

## Company Flash

# China Windpower Group Limited 0182 HK

## Undemanding valuation with high earnings visibility

- *China Windpower is a green energy company focused on midstream and downstream business in both the solar and wind industries in China.*
- *The company has signed a cooperating agreement with Huadian Fuxin regarding the sale of the company's wind power project up to a capacity of 3.5GW. This will translate into net profit of RMB1,750.0m in its EPC segment.*
- *The company will transform from a wind EPC player to a Solar IPP. We think this is beneficial to the company given higher IRR and the lower policy uncertainty regarding solar power projects.*
- *The company is currently trading at prospective P/E of 11.1x for FY12/14E, lower than the average level the HK-listed downstream players are trading. We consider the current valuation undemanding given its high earnings visibility.*

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**Stock Data (182 HK)**

Rating	Not Rated
Price (HK\$)	0.63
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.27-0.84
Market cap. (HK\$m)	5,636.1
Daily t/o (HK\$m)	16.2
Free float (%)	43.6
Source: Bloomberg	

**The investment from Huadian helps secure future growth in its EPC segment:** In Dec 2013, the company entered into an agreement with Huadian Fuxin. Under the agreement, Huadian Fuxin has the right to acquire the company's wind power projects which command a total capacity of 3.5GW. We believe the investment from Huadian is positive for the company in the long run, because i) this will translate into a net profit of RMB1,750.0m in the segment, of which RMB200.0m is expected to be recognized in FY12/14E; ii) the priority right to provide EPC and maintenance services to Huadian Fuxin's solar power projects will provide further boosts to the company's EPC business; and iii) this would improve the company's corporate image.

**Good move to transform from a wind EPC player to a solar IPP:** We view the transformation as a prudent move, because i) generally downstream solar power business commands much higher IRR than downstream wind power business; ii) a greater degree of uncertainty is attached to the downstream wind power business with curtailment still being an issue, while the capacity factor in downstream solar power business is relatively stable; iii) the Chinese government has hinted at a tariff cut on wind power on the back of decreased production costs.

**Strong financing ability sets the path for smooth development of future projects:** Based on its cash position and project pipeline for 2014, we do not see any urgent needs for the company to raise debts to finance its projects. Its cash on hand would enable it to finance ~4 typical wind power plants with a capacity of 48.0MW each, or ~6 typical wind power plants with a capacity of 30.0MW each).

**Figure 1: Financials and valuation**

	FY12/11	FY12/12	FY12/13
<b>Total revenue (HKD m)</b>	<b>959.0</b>	<b>1,099.8</b>	<b>1,882.6</b>
Revenue growth (YoY)	-22.4%	14.7%	71.2%
<b>PBT (HKD m)</b>	<b>504.3</b>	<b>113.1</b>	<b>193.1</b>
PBT growth (YoY)	-8.1%	-77.6%	70.8%
<b>Net profit (HKD m)</b>	<b>372.2</b>	<b>40.9</b>	<b>151.1</b>
Net profit growth (YoY)	-12.9%	-89.0%	269.4%
EPS (HKD cents)	<b>5.0</b>	<b>0.6</b>	<b>2.0</b>
DPS (HKD cents)	1.0	0.0	0.0
P/E (x)	12.6	114.5	31.0
Dividend yield	1.6%	0.0%	0.0%

