): Bloomberg, ABCI Securities

Franshion (817 HK)  
Positive 2H15 outlook

- Core profit declined 56% YoY to HK\$918mn, mainly due to uneven profit booking in 1H15 vs. 2H15.
- Gross margin improved slightly from 39.4% in 1H14 to 41.2% in 1H15; Net gearing improved by 8.5ppt HoH to 49.5% as of June 2015
- Strong presales performance registered in 1H15 (+59% YoY to RMB10.2bn). First-tier cities accounts for 50% of saleable resources in 2015
- Maintain **BUY** with a revised TP of HK\$ 2.90 (from HK\$ 4.50) based on a 60% (from 40%) discount to FY15E NAV

**1H15 core profit dropped 56% YoY to HK\$918mn due to uneven completion schedule.** Franshion registered substantial decline in booked revenue (-47% YoY to HK\$7.4bn) in 1H15, mainly due to: **1) GFA delivery dropped 30% YoY to HK\$ 5.3bn as completion will be concentrated in 2H15.** Profits of several new projects, such as Beijing Yizhuang Jinmao Yue and Suzhou Jinmao Palace, will be booked in 2H15E. As of June 2015, Franshion has locked in HK\$29bn of unrecognized revenue, and 35%-40% of the amount is likely to be booked in 2H15 (i.e. HK\$10.2-11.6bn); **2) zero land sales from Mexi lake primary development in 1H15 vs. HK\$ 3.7bn in 1H14:** As Changsha government is conducting a more detailed town planning of the city, land tendering process was slowed in 1H15. Franshion believes land auction would resume in 2H15 so that the land supply would match with demand driven by the rising property market. Moreover, the Nanjing primary development project acquired in 1H15 should start generating land sales in 2H15. Overall, we believe decline in core profit in 1H15 was mostly resulted from deferred profit-booking and land auction.

**Solid margin and healthy net gearing.** Blended gross margin improved from 39.4% in 1H14 to 41.2% in 1H15. Of which, gross margin from property sales improved from 32% in 1H14 to 34% in 1H15 despite margin erosion across the sector in 1H. Net gearing dropped 8.5ppt HoH to 49.5% as of June 2015. In June 2015, Franshion issued 1.6bn of new shares (16% of enlarged capital) at HK\$ 2.73 to raise HK\$ 4,368mn amid a booming equity market. After this placement, New China Life Insurance became the Group's 2<sup>nd</sup> largest shareholder with a 9.5% stake. Going forward, this strategic investor may form JVs with Franshion to develop projects in tier-1 cities where land cost is high.

**1H15 presales rose 59%YoY to RMB 10.2bn.** Franshion's presale (excluding land sales) surged 59% YoY to RMB10.2bn in 1H15, as GFA sold rose 98% YoY while ASP dropped 20% YoY. Franshion's presales growth of 59% YoY, much higher than the peer average of 11% in 1H15, accelerated further in July, with the single-month presales soaring by 584%YoY to RMB 2.7bn. In 2015, about 50% of RMB 40bn saleable resource will come from tier-1 cities (Beijing, Shanghai and Guangzhou), which will benefit more from interest rate and RRR cuts given the higher proportion of mortgage buyers than lower-tier regions. (continue next page)

**Results and Valuation**

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (HK\$ mn)	20,719	29,548	31,204	37,406	41,713
Chg (% YoY)	20.6	42.6	5.6	19.9	11.5
Core net profit (HK\$ mn)	2,910	3,610	3,793	4,835	5,592
Chg (% YoY)	35.1	24.0	5.1	27.5	15.7
Core EPS (HK\$)	0.30	0.37	0.35	0.42	0.48
Chg (% YoY)	30.7	22.8	(3.7)	18.6	14.7
BVPS (HK\$)	3.07	3.53	3.90	3.98	4.34
Chg (% YoY)	18.8	15.1	10.6	1.9	9.2
Core PE (x)	6.4	5.2	5.4	4.6	4.0
PB (x)	0.6	0.5	0.5	0.5	0.4
ROE (%)	10.0	10.9	9.5	11.1	11.8
ROA (%)	2.4	2.6	2.6	3.2	3.4
DPS (HK\$)	0.10	0.12	0.11	0.14	0.16
Dividend yield (%)	4.9	6.0	5.9	7.1	8.2
Net gearing (%)	44.5	58.1	44.9	31.5	5.1

