



Company Report: CECEP COSTIN New Materials (02228 HK)

公司报告: 中国节能海东青新材料 (02228 HK)

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GTJA Research 国泰君安研究

Expect Challenging Environment to Continue in 2015

预期有挑战性的环境将在2015年持续

- **CECEP COSTIN New materials ('CC' or the 'Company')'s 2H14 EPS increased 12.6% yoy (due to lower operating expense ratio and lower effective tax rate) and was just 3.1% below our forecast.** Revenue fell 10.9% yoy on weak demand for non-woven materials of the Company as a result of the slowdown in China's economic growth. Gross profit fell 7.3% yoy, not as bad as the revenue decline due to 1.3 ppt yoy increase in gross profit margin to 33.6%.
- **We revise down 2015 and 2016 EPS forecasts by 9.9% and 10.8%, respectively, on lower revenue forecasts.** We expect lower 2015 GDP and M2 growth in China will have a further negative effect on the Company's revenue in 2015. However, we expect stronger revenue growth starting in 2016 as the Company works to roll out more advanced products. We forecast 2015 to 2017 revenue growth of 4.5%, 15.4% and 14.6%, respectively, and EPS growth of 4.8%, 10.6% and 9.4%, respectively.
- **We reduce CC's target price from HKD3.63 to HKD3.50, based on 7.7x 2015 PER, and maintain 'Accumulate' investment rating.** Our new target price is based on 7.7x 2015 PER, which is comparable to CC's historical average forward (next four quarters) PER of 7.6x and is also 46.1% less than peers' current 2015 PER of 14.3x.
- **中国节能海东青新材料(“公司”)的2014年下半年每股净利同比增长12.6% (由于比较低的经营费用比例以及比较低的实际所得税率), 只低于我们的预期3.1%。** 收入同比减少10.9%, 主要因为中国经济增长放缓, 令市场对公司的非织造材料的需求有所下跌。毛利润同比减少7.3%, 没有收入的减少那么多因为毛利率提升了1.3个百分点至33.6%。
- **我们下调收入预期, 也分别下调2015年和2016年每股净利预期9.9%和10.8%。** 我们认为中国比较低的国内生产总值增长以及货币供应量增长预期将给公司收入带来负面影响。不过, 我们认为公司将推出更高级的产品, 让收入增长在2016年开始恢复一些。我们分别预期2015年至2017年收入增长4.5%、15.4%和14.6%, 每股净利增长4.8%、10.6%和9.4%。
- **下调公司目标价从3.63港元至3.50港元, 基于7.7倍2015年市盈率, 维持“收集”评级。** 我们新的目标价是基于7.7倍2015年市盈率, 接近公司的7.6倍的历史平均前瞻(后4个季度)市盈率, 也比同行目前的14.3倍2015年市盈率低46.1%。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$3.50

Revised from 原目标价:

HK\$3.63

Share price 股价:

HK\$3.180

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 □	(2.5)	(3.6)	(23.2)
Rel. % to HS index 相对恒指变动 %	(1.8)	(8.6)	(37.5)
Avg. share price(HK\$) 平均股价 (港元)	3.2	3.2	3.3

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ%)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2013A	1,494	243	0.312	(0.0)	8.2	1.803	1.4	0.079	3.2	18.6
2014A	1,323	266	0.343	9.8	7.3	2.073	1.2	0.079	3.1	17.7
2015F	1,382	279	0.359	4.8	7.0	2.349	1.1	0.083	3.3	16.3
2016F	1,595	309	0.398	10.6	6.3	2.655	0.9	0.092	3.6	15.9
2017F	1,828	338	0.435	9.4	5.8	2.989	0.8	0.100	4.0	15.4

Shares in issue (m) 总股数 (m)	776.4	Major shareholder 大股东	CECIC Chongqing Industry	42.3%
Market cap. (HK\$ m) 市值 (HK\$ m)	2,469.0	Free float (%) 自由流通比率 (%)		32.0
3 month average vol. 3 个月平均成交股数 ('000)	1,170.5	FY15 Net gearing (%) FY15 净负债/股东资金 (%)		Net Cash
52 Weeks high/low (HK\$) 52 周高/低	4.370 / 2.770	FY15 Est. NAV (HK\$) FY15 每股估值 (港元)		4.1

Source: the Company, Guotai Junan International.