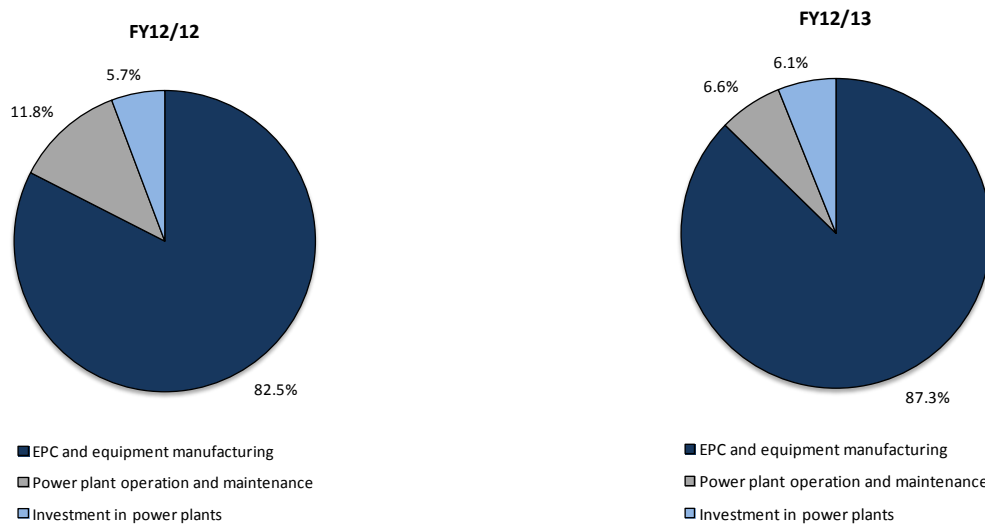
Source: Company data

Please refer to important disclosures at the end of this report

**Company Background**

**Overview:** China Windpower Group (“China Windpower”) is a green energy company focused on the midstream and downstream businesses in both the solar and wind industries in China. The company mainly derives its income from 2 sources: i) on-grid tariffs from the operation of solar and wind power plants, and ii) service fees from providing engineering, procurement, and construction (EPC) services to other solar farm/wind farm operators. Currently, EPC is the company’s main revenue contributor, making up ~87.3% of its total revenue in FY12/13, while the remainder is derived from power plant operation and maintenance (O&M) and the sale of electricity. Although the wind energy business accounted for a bigger proportion of its total sales in FY12/13, the company actually has opted to focus more on its solar business. In fact, the larger contribution to the company’s revenue from its wind business is attributable to the large portion of wind power plants sold immediately after the completion of construction (and therefore recognized as revenue in the EPC segment). This is in contrast to their solar plants, in which the company retained a majority of interest for long-term investment, and therefore revenue from its solar business is mainly generated through tariff (smaller but recurring), rather than EPC service fee (higher but one-off).

**Figure 2. Revenue breakdown by segment in FY12/12 & FY12/13**



Source: Company data

**Wind Power Business:** Currently China Windpower owns and operates 25 wind power plants with a total capacity of 1.35GW and an attributable capacity of 549.5MW. The company deploys a “Build-Sell” strategy for the segment: After acquiring project approval from the National Energy Administration (NEA) and the local government and following completing construction on the plant, which normally lasts for 24 months, the company then sells a majority stake in the project to SOEs such as Huadian Fuxin, Liaoning Energy, China Power, Jilin Power, etc., after which the plants are operated under a JV. In other words, the company provides a turnkey solution, ranging from project acquisition, to the design and EPC of projects, to the SOEs that intend to enter downstream businesses within the wind power industry. The company’s management mentioned that the selling of the project would help them recoup cash for the development of other projects, and they plan to continue with this business model going forward.

As for the pipeline in 2014, the company plans to add additional capacity of 289.5MW to its wind portfolio, of which 102.9MW is expected to be sold to other wind plant operators when the construction is completed, implying an additional 186.6MW of attributable capacity by the end of the year. Total attributable capacity, therefore, is expected to reach 699.5MW in 2014 (See Figure 10 & 11 in the appendix).

**Solar Power Business.** China Windpower started its first solar project in FY12/11, in which it successfully developed 47.9MW solar power plants. After several years of development, the company currently owns and operates 10 solar power plants with a total capacity of 170.8MW and an attributable capacity of 152.6MW. (it used to have 12 operating projects but 2 projects in Gansu were sold in FY12/13) The company actually applies the same “Build-Sell” strategy to its solar plants. However, unlike its wind power plants, the company only sells a minimal portion of its stake to other SOEs. The company’s management explains that solar is their core business and that they intend to keep a majority stake in the business for long-term investment.

According to its solar project pipeline in 2014, the company plans to add a total capacity and an attributable capacity of 400.0MW to its solar portfolio. Total operating capacity and attributable capacity, therefore, will reach 570.8MW and 552.6MW respectively in 2014 (See Figure 12 & 13 in the appendix).

**Our view**

**The investment from Huadian helps secure future growth in its EPC segment:** In December 2013, the company entered into a subscription and business cooperation agreement with Huadian Fuxin (0816 HK), a wholly-owned subsidiary of Huadian Corporation engaged in the development and management of clean energy projects in China. There are two takeaways from the agreement: i) Huadian Fuxin will subscribe 880.0m new shares in the company at the subscription price of HKD0.43, after which it becomes the 3<sup>rd</sup> largest shareholder of the company with an equity interest of 9.9%. And ii) Huadian Fuxin has the right to acquire the company's wind power project given initial or formal approvals granted by the government, commanding a total capacity of 3.5GW.