\*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

**52% of debt is denominated in foreign currency.** As of June 2015, Franshion has a total forex debt of HK\$ 15.2bn, representing 52% of total debt. This translates to 20% of our 15E NAV estimates. Going forward, Franshion will increase the use of domestic RMB borrowing to reduce Forex risk exposure.

**An SOE developer with an attractive valuation—top BUY in the sector.** We factor in the dilution impact of the HK\$ 4.4bn placement in June and trimmed our FY15E NAV to HK\$ 7.13 (from HK\$ 7.42). However, as forex risk looms across the property sector, we lift our discount to NAV from 40% to 60% and lower our TP to HK\$ 2.90 (from HK\$ 4.50). Franshion's current valuation at 5.4x FY15E P/E with a 5.9% yield and a 73% discount to FY15E NAV is the lowest among SOE developers. We also like its high exposure in tier-1 cities (account for about 50% of presales), which should enable the group to outperform amid the rate cut cycle.

**Risk factors:** 1) Forex risk from USD-denominated debt; 2) Further slowdown in land sales.

**Exhibit 1: Franshion's 1H15 results**

P&L	1H15	1H14	YoY Chg	Operating statistics	1H15	1H14	YoY Chg
	HK\$m	HK\$m	(%)	Contracted GFA ('000 sqm)	0.51	0.26	98
<b>Turnover</b>	<b>7,382</b>	<b>13,819</b>	<b>(47)</b>	Contracted ASP (RMB/sqm)	20,180	25,229	(20)
Property sales	5,268	8,194	(36)	<b>Presales (RMBm)</b>	<b>10,246</b>	<b>6,459</b>	<b>59</b>
Primary land development	0	3,654	(100)	GFA Delivered (mn sqm)	0.22	0.32	(30)
Property leasing	745	696	7	Booked ASP (HK\$/sqm)	23,794	25,895	(8)
Hotel	1,154	1,058	9	<b>Property sales booked (HK\$m)</b>	<b>5,268</b>	<b>8,194</b>	<b>(36)</b>
Others	216	218	(1)				
Cost of Sales & direct operating costs	(4,339)	(8,378)	(48)	Land sold (mn sqm)	-	1.00	NA
<b>Gross Profit</b>	<b>3,042</b>	<b>5,441</b>	<b>(44)</b>	Booked ASP (HK\$/sqm)	-	3,660	NA
<b>Gross Margin (%)</b>	<b>41.2</b>	<b>39.4</b>	<b>+1.8ppt</b>	<b>Land sales (HK\$m)</b>	<b>-</b>	<b>3,654</b>	<b>NA</b>
Selling and distribution costs	(338)	(305)	11	<b>Gross margin by segment</b>	<b>1H15</b>	<b>1H14</b>	<b>YoY Chg</b>
Administrative expense	(763)	(708)	8				<b>(ppt)</b>
<b>EBIT</b>	<b>1,942</b>	<b>4,429</b>	<b>(56)</b>	Property sales	34.0%	32.0%	+2ppt
<b>EBIT Margin (%)</b>	<b>26.3</b>	<b>32.0</b>	<b>-5.7ppt</b>	Land development	NA	44.0%	NA
Other income, gains and losses	550	217	153	Property leasing	90.0%	90.0%	-
Fair value gain of investment properties	899	2,097	(57)	Hotel	48.0%	52.0%	-4ppt
Other exceptional items	0	0	NA				
Share of profit from JCE/ Associates	(51)	(1)	8,996	<b>Balance sheet</b>	<b>Jun 14</b>	<b>Dec 13</b>	<b>HoH %</b>
Finance cost	(314)	(915)	(66)		<b>HKDm</b>	<b>HKDm</b>	
<b>Profit before tax</b>	<b>3,026</b>	<b>5,828</b>	<b>(48)</b>	Gross debt	48,644	46,759	4
<b>Tax</b>	<b>(988)</b>	<b>(1,966)</b>	<b>(50)</b>	Cash	17,676	14,053	26
- LAT	(185)	(331)	(44)	<b>Net debt</b>	<b>30,968</b>	<b>32,707</b>	<b>(5)</b>
- Enterprise tax	(804)	(1,634)	(51)	<b>Net gearing</b>	<b>49.5</b>	<b>58.1</b>	<b>-8.5ppt</b>
<b>Profit after tax</b>	<b>2,037</b>	<b>3,862</b>	<b>(47)</b>				
Minority Interest	(503)	(212)	137				
<b>Net profit</b>	<b>1,535</b>	<b>3,650</b>	<b>(58)</b>				
<b>Underlying net profit</b>	<b>918</b>	<b>2,082</b>	<b>(56)</b>				

