

GCL-Poly (3800 HK)

Buy

Target price (HKD)	2.80
Share price (HKD)	2.02
Upside/Downside (%)	38.6

Dec	2013 a	2014 e	2015 e
HSBC EPS	-0.05	0.14	0.18
HSBC PE		14.4	11.4
Performance	1M	3M	12M
Absolute (%)	9.2	12.8	-23.2
Relative^ (%)	11.0	7.6	-31.4

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Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Buy: Captive power plant yet to be commissioned

- **FY14 normalized net attributable profit of HKD2,168m vs HSBCE/consensus of HKD2,325/2,008m**
- **FY15 target poly cost all-in: cUSD13/kg and cash: USD11.5/kg, vs USD15.5/kg and 13.75/kg, respectively; captive power plant to commission by end May 2015.**
- **Reiterate Buy; TP of HKD2.80 (was HKD2.70) on earnings revisions and increase in solar farm build-out by subsidiary**

FY14 results. FY14 revenue/normalized net attributable profit were HKD37,224/2,168m vs HSBCE HKD35,496m/2,325m. Consensus net profit was HKD2,008m. **4QFY14 poly/wafer business:** 15,443mt/12,909MW of poly/wafers were sold in FY14, -5.4%/+36.8% vs FY13. 4Q14 poly and wafer ASP was USD21.06/kg (3Q14: USD21.76/kg) and USD0.21/W (3Q14 and FY13: USD0.21/W), respectively. By end-2014, poly all-in/cash cost was USD15.5/kg (vs 1H14: USD15.7/kg)/USD13.75/kg and wafer processing cost was USD0.08/W (vs 1H14: USD0.08/W).

Management guidance: **a)** Captive power plant should be commissioned by end-May 2015, which should bring in cost savings of cUSD2/kg. **b)** Poly cost target by end-FY15: all-in cost: slightly higher than USD13/kg; cash cost: USD11.5/kg. **c)** FY15 wafer production level: 14GW (12.9GW at end-FY14). **d)** FY15 Fluidized Bed Reactor (FBR) poly production level: c5,000mt (max: 8,000mt). **e)** FBR cost target: USD8/kg. **f)** FY15 Modified Siemens capacity should reach 70,000mt.

Earnings revisions. We revise down our FY15/16 estimates to reflect the delay in commissioning of the captive power plant to end-May 2015 (leading to a slow-down in poly cost reduction). We also increase our wafer processing forecast based on end-FY14 actuals.

Our fair value TP of HKD2.80 (was HKD2.70) is based on: We value the core poly/wafer business at HKD2.20 (was HKD2.41) based on a FY15-16e ROE-implied PB of 1.62x (was HKD1.71x) applied to our 2015e BVPS of HKD1.37 (was HKD1.42). We value the solar farm business at HKD0.55 (was HKD0.33) per share, based on DCF methodology (ROE 15.3%, CoE: 10.4%, g: 1%) and based on GCL New Energy's guidance in solar installation target for FY15/16/17e. We reiterate our Buy rating. **Key downside risks:** lower-than-expected ASPs or capacity utilisation, reduced solar subsidies, lower-than-expected new solar capacity in China, and new equity issuance to address balance sheet concerns.

Index ^a	HANG SENG INDEX
Index level	24,497
RIC	3800.HK
Bloomberg	3800 HK

Source: HSBC

Enterprise value (HKDm)	64,234
Free float (%)	38
Market cap (USDm)	4,035
Market cap (HKDm)	31,288

Source: HSBC

Financials & valuation

Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Profit & loss summary (HKDm)				
Revenue	25,530	37,225	33,820	36,382
EBITDA	5,106	9,561	9,991	11,410
Depreciation & amortisation	-3,387	0	-3,754	-3,807
Operating profit/EBIT	1,741	9,608	6,240	7,604
Net interest	-2,207	-3,037	-2,531	-2,437
PBT	-467	6,572	3,709	5,170
HSBC PBT	-359	3,071	3,706	5,167
Taxation	-190	-639	-821	-1,145
Net profit	-664	1,955	2,710	3,878
HSBC net profit	-741	2,168	2,735	3,876

Cash flow summary (HKDm)

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Cash flow from operations	7,868	12,393	12,435	10,817
Capex	-3,480	-5,956	-3,799	-2,500
Cash flow from investment	-6,668	-5,911	-5,296	-2,497
Dividends	0	0	0	0
Change in net debt	-940	3,590	-6,109	-8,887
FCF equity	2,267	3,400	6,105	5,884

Balance sheet summary (HKDm)