CECEP COSTIN New Materials 中国节能海东青新材料 (02228 HK)

Company Report

CECEP COSTIN New materials ('CC' or the 'Company')'s 2H14 EPS increased 12.6% yoy and was just 3.1% below our forecast.

2H14 revenue declined 10.9% yoy to RMB786 million on weak demand. The drop in revenue was primarily due to the weakened market demand for non-woven materials of the Company as a result of the slowdown of the economic growth in China.

Drop in 2H14 gross profit not as bad as revenue decline due to 1.3 ppt yoy increase in gross profit margin. The Company's 2H14 gross profit was RMB264 million, down 7.3% yoy. The decrease in gross profit was mainly driven by the decrease in gross profit of nonwoven materials segment resulting from the drop of sales. The gross profit for the non-woven materials segment accounted for 90.6% of total 2H14 gross profit (comparable to 93.3% in 2013 and 90.5% in 2014), while the gross profit for the recycled chemical fibres segment accounted for 6.2% of total 2H14 gross profit (comparable to 6.4% in 2013 and 7.3% in 2014). During 2H14, the overall gross profit margin was 33.6%, up 1.3 ppt yoy.

2H14 net profit increased 12.6% yoy due to lower operating expense ratio and lower effective tax rate. Distribution expense ratio increase of 0.4 ppt yoy to 1.2% was more than offset by 1.2 ppt decrease in admin expense ratio to 6.0%. As previously reported, the Company's operating subsidiary, Xinhua Co., was qualified as a High and New Technology Enterprise and is entitled to enjoy an income tax concession effective from 1 January 2014. The Company's effective income tax rate was then decreased from approximately 31.2% in 2013 to approximately 19.9% for the year ended 31 December 2014. The Company's net profit margin for 2H14 was 20.8%, representing an increase of 4.3 ppt yoy. The increase in net profit margin was mainly due to a decrease in administrative expenses, finance costs and income tax expense.

Table-1: CECEP COSTIN Results Summary

RMB million	2H13	1H14	2H14	yoy (% or ppt.)	HoH (% or ppt.)
Revenue	882	537	786	-10.9%	46.4%
Cost of sales	(597)	(371)	(522)	-12.6%	40.5%
Gross profit	285	165	264	-7.3%	59.6%
Other income	15	21	7	-50.6%	-65.5%
Distribution expenses	(7)	(7)	(10)	27.9%	33.4%
Administrative expenses	(64)	(40)	(47)	-26.1%	17.1%
Profit from operations	228	139	215	-6.0%	54.0%
Finance costs	(13)	(10)	(11)	-19.5%	1.8%
Profit before tax	215	129	204	-5.2%	58.3%
Income tax expense	(70)	(26)	(41)	-42.0%	58.3%
Net profit	145	103	163	12.6%	58.2%
EBITDA	252	165	240	-4.9%	45.5%
EPS (RMB)	0.187	0.133	0.210	12.6%	58.2%
Gross profit margin	32.3%	30.8%	33.6%	1.3 ppt	2.8 ppt
Operating profit margin	25.9%	25.9%	27.3%	1.4 ppt	1.4 ppt
Net profit margin	16.4%	19.2%	20.8%	4.3 ppt	1.6 ppt

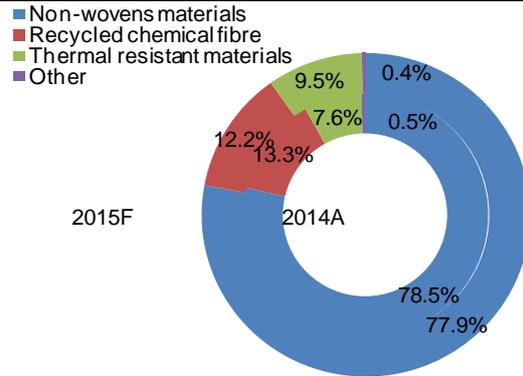
Source: the Company, Guotai Junan International.