Source(s): Company, ABCI Securities



Exhibit 2: Franshion's FY15E NAV

	Attr. GFA (M sqm)	Net assets value (HKD m)	% of total	Valuation Method	Implied value per sqm (HKD)
<b>Property development</b>					
Beijing	0.8	9,171	9%	DCF at WACC of 9.2%	10,887
Shanghai	0.5	15,884	15%		32,984
Changsha	2.1	6,198	6%		2,954
Suzhou	0.3	2,013	2%		7,347
Chongqing	1.5	9,053	9%		6,146
Others	6.7	32,420	31%		4,851
<b>Subtotal</b>	<b>10.4</b>	<b>74,738</b>	<b>71%</b>		<b>7,201</b>
<b>Primary Land Development</b>	<b>4.1</b>	<b>14,733</b>	<b>14%</b>	<b>Mkt value</b>	<b>3,629</b>
<b>Investment Properties</b>	<b>0.5</b>	<b>9,463</b>	<b>9%</b>	<b>8.5% cap rate on net rental income</b>	
<b>Hotels</b>		<b>6,121</b>	<b>6%</b>	<b>Market value of stake in Jinmao investment (6139 HK)</b>	
<b>Total 2015E GAV</b>		<b>105,055</b>	<b>100%</b>		
2015E Net debt (including Perpetual convertible securities)		(33,750)	-32%		
<b>Total 2015E NAV</b>		<b>71,305</b>	<b>68%</b>		
No. of share outstanding		10,002			
<b>NAV per share (HKD)</b>		<b>7.13</b>			
Target discount (%)		<b>60%</b>			
<b>Target Price (HKD)</b>		<b>2.90</b>			
<b>WACC</b>	<b>9.2%</b>				
Cost of Debt	6.0%				
Cost of Equity	15.0%				
<b>Debt/ (Debt + Equity)</b>	<b>55%</b>				

