



November 22, 2013  
Company Report  
Rating: BUY  
TP: HK\$ 3.00

Share price (HK\$) 2.05  
Est. share price return 46.3%  
Est. dividend yield 4.9%  
Est. total return 51.2%

Previous Rating & TP BUY; HK\$ 2.40  
Previous Report Date June 12, 2013

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**Key Data**

52Wk H/L(HK\$) 2.67/1.14  
Issued shares (mn) 6,054  
Market cap 12,980  
3-mth avg daily turnover (HK\$ mn) 26.6  
Major shareholder(s) (%):  
Cheng Chung Hing 40.35  
Source(s): Company, Bloomberg, ABCI Securities

**FY12 Revenue breakdown (%)**

Property development 95.9  
Property investment 2.9  
Property management 0.6  
Hotels 0.2  
Others 0.5  
Source(s): Company, ABCI Securities

**Share performance (%)**

	Absolute	Relative*
1-mth	(9.5)	(10.7)
3-mth	(0.9)	(8.6)
6-mth	28.8	27.2

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

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



Source(s): Bloomberg, ABCI Securities

China South City (1668 HK)  
Top Pick: Unique commercial player with high margins

- Impressive 2Q13 presale of HK\$3.57mn, up 234% YoY
- Limited impact from possible tightening policy due to commercial property exposure
- Able to secure low-cost land with government support; expect gross margin of 55%-60% range for 2014E-15E
- Maintain Buy with revised TP of HK\$3.00 (from HK\$ 2.40) based on 60% discount to NAV. Top Pick in China property sector

**Impressive 2Q13 presale.** China South City (CSC) registered impressive presale in 2Q (Jun- Sep) of HK\$3.57bn, up 234% YoY, driven by significant increase in GFA sold. Despite overall ASP dropped 14% YoY, mainly due to changes in geographical mix as Shenzhen's contribution decreased, we notice ASP of all products rose QoQ. ASPs of commercial properties such as trade centre (shopping mall type) went up 16% QoQ, detached trade centre (i.e. separate commercial spaces) was up 5% QoQ, and office was up 3% QoQ. ASP of residential products was also up 5% QoQ, indicating the Group's improving pricing power. As CSC enter the conventional peak season in 3Q/4Q (Oct -Mar), we expect its presale to improve further.

**Limited impact from policy.** As commercial properties are rarely targets of the government's tightening policies, we believe CSC would enjoy solid pricing power with decent gross margins of 55%-60% in 2014E-15E.

**Unique business model secures low-cost land supply.** As local governments remain supportive of trade and logistics park development in city outskirts, we believe CSC will continue to enjoy low land cost when they acquire sites in the future. CSC's specialization in trade and logistics park development would protect itself from the rising land cost.

**Maintain BUY with revised TP of HK\$3.00.** On the back of strong 2Q13 presale, we raise our FY14E/15E presales forecasts to HK\$ 11.5bn/HK\$ 15.0bn from HK\$ 11.1bn/HK\$ 13.1bn. We also raise our earnings estimates by 6.7%-21.5% for FY14E-16E on better-than-expected sales performance. We roll over our NAV estimate to end-FY14 (HK\$ 7.48/share) and raise our TP to HK\$ 3.00 (from HK\$ 2.40) based on a 60% discount to NAV. Maintain **BUY** on CSC.

**Risk factors:** 1) Tightening policy on commercial property sector; 2) High level of unsold inventories may slow cash flow; 3) Dilution effects of CB conversion