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Intangible fixed assets	853	806	806	806
Tangible fixed assets	43,995	50,612	50,657	46,350
Current assets	28,057	34,319	36,763	44,794
Cash & others	6,169	5,529	9,638	16,524
Total assets	76,396	89,829	92,318	96,042
Operating liabilities	21,348	26,673	28,274	29,973
Gross debt	33,256	36,206	34,206	32,206
Net debt	27,087	30,677	24,568	15,681
Shareholders funds	16,146	18,406	21,143	25,021
Invested capital	45,389	53,536	50,315	45,453

Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Y-o-y % change				
Revenue	14.2	45.8	-9.1	7.6
EBITDA	171.5	87.2	4.5	14.2
Operating profit		452.0	-35.1	21.9
PBT			-43.6	39.4
HSBC EPS			26.1	41.7

Ratios (%)

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Revenue/IC (x)	0.6	0.8	0.7	0.8
ROIC	5.4	17.4	9.4	12.4
ROE	-4.6	12.6	13.8	16.8
ROA	3.8	10.4	5.3	6.3
EBITDA margin	20.0	25.7	29.5	31.4
Operating profit margin	6.8	25.8	18.4	20.9
EBITDA/net interest (x)	2.3	3.1	3.9	4.7
Net debt/equity	150.4	143.6	101.3	55.5
Net debt/EBITDA (x)	5.3	3.2	2.5	1.4
CF from operations/net debt	29.0	40.4	50.6	69.0

Per share data (HKD)

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EPS reported (fully diluted)	-0.04	0.13	0.17	0.25
HSBC EPS (fully diluted)	-0.05	0.14	0.18	0.25
DPS	0.00	0.00	0.00	0.00
Book value	1.04	1.19	1.37	1.62

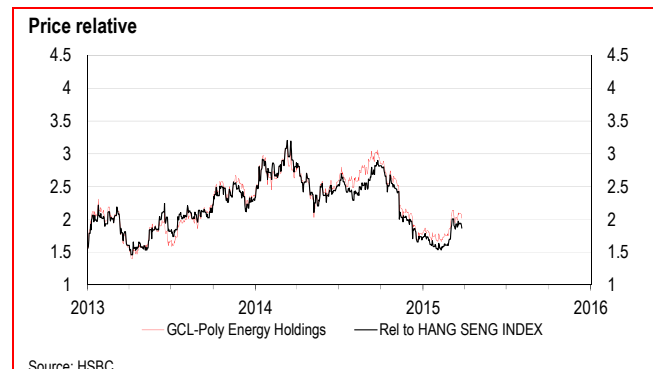
Key forecast drivers

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Poly ASP (USD/kg)	17.4	21.7	20.5	19.0
Poly Unit CoGS (USD/kg)	17.0	11.6	13.8	12.7
Wafer ASP (USD/W)	0.21	0.22	0.22	0.22
Wafer Processing (USD/W)	0.09	0.08	0.08	0.08

Valuation data

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EV/sales	2.4	1.7	1.7	1.4
EV/EBITDA	11.9	6.7	5.8	4.3
EV/IC	1.3	1.2	1.2	1.1
PE*		14.4	11.4	8.1
P/Book value	1.9	1.7	1.5	1.3
FCF yield (%)	6.8	10.1	18.2	17.5
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 26 Mar 2015

FY14 results summary

- ▶ FY14 revenue/normalized net attributable profit was HKD37,224/2,168m vs HSBCe HKD35,496m/2,325m
- ▶ 15,443mt/12,909MW of poly/wafers were sold in FY14, -5.4%/+36.8% YoY vs 16,329mt/9,436MW in FY13
- ▶ FY15 target poly cost all-in: cUSD13/kg and cash: USD11.5/kg, vs USD15.5/kg and 13.75/kg, respectively; captive power plant to be commissioned by end-May 2015

FY14/4Q14 results summary

- ▶ **FY14 revenue/normalized net attributable profit** was HKD37,224/2,168m vs HSBCe HKD35,496m/2,325m; Consensus net profit was HKD2,008m. The company issued a positive profit alert on 4 March 2015 stating that its FY14 net attributable profit will be no less than HKD1,800m.
- ▶ **4QFY14 poly/wafer business:** 15,443mt/12,909MW of poly/wafers were sold in FY14, -5.4%/+36.8% vs 16,329mt/9,436MW in FY13. 4Q14 poly and wafer ASP was USD21.1/kg (3Q14: USD21.76/kg and FY13: USD17.4/kg) and USD0.21/W (3Q14 and FY13: USD0.21/W), respectively. The company explained that by end-2014, poly all-in/cash cost was USD15.5/kg (vs 1H14: USD15.7/kg)/USD13.75/kg and wafer processing cost was USD0.08/W (vs 1H14: USD0.08/W).
- ▶ GCL-Poly has 65,000/3,000mt Modified Siemens/FBR (Fluidized Bed Reactor) poly capacity and 13GW wafer capacity as at end-FY14.