Source(s): Company, ABCI Securities estimates



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

<b>FY Ended Dec 31 (HK\$ mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Revenue</b>	<b>20,719</b>	<b>29,548</b>	<b>31,204</b>	<b>37,406</b>	<b>41,713</b>
Cost of sales	(11,519)	(17,989)	(16,888)	(19,779)	(22,221)
<b>Gross Profit</b>	<b>9,200</b>	<b>11,559</b>	<b>14,316</b>	<b>17,627</b>	<b>19,492</b>
SG&A expenses	(1,785)	(2,593)	(3,008)	(3,516)	(4,427)
<b>EBIT</b>	<b>7,415</b>	<b>8,965</b>	<b>11,308</b>	<b>14,111</b>	<b>15,064</b>
Finance cost	(1,325)	(1,222)	(1,333)	(1,333)	(1,333)
Share of profit of associates	2	(33)	0	423	1,310
Other income/ (expenses)	524	546	581	283	447
Fair value gain of investment properties	1,831	2,310	0	0	0
Disposal/one-off items	0	(26)	0	0	0
<b>Profit before tax</b>	<b>8,448</b>	<b>10,540</b>	<b>10,556</b>	<b>13,484</b>	<b>15,488</b>
Tax	(3,393)	(3,884)	(4,786)	(5,918)	(6,618)
<b>Profit after tax</b>	<b>5,055</b>	<b>6,656</b>	<b>5,770</b>	<b>7,566</b>	<b>8,870</b>
Minority interest	(807)	(1,360)	(1,977)	(2,730)	(3,278)
<b>Reported net profit</b>	<b>4,247</b>	<b>5,296</b>	<b>3,793</b>	<b>4,835</b>	<b>5,592</b>
Less: exceptional items	(1,337)	(1,686)	0	0	0
<b>Underlying net profit</b>	<b>2,910</b>	<b>3,610</b>	<b>3,793</b>	<b>4,835</b>	<b>5,592</b>
<b>Per share</b>					
Underlying EPS (HK\$)	0.30	0.37	0.35	0.42	0.48
DPS (HK\$)	0.10	0.12	0.11	0.14	0.16
Payout ratio (%)	32%	31%	32%	33%	33%
BVPS (HK\$)	3.07	3.53	3.90	3.98	4.34
<b>Growth %</b>					
Revenue	20.6%	42.6%	5.6%	19.9%	11.5%
Gross Profit	27.8%	25.6%	23.9%	23.1%	10.6%
EBIT	28.0%	20.9%	26.1%	24.8%	6.8%
Underlying net profit	35.1%	24.0%	5.1%	27.5%	15.7%
<b>Margin %</b>					
Gross margin	44.4%	39.1%	45.9%	47.1%	46.7%
Gross margin (post-LAT)	15.0%	21.7%	22.4%	21.6%	21.4%
EBIT margin	35.8%	30.3%	36.2%	37.7%	36.1%
Core net margin	17.8%	16.8%	18.5%	19.1%	18.1%
<b>Key assumptions</b>					
Contracted Sales (HK\$ mn)	18,384	23,108	26,445	34,888	57,663
GFA sold (mn sqm)	0.57	0.88	0.89	0.92	1.91
ASP (HK\$/sqm)	32,087	26,155	29,724	37,885	30,223
Booked Sales (HK\$ mn)	9,708	21,895	22,592	24,762	27,788
GFA delivered (mn sqm)	0.22	0.88	0.74	0.75	0.94
Booked ASP (HK\$/sqm)	44,144	24,936	30,489	33,165	29,644