**Results and Valuation**

FY ended Mar 31	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (HKD mn)	3,671	7,488	10,743	15,513	20,285
Chg (% YoY)	64.3	104.0	43.5	44.4	30.8
Core net profit (HKD mn)	923	1,776	2,172	3,908	5,131
Chg (% YoY)	70.1	92.5	22.2	79.9	31.3
Underlying EPS (HKD)	0.15	0.29	0.33	0.59	0.77
Chg (% YoY)	69.8	91.6	12.4	77.3	31.3
BVPS (HKD)	2.16	2.63	2.75	3.18	3.74
Chg (% YoY)	22.7	21.7	4.5	15.6	17.7
Underlying PE (x)	13.3	7.0	6.2	3.5	2.7
P/B (x)	0.95	0.78	0.75	0.65	0.55
ROE (%)	7.1	11.2	11.9	18.5	20.6
ROA (%)	3.0	4.2	4.3	6.7	7.8
DPS (HKD)	0.08	0.10	0.10	0.15	0.20
Dividend yield (%)	3.7	4.9	4.9	7.3	9.8
Net gearing (%)	21.5	32.0	45.4	48.7	13.9

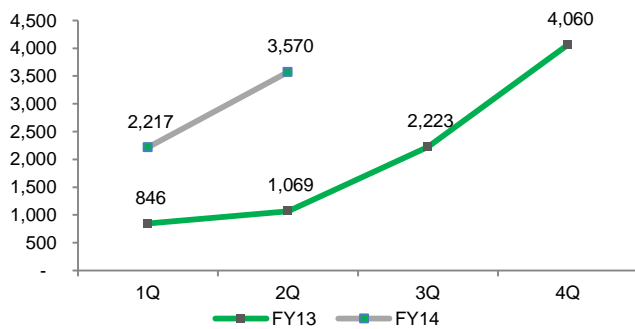
\*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

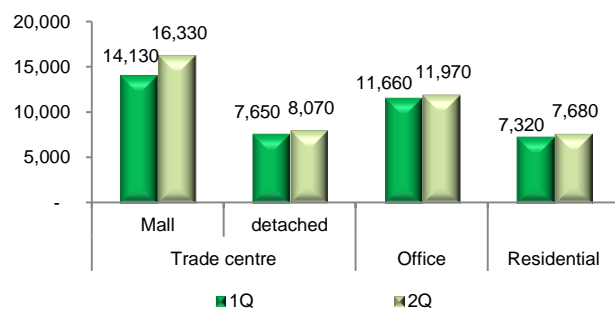
## Presales went up 234% YoY in 2Q13

China South City (CSC) registered impressive presale of HK\$ 3.57bn, up 234% YoY, driven by significant increase in GFA sold. Despite overall ASP drop 14% YoY due to changes in geographical mix in which contribution from Shenzhen decreased, we notice ASP of all types of products rose QoQ, including trade centre-shopping mall type (+16% QoQ), trade centre-detached type (+5% QoQ), office (+3% QoQ), and residential products (+5% QoQ), indicating the Group's improving pricing power.

According to *HFhouse* (合肥房地产交易网), more than 7,000 of the 8,000 units launched by CSC in Hefei in Nov were sold within the first week of sale. As CSC enters the peak season in 3Q/4Q, we expect presale to rise further.

**Exhibit 1: CSC's quarterly presale (HK\$ mn)**


Source(s): Company, ABCI Securities

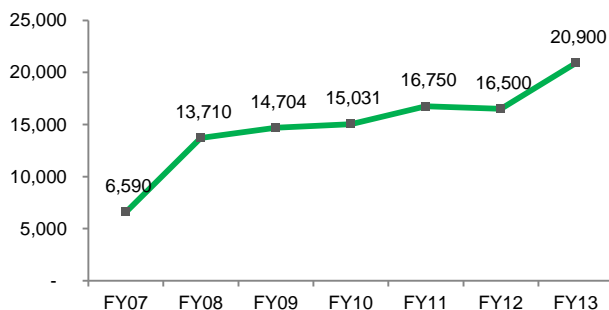
**Exhibit 2: CSC's ASP: 1Q vs. 2Q14 (HK\$/sqm)**