We believe the investment from Huadian is positive to the company in the long run, because i) Huadian's acquisition of the wind project with 3.5GW of capacity, assuming a net margin of 8.0% and revenue of RMB6.25/w, will contribute revenue of ~RMB21.9b in its EPC segment, which will translate into a net profit of RMB1,750.0m in the segment, of which RMB200.0m is expected to be recognized in FY12/14E; ii) under the agreement, the company has the priority right to provide EPC and maintenance services to Huadian Fuxin's solar power projects at the prevailing market price, providing further boosts to its EPC business. And iii) gaining support from a sizable clean energy company with an SOE background would improve its corporate image, which could lower financing costs in the future and thereby increase its project IRR.

**Good move to transform from a wind EPC player to a solar IPP:** As the company sells a large portion of its stake in wind power projects to third-parties, while retaining almost all equity interest in its solar power projects, its solar power capacity is expected to account for ~40.0%-50.0% of its total attributable capacity in FY12/14E, despite the fact that its solar business only commenced in FY12/11. Therefore, revenue from the sale of electricity is expected to account for a bigger proportion of its total sales in the future, as the company gradually transforms from a wind EPC player to an independent solar power producer (IPP).

We view the transformation as a prudent move, because: i) According to our analysis, downstream solar power business generally commands much higher profitability (indicated by project IRR and equity IRR) than downstream wind power business, especially after the Chinese government reduced the VAT charged to solar power producers by 50.0% last year (See Figure 3), ii) a greater degree of uncertainty is attached to the downstream wind power business with curtailment still being an issue, while the capacity factor in downstream solar power business is relatively stable, and iii) Chinese government has hinted at a tariff cut on wind power on the back of decreased production costs, while we see no near-term risk for solar power, as the government had recently adjusted the solar power tariff in August 2013.

**Figure 3. IRR comparison between wind energy projects and solar energy projects**

Wind Energy project*				Solar Energy project**			
		Project IRR	Equity IRR			Project IRR	Equity IRR
Tarriff (RMB/kwh)	0.51	6.1%	5.3%	Tarriff (RMB/kwh)	0.9	9.0%	14.1%
	0.54	6.9%	7.0%		0.95	9.9%	17.4%
	0.58	7.9%	9.3%		1.0	10.8%	20.1%
	0.61	8.7%	11.2%				

Source: SBI China Capital

\* Assuming a capacity factor of 1,800hr, project life of 20yrs and loan/asset ratio of 80.0%

\*\* Assuming a capacity factor of 1,500hr, project life of 20yrs and loan/asset ratio of 80.0%

**Strong financing ability set the path for smooth development of future projects:** With an effective interest rate of ~6.5%, the company is able to finance its energy projects 80.0% by debt in the onshore market. As at 31 December 2013, the company had cash and cash equivalents amounting to HKD1,850.2m. Assuming 80.0% of the cash is from debt and the initial investment of RMB7.8/w and RMB8.5/w for wind power projects and solar power projects respectively, the cash on hand would be able to finance wind projects with total capacity of 197.7MW (equivalent to ~4 typical wind power plants with capacity of 48.0MW each), or solar projects with total capacity of 181.4MW (equivalent to ~6 typical wind power plants with capacity of 30.0MW each). Based on its project pipeline for 2014, we do not see any urgent need for the company to raise debts to finance its project. That said, there might be a need for debt refinancing, as the company was in a net debt position of HKD480.0m, and has short-term debts of HKD1,067.7m as at 31 Dec 2013.

## Valuation

The company is currently trading at a 11.1x prospective P/E for FY12/14E, lower than other HK-listed solar and wind power companies which are trading at an average of 21.9x and 17.5x respectively. The downstream players, which are direct comparables to the company, are trading at a much higher valuation than the company, with United PV (0686 HK, HKDo.95) trading at a prospective P/E of 33.9x and wind downstream players on average trading at 15.5x. We think the current valuation of the company is not demanding, especially given its high earning visibility in the coming few years.