Source(s): Company, ABCI Securities estimates



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

<b>As of Dec 31 (HK\$ mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Current assets</b>	<b>46,720</b>	<b>55,658</b>	<b>60,151</b>	<b>65,027</b>	<b>81,233</b>
Cash	14,490	12,455	15,999	22,894	41,181
Restricted cash	303	1,598	1,598	1,598	1,598
Trade & other receivables	4,202	3,593	3,593	3,593	3,593
Properties under development	10,714	18,319	18,319	18,319	18,319
Properties held for sale	5,915	7,619	7,619	7,619	7,619
Land under development	5,163	3,400	4,349	2,330	248
Other current assets	17,011	19,693	20,642	18,623	16,541
<b>Non-current assets</b>	<b>74,123</b>	<b>82,367</b>	<b>85,411</b>	<b>85,521</b>	<b>84,622</b>
Property, plant & equipment	7,495	12,423	12,910	13,388	13,855
Properties under development	33,318	27,759	33,316	32,526	29,850
Land under development	4,549	9,560	6,560	6,560	6,560
Investment properties	22,018	24,356	24,356	24,356	24,356
Investment in Associate and JCE	42	1,861	1,861	2,284	3,593
Other non-current assets	6,700	6,408	6,408	6,408	6,408
<b>Total Assets</b>	<b>120,843</b>	<b>138,026</b>	<b>145,562</b>	<b>150,548</b>	<b>165,855</b>
<b>Current Liabilities</b>	<b>39,604</b>	<b>33,903</b>	<b>32,801</b>	<b>32,034</b>	<b>40,511</b>
Short term borrowings	6,139	4,072	4,072	4,072	4,072
Trade & other payables	9,504	13,629	13,629	13,629	13,629
Pre-sales deposits	16,749	9,610	8,508	7,741	16,217
Other current liabilities	7,212	6,592	6,592	6,592	6,592
<b>Non-current liabilities</b>	<b>34,020</b>	<b>47,790</b>	<b>47,790</b>	<b>47,790</b>	<b>47,790</b>
Long term borrowings	29,667	42,687	42,687	42,687	42,687
Other payables	-	-	-	-	-
Other non-current liabilities	4,353	5,103	5,103	5,103	5,103
<b>Total Liabilities</b>	<b>73,624</b>	<b>81,693</b>	<b>80,591</b>	<b>79,825</b>	<b>88,301</b>
<b>Net Assets</b>	<b>47,219</b>	<b>56,333</b>	<b>64,971</b>	<b>70,724</b>	<b>77,554</b>
<b>Shareholders Equity</b>	<b>28,974</b>	<b>33,062</b>	<b>40,085</b>	<b>43,470</b>	<b>47,384</b>
Perpetual Convertible Securities	4,588	4,588	4,588	4,588	4,588
Minority Interest	13,658	18,682	20,297	22,666	25,582
<b>Total Equity</b>	<b>47,219</b>	<b>56,333</b>	<b>64,971</b>	<b>70,724</b>	<b>77,554</b>
<b>Key ratio</b>					
Gross debt (HK\$m)	35,806	46,759	46,759	46,759	46,759
Net debt (HK\$m)	21,013	32,707	29,162	22,267	3,980
Net gearing (%)	45%	58%	45%	31%	5%
Contracted sales/ Total assets (x)	0.15	0.17	0.18	0.23	0.35

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2017E)

FY ended Dec 31 (HK\$ mn)	2013A	2014A	2015E	2016E	2017E
EBITDA	7,684	9,277	11,628	14,441	15,405
Change in Working Capital	(10,505)	2,491	(3,134)	3,514	14,707
Tax payment	(2,365)	(3,884)	(4,786)	(5,918)	(6,618)
<b>Operating Cash flow</b>	<b>(5,186)</b>	<b>7,884</b>	<b>3,709</b>	<b>12,038</b>	<b>23,494</b>
Purchase of PP&E	(808)	(808)	(808)	(808)	(808)
Addition of Investment Properties	0	0	0	0	0
Investment in Associate/ JCE	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0
Others	32	546	581	283	447
<b>Investing Cash flow</b>	<b>(776)</b>	<b>(262)</b>	<b>(227)</b>	<b>(525)</b>	<b>(361)</b>
Debt raised	25,961	10,000	10,000	10,000	10,000
Debt repaid	(21,339)	(20,398)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,947)	(2,477)	(2,806)	(2,806)	(2,806)
Equity raised	0	0	0	0	0
Convertible securities coupon payments	(317)	(312)	(312)	(312)	(312)
Dividend to shareholders	(641)	(1,043)	(1,138)	(1,451)	(1,678)
Others	5,848	4,573	4,318	(50)	(50)
<b>Financing Cash flow</b>	<b>7,564</b>	<b>(9,656)</b>	<b>63</b>	<b>(4,618)</b>	<b>(4,845)</b>
<b>Net cash inflow/ (outflow)</b>	<b>1,602</b>	<b>(2,035)</b>	<b>3,545</b>	<b>6,894</b>	<b>18,288</b>
Cash- beginning	12,888	14,490	12,455	15,999	22,894
<b>Cash- year-end</b>	<b>14,490</b>	<b>12,455</b>	<b>15,999</b>	<b>22,894</b>	<b>41,181</b>

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Tung Yiu Kei Kenneth, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABC Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the 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

Market return: 5-year average market return rate from 2009-2013

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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