Source(s): Company, ABCI Securities

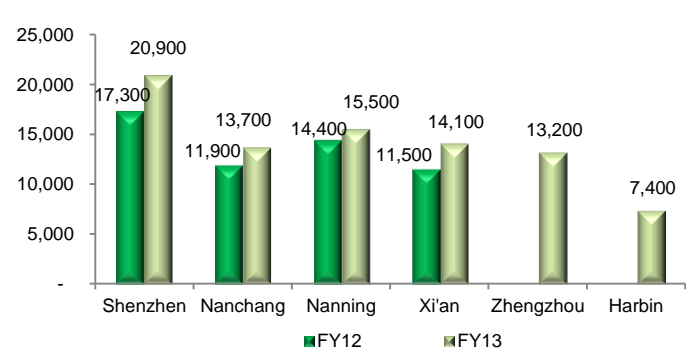
## Limited impact from potential policy tightening and rising land cost

As commercial properties are less likely to be subjected to austerity measures on property sector, we believe the Group would enjoy solid pricing power with decent gross margins of 55%-60% in 2014E/15E.

In fact, the Group has demonstrated a solid record of price growth. E.g. ASP of CSC Shenzhen grew at 21% CAGR over FY07-13 from HK\$ 6,590/sqm to HK\$ 20,900/sqm. Other projects also registered ASP hikes of 8%-23% YoY in FY13.

**Exhibit 3: CSC's Shenzhen ASP (HK\$/sqm)**


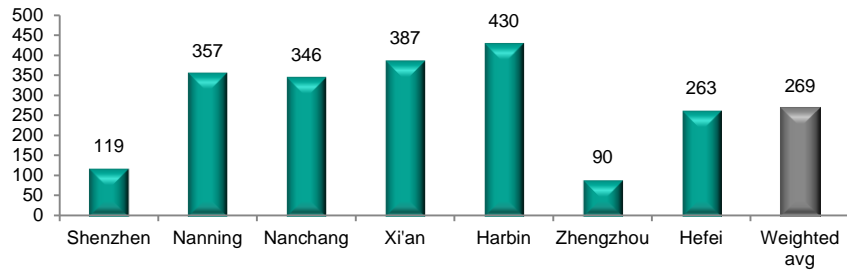
Source(s): Company, ABCI Securities

**Exhibit 4: ASP by project: FY13 vs. FY12 (HK\$/sqm)**


Source(s): Company, ABCI Securities

**Unique business model guarantees low-cost land supply.** CSC's business model shields itself from rising land cost. As local governments remain supportive of trade and logistics park development in the city outskirts, we believe CSC will continue to enjoy low land cost in the future. In addition, its existing landbank with a GFA of 20mn sqm should be more than sufficient for seven to eight years of development. Average land cost of CSC's landbank is as low as RMB 269/sqm, representing 3% of ASP only.

**Exhibit 5: CSC's land cost by project as at Mar 2013 (RMB/sqm)**



Source(s): Company; ABCI Securities

**Exhibit 6: CSC's landbank as at Mar 2013**

Project (m sqm)	Completed Properties		Under Development	For Future Development Estimated	Total planned GFA Estimated	GFA of Land acquired		GFA To be acquired	
	Sold	Unsold				%		%	
Shenzhen	0.6	1.2	-	0.8	2.6	2.6	100%	-	0%
Nanchang	0.6	0.2	0.3	3.2	4.3	4.3	100%	-	0%
Nanning	0.1	0.3	1.0	3.5	4.9	2.5	51%	2.4	49%
Xi'an	0.2	0.4	0.3	16.6	17.5	2.0	12%	15.5	88%
Harbin	0.0	0.0	0.7	11.3	12.0	2.2	19%	9.8	81%
Zhengzhou	0.0	0.0	1.5	10.5	12.0	4.2	35%	7.8	65%
Hefei	0.0	0.0	-	12.0	12.0	3.9	33%	8.1	67%
<b>Total</b>	<b>1.4</b>	<b>2.1</b>	<b>3.8</b>	<b>57.9</b>	<b>65.3</b>	<b>21.8</b>	<b>33%</b>	<b>43.5</b>	<b>67%</b>

Source(s): Company; ABCI Securities

## Strategic acquisition of HOBA furnishing

On July 29 2013, CSC announced the acquisition of HOBA furnishing - an established furniture retailer that operates nine furnishing centres across six cities in China. CSC will acquire 75% of HOBA's new shares at RMB 522mn (or HK\$ 656.47mn). As HOBA has become CSC's subsidiary, the consideration for the acquisition will be consolidated at the Group level. We believe this strategic acquisition will widen CSC's customer base to include the medium chain operators aside from the SME ones. If CSC is able to turn around HOBA's business (HOBA incurred a loss of RMB 1.8mn in FY12) by introducing the stores into the Group's trade centers (which can boost visitation and lower rent), other mid-scale space intensive operators (e.g. car dealers, textile makers) may consider setting up stores at CSC's properties.