Figure-1: CC's Total Revenue & Growth



Source: the Company.

Figure-2: CC's Revenue Composition



Source: the Company, Guotai Junan International.

The Company's 2H14 non-woven materials sales revenue decreased by 14.4% yoy as sales volume recorded a yoy decrease of 7.2% to 58 million yards and as the average selling price of non-woven materials fell by 7.8% yoy as certain traditional sectors suffered from the economic slowdown. However, gross profit decreased by just 10.8% as gross profit margin of non-woven materials increased by 1.6 ppt yoy to 38.5%.

The Company's 2H14 recycled chemical fibres sales revenue decreased by 8.1% yoy as sales volume recorded a yoy decrease of 5.5% to 12,000 tons and as the average selling price fell by 2.7% yoy. However, gross profit increased by 21.0% as recycled chemical fibres gross profit margin increased by 4.1 ppt yoy to 16.9%.

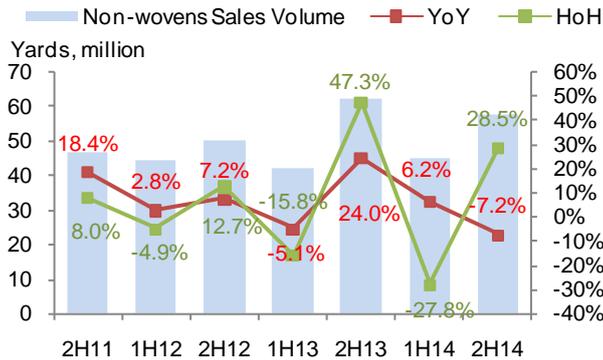
The Company's struggling thermal resistant filtration materials segment, which had a loss in 1H14, turned profitable in 2H14 and had its best results ever. 2H14 sales volume of thermal resistant filtration materials of the Company increased by 89.8% yoy to 1,653,000 sq.m., partly offset by selling price yoy decrease of 28.1%, resulting in a 36.5% increase in segment revenue to RMB61.7 million. Gross margin increased by 7.4 ppt yoy to 11.1%, leading to gross profit increase of 313.8% yoy to RMB6.8 million. Still, the impact is small since this segment only accounted for 2.6% of total gross profit.

Table-2: CECEP COSTIN Business Segment Results

	1H13	2H13	1H14	2H14	yoy (% or ppt)	hoh (% or ppt)
Non-woven materials						
Sales Volume (yards mn)	43	63	45	58	-7.2%	28.5%
ASP (RMB/ Yard)	11.77	11.61	9.21	10.70	-7.8%	16.2%
Revenue (RMB mn)	500.3	726.6	416.1	621.7	-14.4%	49.4%
Gross Profit	185.6	268.1	149.6	239.1	-10.8%	59.8%
Gross Margin	37.1%	36.9%	35.9%	38.5%	1.6	2.5
Recycled chemical fibre						
Sales Volume (tons)	9,300	12,700	9,300	12,000	-5.5%	29.0%
ASP (RMB/ ton)	8,935	8,336	8,398	8,109	-2.7%	-3.4%
Revenue (RMB mn)	83.1	105.9	78.1	97.3	-8.1%	24.6%
Gross Profit (RMB mn)	17.7	13.6	15.1	16.5	21.0%	9.3%
Gross Margin	21.3%	12.8%	19.3%	16.9%	4.1	-2.4
Thermal resistant filtration materials						
Sales Volume (sq.m. thousand)	629.0	871.0	847.0	1,653.0	89.8%	95.2%
ASP (RMB/ ton)	42.7	51.8	46.2	37.3	-28.1%	-19.3%
Revenue (RMB mn)	26.8	45.2	39.1	61.7	36.5%	57.6%
Gross Profit (RMB mn)	(2.3)	1.6	(0.3)	6.8	313.8%	n.a.
Gross Margin	-8.5%	3.6%	-0.8%	11.1%	7.4	11.9