Figure 4. Peer comparison

Company	Ticker	Mkt Cap (HKD m)	3M avg turnover (HKD m)	2013 P/E (x)	2014E P/E (x)	P/book (x)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
China Windpower	0182 HK	5,636.1	16.2	31.0	11.1	1.1	3.2	1.7	0.0	9.6
<b>Solar - upstream</b>										
GCL-Poly Energy	3800 HK	40,418.7	223.5	n.a.	19.6	2.5	(4.1)	(0.9)	0.0	221.3
<b>Solar - midstream</b>										
China Singyes Solar Technologies	0750 HK	8,553.1	40.8	13.2	9.9	2.6	22.1	9.5	0.7	25.2
Comtec Solar	0712 HK	1,809.1	7.2	n.a.	24.2	0.9	(8.9)	(5.3)	0.0	7.4
Solargiga Energy	0757 HK	1,220.5	1.9	n.a.	n.a.	0.8	(12.5)	(3.3)	0.0	145.4
<b>Solar - downstream</b>										
United Photovoltaics	0686 HK	4,114.7	42.6	n.a.	33.9	7.4	(685.9)	(60.7)	0.0	465.3
	<b>Average*</b>	<b>11,223.2</b>	<b>63.2</b>	<b>13.2</b>	<b>21.9</b>	<b>2.8</b>	<b>(137.9)</b>	<b>(12.1)</b>	<b>0.1</b>	<b>172.9</b>
<b>Wind - upstream</b>										
China High Speed Transmission Equipment	0658 HK	8,765.2	17.3	97.6	16.0	0.8	0.8	0.3	0.0	95.9
<b>Wind - midstream</b>										
Goldwind	2208 HK	29,329.5	20.4	45.5	25.0	1.5	3.3	1.3	1.1	59.0
<b>Wind - downstream</b>										
China Longyuan Power	0916 HK	64,692.9	97.4	25.3	16.4	1.7	6.8	1.9	0.7	146.4
China Datang	1798 HK	7,710.1	5.4	26.0	17.0	0.7	2.6	0.4	0.4	323.8
Huadian Fuxin Energy	0816 HK	31,918.4	45.7	16.6	13.2	2.2	13.5	2.3	1.2	305.9
	<b>Average</b>	<b>28,483.2</b>	<b>37.2</b>	<b>42.2</b>	<b>17.5</b>	<b>1.4</b>	<b>5.4</b>	<b>1.2</b>	<b>0.7</b>	<b>186.2</b>

Source: Company data

\*China Windpower is not include in the average figures.

Figure 5. Per share items

	FY12/11	FY12/12	FY12/13
EPS (HK cents)			
- Basic (HK cents)	5.0	0.6	2.0
- Diluted (HK cents)	5.0	0.6	2.0
DPS (HKD cents)	1.0	0.0	0.0
BVPS (HKD)	0.5	0.5	0.6

Source: Company data

Figure 6. Ratio analysis

	FY12/11	FY12/12	FY12/13
<b>Growth (YoY)</b>			
Revenue	-22.4%	14.7%	71.2%
Profit before tax	-8.1%	-77.6%	70.8%
Net profit	-12.9%	-89.0%	269.4%
<b>Margins</b>			
EBIT margin	52.6%	10.3%	10.3%
Net profit margin	38.8%	3.7%	8.0%
<b>Other ratios</b>			
Return on average assets	5.8%	0.5%	1.7%
Return on average equity	8.9%	0.9%	3.2%
Dividend payout ratio	20.0%	0%	0.0%
<b>Valuation measures</b>			
P/E (x)	12.6	114.5	31.0
P/B (x)	1.3	1.3	1.1
Dividend yield	1.6%	0%	0%

Source: Company data

Figure 7. Income statement (HKD m)

	FY12/11	FY12/12	FY12/13
<b>Revenue</b>	<b>959.0</b>	<b>1,099.8</b>	<b>1,882.6</b>
Other income	18.1	24.8	46.4
Other gains, net	305.8	200.1	187.7
Operating expenses	(884.8)	(1,126.8)	(1,807.3)
Finance costs	(64.9)	(86.0)	(103.5)
Share of results			
- associates	1.4	7.3	0.9
- jointly controlled entities	169.6	(6.1)	(13.8)
<b>Profit before tax</b>	<b>504.3</b>	<b>113.1</b>	<b>193.1</b>
Income tax	(132.1)	(72.2)	(42.0)
<b>Net profit</b>	<b>372.2</b>	<b>40.9</b>	<b>151.1</b>
Net profit attributable to shareholders	372.2	40.4	151.1
Minority interest	0.0	0.5	0.0
<b>Total profit</b>	<b>372.2</b>	<b>40.9</b>	<b>151.1</b>