**Exhibit 7: CSC's convertible bonds issued in Apr 2013**

CB's details	
CB holder	PAG
Principle	HK\$975mn
Maturity	2018
Coupon rate	6.5%
Exercise Price	HK\$1.52
Dilution impact	10.4% of existing no. of shares

Source(s): Company

## Raise TP to HK\$ 3.00; reiterate BUY

On the back of strong 2Q13 presale, we raise our FY14E/15E presales forecasts to HK\$11.5bn /HK\$15.0bn (from HK\$11.1bn/HK\$13.1bn). We also raise our earnings estimates by 6.7%-21.5% for FYE14-16E on better-than-expected sales performance. We assume CSC's CB will be fully converted in FY14E, given the current share price (HK\$ 2.08) is well above the exercise price of HK\$1.59/share. This should reduce CSC's financing cost and gearing but its outstanding shares will increase at the same time. We roll over our NAV estimate to end-FY14 (HK\$ 7.48) and raise our TP to HK\$ 3.00 (from HK\$ 2.40) based on a 60% discount to NAV. Maintain **BUY** on CSC.



**Exhibit 8: Major forecast changes for CSC**

	Previous			Current			Change (%)		
	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
<b>Core net profit (RMB mn)</b>	2,020	3,662	4,224	2,172	3,908	5,131	7.5%	6.7%	21.5%
YoY chg (%)	13.7	81.3	15.4	22.2	79.9	31.3			
<b>Contracted sales (RMB mn)</b>	11,113	13,123	20,102	11,533	14,979	23,188	3.8%	14.1%	15.4%
YoY chg (%)	35.4	18.1	53.2	40.6	29.9	54.8			
<b>GFA delivery (mn sqm)</b>	0.98	1.18	1.53	1.03	1.34	1.81	4.5%	13.6%	18.7%
<b>Gross margin (%)</b>	52.4%	59.9%	57.4%	52.6%	58.0%	56.8%	+0.2ppt	-1.8ppt	-0.6ppt

Source(s): ABCI Securities estimates

**Exhibit 9: CSC FY15E NAV forecast**

	Attr. GFA (mn sqm)	Net assets value (HKD m)	% of total	Valuation Methodology	Implied value per sqm (HKD)
<b>Property development</b>					
Shenzhen	2.2	10,052	17%	DCF at WACC of 10.4%	4,667
Nanning	2.7	6,890	11%		2,572
Nanchang	3.7	10,958	18%		2,998
Xi'an	1.1	2,364	4%		2,191
Harbin	2.2	3,530	6%		1,582
Others	8.2	22,006	37%		2,698
<b>Subtotal</b>	<b>20.0</b>	<b>55,801</b>	<b>93%</b>		<b>2,797</b>
Investment Properties & Others		4,279	7%	5% cap rate on FY15E net rental income	
<b>Total FY15E GAV</b>		<b>60,080</b>	<b>100%</b>		
FY15E Net debt		(10,289)	-17%		
<b>Total FY15E NAV</b>		<b>49,791</b>	<b>83%</b>		
No. of share outstanding		6,652			
<b>NAV per share (HKD)</b>		<b>7.48</b>			
Target discount (%)		60%			
<b>Target Price (HKD)</b>		<b>3.00</b>			

<b>WACC</b>	<b>10.4%</b>
Cost of debt	8.0%
Cost of Equity	15.0%
<b>Debt/ (Debt + Equity)</b>	<b>52%</b>