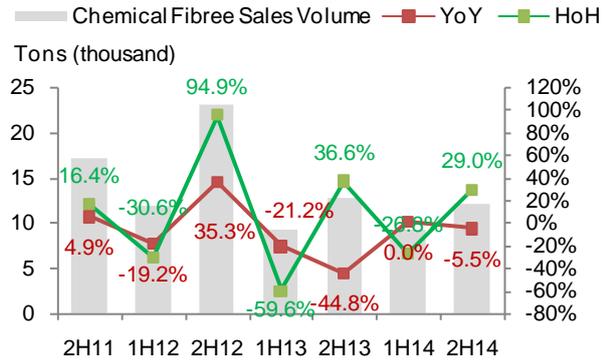
Source: the Company.

Figure-3: CC, Non-woven Materials Sales Volume



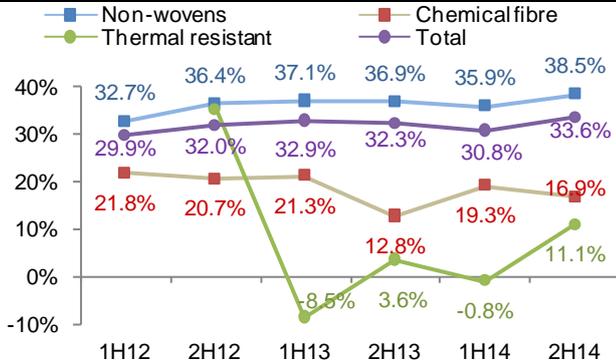
Source: the Company, Guotai Junan International.

Figure-4: CC, Chemical Fibre Sales Volume



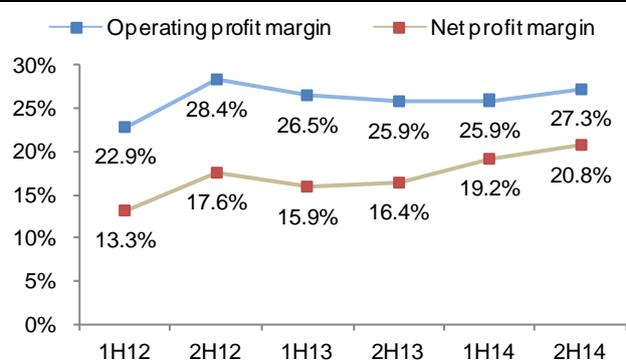
Source: the Company, Guotai Junan International.

Figure-5: CC's Gross Margins by Segment



Source: the Company.

Figure-6: CC's Operating & Net Profit Margins



Source: the Company.

We revise down 2015 and 2016 EPS forecasts by 9.9% and 10.8%, respectively, on lower revenue forecasts. The drop in the Company's 2H14 revenue was primarily due to the weakened market demand for non-woven materials of the Company as a result of the slowdown of the economic growth in China. We expect Beijing's low GDP and M2 growth targets for 2015 will have a further negative effect on the Company's revenue in 2015. During the National People's Congress in early March Beijing set China's 2015 GDP growth target at 7.0%, the lowest target in over 15 year. M2 growth for 2015 has been targeted at just 12%, which is lower than last year's target of 13% and suggests there's no plan for big stimulus this year. Also during the National People's Congress in early March, Premier Li Keqiang said that China's economy would face even more formidable difficulties this year than in 2014. We expect this to translate into lower demand for CC's products.