Management guidance

- ▶ Captive power plant – Now in pilot testing stage. Trying to turn this captive power plant into zero emission/clean power plant. Waiting for provincial government (including provincial National Energy Administration “NEA”) approval. Should be commissioned by end-May 2015
- ▶ Current Modified Siemens poly cost: all-in: USD15.5/kg and cash cost: USD13.75/kg. Company expects with the commissioning of the captive power plant, there could be cost savings of cUSD2/kg. Poly cost target by end-FY15: all-in cost: slightly higher than USD13/kg; cash cost: USD11.5/kg. FY15 FBR all-in cost target: USD8/kg.
- ▶ FY15 wafer production level: 14GW (12.9GW at end-FY14)

- ▶ FY15 FBR (Fluidized Bed Reactor) poly production level: c5,000mt, but may reach 8,000mt
- ▶ FY15 Modified Siemens capacity should reach 70,000mt. Depending on market conditions, it could increase to 75,000mt.

Consolidated income statement

HKDm	1H13	2H13	2H/FY13	FY13	1H14	2H14e	2H/FY14e	FY14e	HSBC FY14e	Actual vs HSBCe
Revenue	11,300	14,230	56%	25,530	17,222	20,003	54%	37,225	35,496	5%
Cost of sales (including dep)	(10,555)	(11,936)	53%	(22,490)	(13,544)	(16,030)	54%	(29,574)	(27,916)	6%
Gross Profit	745	2,295	75%	3,040	3,678	3,973	52%	7,651	7,580	1%
Gross Margin (%)	7%	16%		12%	21%	20%		21%	21%	
Revenue YoY changes %	-4%	35%		14%	52%	41%		46%	39%	
COGS YOY changes %	5%	14%		9%	28%	34%		31%	24%	
Other income	341	624	65%	965	618	698	53%	1,316	1,236	6%
Distribution and selling expenses	(20)	(22)	52%	(42)	(34)	(58)	63%	(92)	(76)	22%
Administrative expenses	(822)	(963)	54%	(1,786)	(1,127)	(1,366)	55%	(2,493)	(2,323)	7%
Other expenses	(357)	(101)	22%	(458)	(428)	(173)	29%	(601)	(883)	-32%
Gain on disposal of an associate	424	-	0%	424	-	-	N/A	-	-	
Share of results of associates	16	5	24%	21	2	46	97%	48	3	1386%
Share of results of jointly controlled entities	(1)	(5)	N/A	(5)	(1)	1	N/A	-	(1)	-100%
Sales of solar farm	-	-	N/A	-	-	-	N/A	-	-	
Finance costs	(1,091)	(1,116)	51%	(2,207)	(1,406)	(1,631)	54%	(3,037)	(2,355)	29%
Profit before tax	(765)	717	-1512%	(47)	1,301	1,490	53%	2,792	3,182	-12%
Income tax expense	(71)	(119)	62%	(190)	(288)	(351)	55%	(639)	(673)	-5%
Net income	(836)	599	-252%	(238)	1,013	1,139	53%	2,152	2,509	-14%
Net Margin (%)	-7%	4%		-1%	6%	6%		6%	7%	
Net income included non-recurring items below:										
Non recurring expenses	(446)	109	-32%	(337)	(192)	(132)	N/A	(324)	(192)	69%
Sales of solar farm	-	-	N/A	-	-	-	N/A	-	-	
Gain on disposal of an associate	424	-	0%	424	-	-	N/A	-	-	
	(21)	109		87	(192)	(132)		(324)	(192)	69%
Profit of the year attributable to:										
Owners of the company	(917)	253	-38%	(664)	900	1,055	54%	1,955	2,319	-16%
Non-controlling interests	81	(300)	137%	(218)	113	(313)	156%	(200)	(188)	7%
Normalized net attributable profit	(910)	169	-23%	(741)	1,049	1,119	52%	2,168	2,325	-7%
Earnings per share (HKD)	(0.06)	0.02		(0.04)	0.06	0.07		0.13	0.15	-16%

Source: Company data, HSBC estimates

Earnings revisions

- ▶ We revise down FY15/16e numbers to reflect the delay in the commissioning of the captive power plant to end-May 2015 (thus leading to a slow-down in poly cost reduction); we also increase our wafer processing forecast based on end-FY14 actuals
- ▶ TP HKD2.80 (was HKD2.70) – core wafer/poly business valued at HKD2.20 (vs HKD2.40) and solar farm at HKD0.55 (vs HKD0.33)

Earnings revisions

We update FY14 to the actual numbers. We cut out FY15/16e estimates as delay in the commissioning of the captive power plant to end-May 2015 based on management guidance leads to a delay in the reduction of poly cost throughout our forecast period. We also lower the FBR production level to 5,000mt for FY15 based on guidance. As management explained that the end-FY14 wafer processing cost is flat at USD0.08/W, we factored this in throughout our forecast period, which is higher than our original forecast. We also lower 1Q/2Q15 wafer ASP to reflect spot ASP and our expectations towards 2Q15. We also cut our poly capacity forecast.