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Mar 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
<b>Revenue</b>	<b>3,671</b>	<b>7,488</b>	<b>10,743</b>	<b>15,513</b>	<b>20,285</b>
Cost of sales	(1,435)	(3,311)	(5,090)	(6,510)	(8,763)
<b>Gross Profit</b>	<b>2,236</b>	<b>4,177</b>	<b>5,653</b>	<b>9,004</b>	<b>11,522</b>
SG&A expenses	(538)	(826)	(974)	(1,202)	(1,516)
<b>EBIT</b>	<b>1,698</b>	<b>3,351</b>	<b>4,680</b>	<b>7,801</b>	<b>10,006</b>
Finance cost	(59)	(133)	(196)	(252)	(252)
Share of profit of associates	1	1	-	-	-
Other income/ (expenses)	22	52	115	151	225
Fair value gain of investment properties	1,118	1,251	-	-	-
Disposal/one-off items	525	(49)	-	-	-
<b>Profit before tax</b>	<b>3,306</b>	<b>4,473</b>	<b>4,599</b>	<b>7,700</b>	<b>9,979</b>
Tax	(1,258)	(1,606)	(2,093)	(3,529)	(4,475)
<b>Profit after tax</b>	<b>2,048</b>	<b>2,867</b>	<b>2,506</b>	<b>4,171</b>	<b>5,504</b>
Minority interest	23	(117)	(334)	(264)	(373)
<b>Reported net profit</b>	<b>2,071</b>	<b>2,750</b>	<b>2,172</b>	<b>3,908</b>	<b>5,131</b>
Less: exceptional items	(1,148)	(973)	-	-	-
<b>Underlying net profit</b>	<b>923</b>	<b>1,776</b>	<b>2,172</b>	<b>3,908</b>	<b>5,131</b>
<b>Per share</b>					
Underlying EPS (RMB)	0.15	0.29	0.33	0.59	0.77
DPS (RMB)	0.08	0.10	0.10	0.15	0.20
Payout ratio (%)	49%	34%	30%	26%	26%
BVPS (RMB)	2.16	2.63	2.75	3.18	3.74
<b>Growth %</b>					
Revenue	64.3%	104.0%	43.5%	44.4%	30.8%
Gross Profit	67.7%	86.8%	35.4%	59.3%	28.0%
EBIT	67.6%	97.4%	39.7%	66.7%	28.3%
Underlying net profit	70.1%	92.5%	22.2%	79.9%	31.3%
<b>Margin %</b>					
Gross margin	60.9%	55.8%	52.6%	58.0%	56.8%
Gross margin (post-LAT)	51.4%	48.2%	41.4%	44.8%	44.5%
EBIT margin	46.3%	44.8%	43.6%	50.3%	49.3%
Core net margin	22.2%	26.2%	23.3%	26.9%	27.1%
<b>Key assumptions</b>					
Contracted Sales (HK\$ mn)	6,207	8,205	11,533	14,979	23,188
GFA sold (m sqm)	0.59	0.71	1.08	1.39	2.12
ASP (HK\$/sqm)	10,487	11,573	10,639	10,763	10,930
Booked Sales (HK\$)	3,011	6,899	10,369	15,066	19,769
GFA delivered (mn sqm)	0.25	0.66	1.03	1.34	1.81
Booked ASP (HK\$/sqm)	11,986	10,409	10,090	11,257	10,894