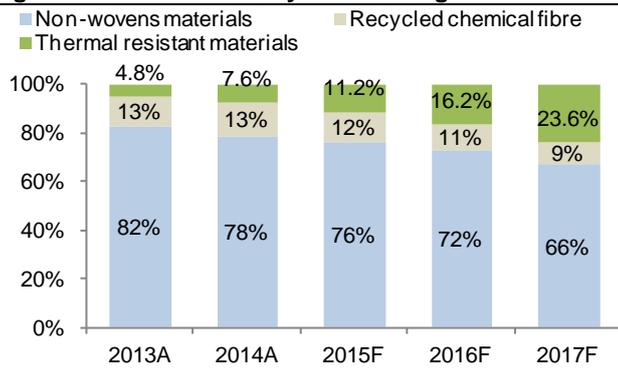
Table-3: CECEP COSTIN New Materials Forecast Updates

RMB million	Old			New			Change				
	2015F	2016F	2017F	1H15F	2H15F	2015F	2016F	2017F	2015F	2016F	2017F
Revenue	1,681	1,917	n.a.	561	821	1,382	1,595	1,828	-17.7%	-16.8%	n.a.
Gross profit	524	586	n.a.	171	273	444	492	525	-15.3%	-16.1%	n.a.
Operating profit	404	448	n.a.	144	222	366	400	431	-9.4%	-10.6%	n.a.
Profit before tax	387	432	n.a.	135	214	348	385	421	-10.0%	-10.9%	n.a.
Income tax expense	(77)	(86)	n.a.	(27)	(43)	(69)	(77)	(84)	-10.5%	-11.3%	n.a.
Net profit	310	346	n.a.	108	171	279	309	338	-9.9%	-10.8%	n.a.
EPS (RMB)	0.399	0.445	n.a.	0.139	0.22	0.359	0.398	0.435	-9.9%	-10.8%	n.a.
									percentage points		
Gross margin	31.2%	30.6%	n.a.	30.5%	33.2%	32.1%	30.8%	28.7%	0.9	0.3	n.a.
Operating margin	24.0%	23.4%	n.a.	25.7%	27.0%	26.5%	25.1%	23.6%	2.4	1.8	n.a.
Effective tax rate	20.0%	20.0%	n.a.	19.9%	19.9%	19.9%	19.9%	19.9%	-0.1	-0.1	n.a.
Net profit margin	18.4%	18.0%	n.a.	19.3%	20.8%	20.2%	19.4%	18.5%	1.8	1.3	n.a.

Source: the Company, Guotai Junan International.

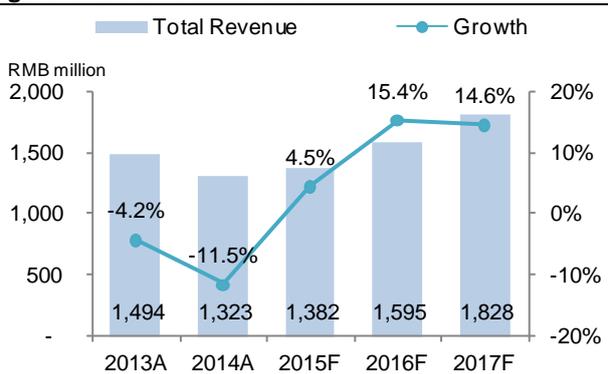
We forecast 2015 to 2017 revenue growth of 4.5%, 15.4% and 14.6%, respectively, and EPS growth of 4.8%, 10.6% and 9.4%, respectively. We expect stronger revenue growth starting in 2016 as the Company continues to work on rolling out more advanced products. Regarding the development of its thermal resistant filtration materials, the Company plans to expand the application scope of dust filtration to areas including the absorption of noxious vapour and the treatment of industrial wastewater. The Company also aims to strengthen collaboration between the industry, universities and research institutions by integrating innovation into the production lines and promoting a blend of production lines and innovative technology. In addition to the continuous development of the traditional sectors such as shoe materials and household materials, the Company's strategy is to increase research and development to improve and promote new non-woven products for automobile and construction usage through product innovation and optimized customer service system.

Figure-7: CC's Revenue By Product Segment



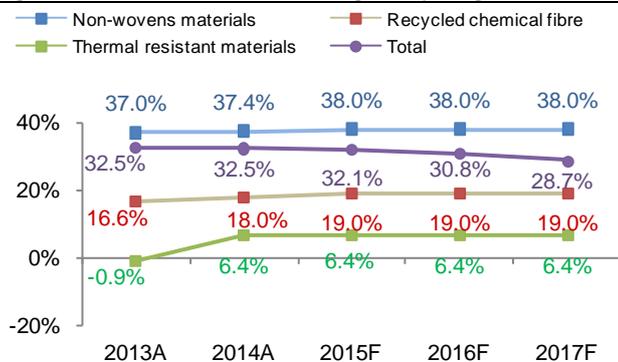
Source: the Company, Guotai Junan International.