Source: Company data

Figure 8. Balance sheet (HKD m)

	FY12/11	FY12/12	FY12/13
<b>Non-current assets</b>			
Property, plant and equipment	1,287.0	1,247.7	2,238.3
Intangible assets	1,324.9	1,324.8	1,362.0
Interests in jointly controlled entities	1,880.6	1,507.1	1,486.5
Others	324.5	492.8	555.7
<b>Total non-current assets</b>	<b>4,816.9</b>	<b>4,572.3</b>	<b>5,642.5</b>
<b>Current assets</b>			
Inventories	308.4	209.9	449.5
Trade and bill receivables	499.8	367.2	524.1
Amounts due from jointly controlled entities	577.7	1,003.9	511.5
Others	235.1	623.6	873.4
Cash and cash equivalents	1,063.5	731.2	1,850.2
<b>Total current assets</b>	<b>2,684.6</b>	<b>2,935.7</b>	<b>4,208.7</b>
<b>Current liabilities</b>			
Borrowings	(974.1)	(1,298.2)	(1,262.5)
Others	(20.4)	(22.7)	(21.8)
<b>Total current liabilities</b>	<b>(994.6)</b>	<b>(1,320.9)</b>	<b>(1,284.3)</b>
<b>Non-current liabilities</b>			
Trade and bill payables	(843.6)	(1,007.8)	(1,304.7)
Other payables and accruals	(696.2)	(390.8)	(823.4)
Borrowings	(156.9)	(83.9)	(1,067.7)
Others	(335.8)	(249.7)	(377.2)
<b>Total non-current liabilities</b>	<b>(2,032.5)</b>	<b>(1,732.1)</b>	<b>(3,573.0)</b>
<b>Net assets</b>	<b>4,474.4</b>	<b>4,455.0</b>	<b>4,993.9</b>
<b>Equity</b>			
Equity attributable to owners of the Company	4,474.4	4,454.0	4,971.5
Non-controlling interests	0.0	1.0	22.4
<b>Total Equity</b>	<b>4,474.4</b>	<b>4,455.0</b>	<b>4,993.9</b>

Source: Company data

Figure 9. Cash flow statement (HKD m)

	FY12/11	FY12/12	FY12/13
<b>Operating activities</b>			
Cash generated from operations	505.8	375.5	461.2
Tax paid	(176.0)	(54.9)	(75.6)
<b>Net cash generated from operating activities</b>	<b>329.8</b>	<b>320.6</b>	<b>385.7</b>
<b>Investing activities</b>			
Purchase of PP&E	(1870.6)	(705.6)	(357.0)
Capital injection to jointly controlled entities	(294.5)	(104.5)	(212.1)
Loan granted to jointly controlled entities	0.0	(307.5)	(222.0)
Interest received	5.7	8.5	19.2
Others	717.6	361.6	435.2
<b>Net cash flow from investing activities</b>	<b>(1441.8)</b>	<b>(747.4)</b>	<b>(336.7)</b>
<b>Financing activities</b>			
Net borrowings	1497.6	243.9	883.6
Interest paid	(64.9)	(76.1)	(111.2)
Others	1.0	(73.9)	265.4
<b>Net cash flow from financing activities</b>	<b>1433.7</b>	<b>93.9</b>	<b>1037.8</b>
Net increase in cash and cash equivalent	321.7	(333.0)	1086.7
Cash and cash equivalents at the beginning of the year	732.5	1063.5	731.2
Exchange rate effect	9.3	0.6	32.3
<b>Cash and cash equivalents at the end of the year</b>	<b>1,063.5</b>	<b>731.2</b>	<b>1,850.2</b>