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2012A-2016E)**

<b>As of Mar 31 (HK\$ mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Current assets</b>	<b>13,245</b>	<b>18,428</b>	<b>20,195</b>	<b>23,214</b>	<b>30,044</b>
Bank balances and cash	3,832	6,778	8,546	11,564	18,394
Trade receivables	526	937	937	937	937
Properties held for sale	7,908	9,953	9,953	9,953	9,953
Other current assets	979	760	760	760	760
<b>Non-current assets</b>	<b>17,421</b>	<b>23,917</b>	<b>30,900</b>	<b>35,522</b>	<b>35,363</b>
Properties under development	2,878	2,382	9,180	13,829	13,700
Property, plant and equipment	196	601	742	715	685
Investment properties	13,637	19,426	19,426	19,426	19,426
Investment in Associate and JCE	1	6	6	6	6
Other non-current assets	709	1,502	1,546	1,546	1,546
<b>Total Assets</b>	<b>30,666</b>	<b>42,345</b>	<b>51,095</b>	<b>58,736</b>	<b>65,407</b>
<b>Current Liabilities</b>	<b>10,895</b>	<b>15,374</b>	<b>21,207</b>	<b>25,775</b>	<b>28,374</b>
Short term borrowings	2,740	4,418	9,418	14,418	14,418
Trade and other payables	3,067	4,373	4,373	4,373	4,373
Pre-sale deposits	3,463	3,793	4,625	4,193	6,792
Other current liabilities	1,624	2,790	2,790	2,790	2,790
<b>Non-current liabilities</b>	<b>6,777</b>	<b>10,928</b>	<b>10,928</b>	<b>10,928</b>	<b>10,928</b>
Long term borrowings	3,878	7,435	7,435	7,435	7,435
Other payables	53	-	-	-	-
Other non-current liabilities	2,845	3,493	3,493	3,493	3,493
<b>Total Liabilities</b>	<b>17,671</b>	<b>26,302</b>	<b>32,134</b>	<b>36,703</b>	<b>39,302</b>
<b>Net Assets</b>	<b>12,995</b>	<b>16,043</b>	<b>18,961</b>	<b>22,033</b>	<b>26,105</b>
<b>Shareholders' Equity</b>	<b>12,939</b>	<b>15,853</b>	<b>18,283</b>	<b>21,141</b>	<b>24,891</b>
Minority Interest	57	190	678	892	1,214
<b>Total Equity</b>	<b>12,995</b>	<b>16,043</b>	<b>18,961</b>	<b>22,033</b>	<b>26,105</b>
<b>Key ratio:</b>					
Gross debt (HK\$ mn)	6,618	11,853	16,853	21,853	21,853
Net debt (HK\$ mn)	2,786	5,076	8,308	10,289	3,460
Net gearing (%)	22%	32%	45%	49%	14%
Contracted sales/ Total assets (x)	0.20	0.19	0.23	0.26	0.35

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2011A-2015E)**

<b>FY ended Mar 31 (HK\$ mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
EBITDA	1,721	3,378	4,710	7,838	10,047
Change in Working Capital	(2,468)	(554)	(4,857)	(3,652)	4,156
Tax payment	(160)	(200)	(2,093)	(3,529)	(4,475)
<b>Operating Cashflow</b>	<b>(907)</b>	<b>2,624</b>	<b>(2,240)</b>	<b>658</b>	<b>9,728</b>
Purchase of PP&E	(11)	(10)	(10)	(10)	(10)
Addition of Investment Properties	0	0	0	0	0
Investment in Associate/ JCE	11	0	0	0	0
Proceeds from Disposals	286	0	0	0	0
Others	(20)	0	115	151	225
<b>Investing Cash flow</b>	<b>265</b>	<b>(10)</b>	<b>105</b>	<b>141</b>	<b>215</b>
Debt raised	2,172	2,000	10,000	10,000	10,000
Debt repaid	(1,588)	(500)	(5,000)	(5,000)	(10,000)
Interest expenses	(522)	(719)	(1,305)	(1,681)	(1,681)
Equity raised	0	0	0	0	0
Convertible securities raised	0	0	975	0	0
Dividend to shareholders	(150)	(449)	(717)	(1,049)	(1,382)
Others	7	0	(50)	(50)	(50)
<b>Financing Cash flow</b>	<b>(81)</b>	<b>332</b>	<b>3,903</b>	<b>2,220</b>	<b>(3,113)</b>
<b>Net cash inflow/ (outflow)</b>	<b>(722)</b>	<b>2,946</b>	<b>1,768</b>	<b>3,018</b>	<b>6,830</b>
Cash- beginning	4,554	3,832	6,778	8,546	11,564
<b>Cash- year-end</b>	<b>3,832</b>	<b>6,778</b>	<b>8,546</b>	<b>11,564</b>	<b>18,394</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 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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