Figure-8: CC's Total Revenue



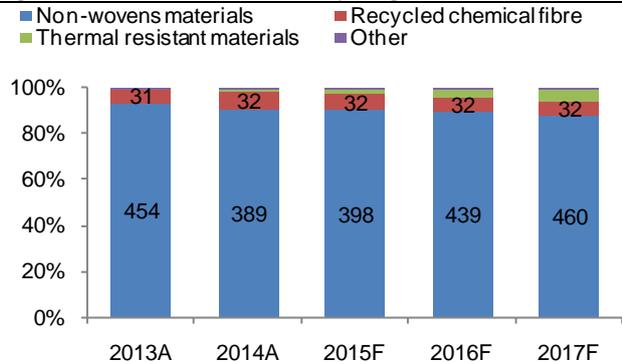
Source: the Company, Guotai Junan International.

Figure-9: CC's Gross Profit Margins by Segment



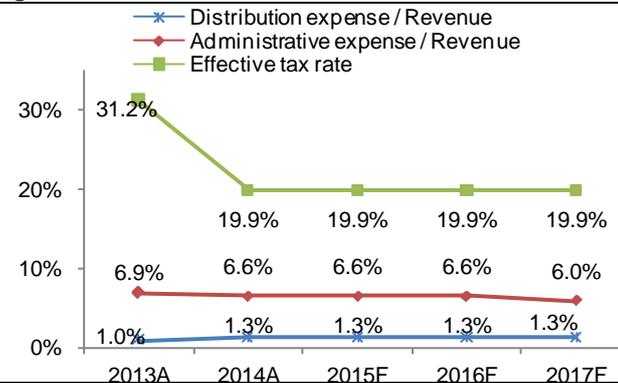
Source: the Company, Guotai Junan International.

Figure-10: CC's Gross Profit by Segment



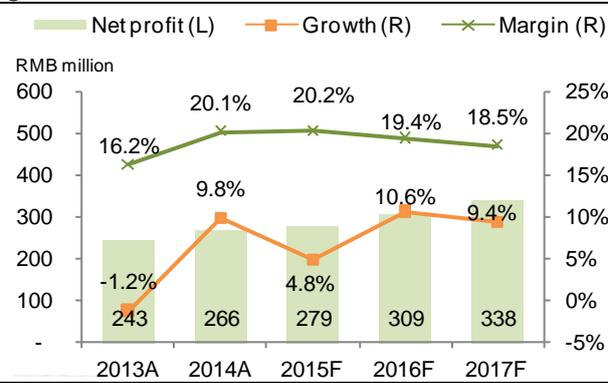
Source: the Company, Guotai Junan International.

Figure-11: CC's Costs Ratios & Effective Tax Rate



Source: the Company, Guotai Junan International.

Figure-12: CC's Net Profit



Source: the Company, Guotai Junan International.

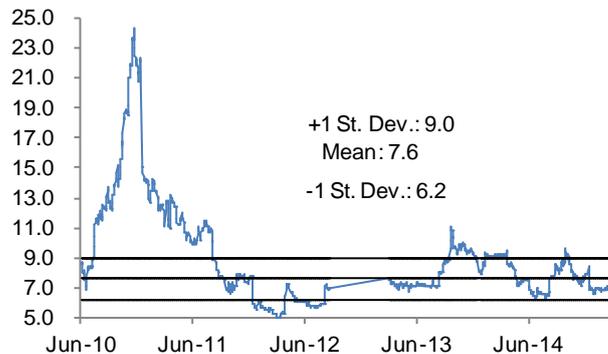
We reduce CC's target price from HKD3.63 to HKD3.50, based on 7.7x 2015 PER, and maintain 'Accumulate' investment rating. Our new target price is based on 7.7x 2015 PER, which is comparable to CC's historical average forward (next four quarters) PER of 7.6x and is also 46.1% less than peers' current 2015 PER of 14.3x. Our target price represents 10.1% upside potential and is a 15.0% discount to our DCF derived NAV of HKD4.12.