Source: Company data

## Appendix

Figure 10. Operating wind power plants

Year	Project name	Province	Capacity (MW)	CWP's stake	Attributable capacity (MW)
2006	Changtu Phase I	Liaoning	50.3	25%	12.6
2008	Taiqi Phase I	Inner Mongolia	49.5	49%	24.3
	Erlanhaote Phase I	Inner Mongolia	21.0	49%	10.3
2009	Linchang Phase I	Jilin	49.5	49%	24.3
	Mazongshan	Liaoning	49.5	25%	12.1
	Qujiagou	Liaoning	49.5	25%	12.1
	Zhaqi Phase I	Inner Mongolia	49.5	49%	24.3
	Heiyupao Phase I	Jilin	49.5	49%	24.3
2010	Wuchuan Yihemei	Inner Mongolia	49.5	46%	22.8
	Huadeng Phase I	Inner Mongolia	49.5	32%	15.8
	Huadeng Phase II	Inner Mongolia	49.5	32%	15.8
	Zhalute Phase II	Inner Mongolia	49.5	32%	15.8
	Zhalute Phase III	Inner Mongolia	49.5	32%	15.8
	Guazhou	Gansu	201.0	52%	103.5
2011	Kailu	Inner Mongolia	49.5	32%	15.8
	Touzhijian	Inner Mongolia	49.5	51%	25.2
	Maniuhu	Liaoning	49.5	30%	14.9
	Gulibengao	Liaoning	49.5	30%	14.9
2012	Heiyupao Phase III	Jilin	49.5	32%	15.8
	Heiyupao Phase IV	Jilin	49.5	32%	15.8
	Tianchang	Anhui	48.0	49%	23.5
2013	Chaoyang Wanjia	Liaoning	48.0	30%	14.4
	Jianghua Yaozu	Hunan	48.0	59%	28.3
	Xiaoxian Guanshan	Anhui	48.0	49%	23.5
	Suzhou Fuli	Anhui	48.0	49%	23.5
	<b>Total</b>		<b>1,353.8</b>	<b>40.6%</b>	<b>549.5</b>

Source: Company data

Figure 11. 2014 wind power project pipeline

Project name	Province	Capacity (MW)	CWP's stake	Attributable capacity (MW)	Status
Zilingpu	Hubei	48.0	100%	48.0	Under construction
Hebi Huolonggang	Henan	49.5	59%	29.2	Under construction
Gaotuan	Shandong	48.0	49%	23.5	Under construction
Sihong	Jiangsu	48.0	30%	14.4	Under early construction
Jianghua Phase II	Hunan	48.0	100%	48.0	Under early construction
Yiyang Fancun	Henan	48.0	49%	23.5	Under early construction
	<b>Total</b>	<b>289.5</b>	<b>64%</b>	<b>186.6</b>	

Source: Company data

Figure 12. Operating solar power plants

Year	Project name	Province	Capacity (MW)	CWP's stake	Attributable capacity (MW)
2011	Delingha Phase I	Qinghai	30.0	100%	30.0
	Suqian	Jiangsu	8.9	49%	4.4
	Wuwei	Gansu	9.0	100%	9.0
2012	Gonghe	Qinghai	30.0	60%	18.0
	Delingha Phase II	Qinghai	20.0	100%	20.0
	HOKU SOLAR POWER I, LLC	US	0.9	100%	0.9
	Urban Energy Solar LLC	US	1.0	100%	1.0
2013	Yongren	Yunnan	50.0	97%	48.5
	Delingha Phase III	Qinghai	20.0	100%	20.0
	GSE WI 1, LCC	US	1.0	80%	0.8
	<b>Total</b>		<b>170.8</b>	<b>89%</b>	<b>152.6</b>

Source: Company data

Figure 13. 2014 solar power project pipeline

Project name	Province	Capacity (MW)	CWP's stake	Attributable capacity (MW)	Status
Naidong	Tibet	20.0	100%	20.0	Under construction
Yanyuan	Sichuan	30.0	100%	30.0	Under construction
Yushen	Shanxi	200.0	100%	200.0	Under construction
Pingyuan	Shandong	40.0	100%	40.0	Under early construction
Shanshan	Xinjiang	20.0	100%	20.0	Approved
Tulufan	Xinjiang	20.0	100%	20.0	Approved
Delingha Phase IV	Qinghai	20.0	100%	20.0	Expected to be approved in 2014
Jiayuguan	Gansu	50.0	100%	50.0	Approved
	<b>Total</b>	<b>400.0</b>	<b>100%</b>	<b>400.0</b>	

Source: Company data



SBI China Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: [research@sbichinacapital.com](mailto:research@sbichinacapital.com), [thomsononeanalytics.com](http://thomsononeanalytics.com), [factset.com](http://factset.com) and [multex.com](http://multex.com)

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<b>STRONG BUY</b>	: absolute upside of >50% over the next three months
<b>BUY</b>	: absolute upside of >10% over the next six months
<b>HOLD</b>	: absolute return of -10% to +10% over the next six months
<b>SELL</b>	: absolute downside of >10% over the next six months

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