Table-4: Peers Comparison

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)
				14A	15F	16F	17F	14A	15F	16F	17F	15F	15F
HK - Listed													
Cecep Costin New	02228 HK	HKD	3.18	7.8	6.7	5.9	5.4	1.4	1.2	1.0	0.9	18.0	3.5
Shenzhou Intl Gp	02313 HK	HKD	31.15	18.3	15.8	13.7	n.a.	3.1	2.7	2.4	n.a.	18.4	3.0
Pacific Textile	01382 HK	HKD	10.78	13.7	15.6	13.9	12.2	3.8	4.2	4.1	3.9	26.2	6.7
Texwinca Hldg	00321 HK	HKD	6.47	11.1	10.6	9.4	8.4	1.5	1.5	1.5	1.4	13.9	8.4
Texhong Textile	02678 HK	HKD	8.70	19.4	9.9	7.6	6.6	1.8	1.6	1.4	1.2	17.0	3.0
Simple Average				14.1	11.7	10.1	8.2	2.3	2.2	2.1	1.9	18.7	4.9
Weighted Average				16.3	14.3	12.4	9.5	2.9	2.7	2.5	2.4	19.3	4.4

Source: Bloomberg.

Figure-13: CECEP COSTIN New Materials Historical Forward (Next 4 Quarters) PE Ratio



Source: Bloomberg.

Table-5: CECEP COSTIN New Materials Target Price Implied Valuation

	FY14A	FY15F	FY16F	FY17F
PER Multiple for Valuation				
EPS (RMB)				
EPS (HKD)				
Target Price (HKD)	3.50			
EPS (RMB)	0.34	0.36	0.40	0.43
EPS (HKD)	0.43	0.455	0.50	0.55
PER based on TP	8.1	7.7	7.0	6.4
FY14-17 EPS CAGR				8.2%
PEG (FY14 PE / FY14-17 EPS CAGR)				1.0

Source: Guotai Junan International.

Table-6: CECEP COSTIN New Materials DCF Valuation

Risk-free rate	1.75%	Terminal growth rate	3.0%
Market risk premium	11.44%	HKD/RMB	0.79
Beta	1.3		
Cost of equity	17.1%	PV of Free Cash Flow (FY15-FY25)	RMB (mn) 1,049
		PV of Terminal Value	RMB (mn) 458
Borrowing rate	5.6%	Net Debt/(cash)	RMB (mn) -1,020
Effective tax rate	19.9%	Equity Value	RMB (mn) 2,527
After tax cost of debt	4.5%	Equity Value	HKD (mn) 3,199
E/(E+D)	87.0%	Shares Outstanding	(mn) 776
WACC	15.4%	FY15 NAV per share	HKD 4.12

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Yr end Dec. 31 (RMB, mn)	2013A	2014A	2015F	2016F	2017F
Non-woven materials	1,227	1,038	1,048	1,154	1,212
Filtration materials	72	101	155	259	432
Chemical fibre	189	175	168	168	168
Other	6	9	11	13	16
Turnover	1,494	1,323	1,382	1,595	1,828
yoy(%)	-4.2%	-11.5%	4.5%	15.4%	14.6%
COGS	(1,008)	(893)	(939)	(1,103)	(1,302)
Gross profit	486	429	444	492	525
yoy(%)	0.3%	-11.7%	3.3%	10.8%	6.9%
Distribution Expenses	(15)	(17)	(18)	(20)	(23)
Admin. Exp.	(104)	(88)	(92)	(106)	(110)
Other income	23	29	32	35	38
Operating profit	390	354	366	400	431
yoy(%)	-3.8%	-9.4%	3.5%	9.4%	7.6%
Finance costs	(38)	(21)	(18)	(15)	(9)
Profit before tax	353	333	348	385	421
yoy(%)	-1.0%	-5.7%	4.7%	10.6%	9.4%
Income tax expense	(110)	(66)	(69)	(77)	(84)
Net profit	243	266	279	309	338
yoy(%)	-1.2%	9.8%	4.8%	10.6%	9.4%
EPS (RMB)	0.312	0.343	0.359	0.398	0.435
yoy(%)	-1.2%	9.8%	4.8%	10.6%	9.4%
EBITDA	438	405	410	442	470
yoy(%)	-2.9%	-7.5%	1.2%	7.8%	6.4%

Cash Flow Statement					
Yr end Dec. 31 (RMB, mn)	2013A	2014A	2015F	2016F	2017F
Profit before tax	353	333	348	385	421
Depreciation	47	51	44	41	39
Other adjustments	17	(6)	(6)	(6)	(6)
(Increase) in WC	98	49	(158)	(24)	(96)
Taxes paid	(134)	(77)	(69)	(75)	(82)
CFO	381	349	159	322	276
Capital expenditure	(33)	(61)	(62)	(61)	(60)
Other	47	(35)	(6)	(6)	(6)
CFI	13	(96)	(68)	(67)	(66)
loans and leases	31	43	(35)	46	45
Dividends paid	(62)	(56)	(58)	(65)	(71)
Convertible bond	(216)	0	0	0	0
CFF	(248)	(13)	(93)	(19)	(26)
Cash at Jan. 1	963	1,105	1,350	1,349	1,585
Net change in cash	147	241	(1)	236	184
For-X effect	(5)	3	0	0	0
Cash at Dec. 31	1,105	1,350	1,349	1,585	1,769

Source: the Company, Guotai Junan International.

Balance Sheet					
As at Dec. 31 (RMB, mn)	2013A	2014A	2015F	2016F	2017F
PP&E	419	391	363	343	326
Investment properties	6	10	6	5	5
Prepayments	25	9	10	11	12
Non-current assets	450	411	379	360	344
Inventory	142	99	153	138	195
Trade receivables	364	349	398	459	526
Prepayments & other	13	9	22	25	28
Other	7	42	48	54	60
Bank & cash balance	1,105	1,350	1,349	1,585	1,769
Current assets	1,631	1,849	1,968	2,260	2,578
Total assets	2,081	2,260	2,347	2,620	2,922
Long term borrowings	124	79	72	65	58
Deferred tax liabilities	57	72	75	83	91
Non-current liabilities	181	151	147	148	149
Trade & bills payable	148	120	101	119	140
Accruals & payables	55	71	46	54	64
Current borrowings	271	287	200	201	202
Current tax liabilities	27	16	17	19	20
Current liabilities	500	493	364	393	427
Total liabilities	681	644	512	541	576
Share capital	68	68	68	68	68
Retained earnings	1,331	1,547	1,767	2,011	2,277
Total equity	1,400	1,615	1,835	2,079	2,346
BPS (RMB)	1.803	2.080	2.364	2.678	3.021
yoy(%)	15.4%	15.4%	13.6%	13.3%	12.8%

Margins & Ratios					
	2013A	2014A	2015F	2016F	2017F
Gross margin (%)	32.5	32.5	32.1	30.8	28.7
Operating margin (%)	26.1	26.8	26.5	25.1	23.6
EBITDA margin (%)	29.3	30.6	29.6	27.7	25.7
Net profit margin (%)	16.2	20.1	20.2	19.4	18.5
ROA (%)	11.6	12.3	12.1	12.4	12.3
ROE (%)	18.6	17.7	16.2	15.8	15.4
Interest coverage (x)	16.2	16.8	20.7	26.8	42.1
Current ratio (x)	3.3	3.7	5.4	5.8	6.0
Net gearing ratio (%)	Net Cash				
Inventory turnover days	47.9	49.2	48.9	48.0	46.6
Trade receivable days	105.0	105.0	105.0	105.0	105.0
Trade payable days	39.4	39.4	39.4	39.4	39.4

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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