Earnings revisions			
	2014	2015e	2016e
Revenues			
New	37,225	33,820	36,382
Old	35,496	36,068	41,953
% change	5%	-6%	-13%
HSBC net profit			
New	2,168	2,735	3,876
Old	2,325	3,743	4,394
% change	-7%	-27%	-12%

Source: Company data, HSBC estimates

Key assumptions change

New

	1Q15e	2Q15e	3Q15e	4Q15e	1Q16e	2Q16e	3Q16e	4Q16e
Avg polysilicon price (USD/kg)	21.0	21.0	20.0	20.0	19.0	19.0	18.0	18.0
Avg Wafer price (USD/W)	0.21	0.22	0.22	0.22	0.22	0.22	0.22	0.22
Avg polysilicon production cost (USD/kg)	15.5	13.5	13.2	13.2	12.7	12.2	11.9	11.9
Avg wafer production cost (USD/W) using poly ASP	0.19	0.19	0.18	0.18	0.18	0.18	0.18	0.17
Avg wafer production cost (USD/W) using internal poly costs	0.14	0.16	0.15	0.15	0.15	0.15	0.14	0.14
Avg polysilicon capacity (MT)	68,000	68,000	74,000	80,000	80,000	80,000	80,000	80,000
Utilisation rate of polysilicon capacity	100%	100%	100%	100%	100%	100%	100%	100%
Avg wafer capacity (MW)	13,000	13,500	13,500	14,000	14,000	14,000	16,000	16,000
Utilisation rate of wafer capacity	100%	100%	100%	100%	100%	100%	100%	100%
Polysilicon usage for wafer production (g/W)	5	5	5	5	5	5	5	5

Old

	1Q15e	2Q15e	3Q15e	4Q15e	1Q16e	2Q16e	3Q16e	4Q16e
Avg polysilicon price (USD/kg)	21.0	21.0	20.0	20.0	19.0	19.0	18.0	18.0
Avg Wafer price (USD/W)	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
Avg polysilicon production cost (USD/kg)	13.2	13.1	13.1	13.1	13.0	12.8	12.8	12.8
Avg wafer production cost (USD/W) using poly ASP	0.20	0.20	0.19	0.19	0.20	0.19	0.19	0.18
Avg wafer production cost (USD/W) using internal poly costs	0.17	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Avg polysilicon capacity (MT)	77,000	77,000	83,000	89,000	89,000	89,000	89,000	89,000
Utilisation rate of polysilicon capacity	100%	100%	100%	100%	100%	100%	100%	100%
Avg wafer capacity (MW)	13,000	13,000	13,000	13,000	18,000	18,000	18,000	18,000
Utilisation rate of wafer capacity	110%	110%	110%	110%	100%	100%	100%	100%
Polysilicon usage for wafer production (g/W)	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7

Change

	1Q15e	2Q15e	3Q15e	4Q15e	1Q16e	2Q16e	3Q16e	4Q16e
Avg polysilicon price (USD/kg)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Avg Wafer price (USD/W)	-0.01	-0.01	0.00	0.00	0.00	0.00	0.00	0.00
Avg polysilicon production cost (USD/kg)	2.3	0.3	0.1	0.1	-0.3	-0.6	-1.0	-1.0
Avg wafer production cost (USD/W) using internal poly costs	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Avg wafer production cost (USD/W)	-0.02	0.00	-0.01	-0.01	-0.01	0.00	-0.01	-0.01
Avg polysilicon capacity (MT)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)
Utilisation rate of polysilicon capacity	0%	0%	0%	0%	0%	0%	0%	0%
Avg wafer capacity (MW)	0	500	500	1,000	-4,000	-4,000	-2,000	-2,000
Utilisation rate of wafer capacity	-10%	-10%	-10%	-10%	0%	0%	0%	0%
Polysilicon usage for wafer production (g/W)	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7

Source: HSBC estimates

Valuation and risks

Our fair value TP of HKD2.80 (was HKD2.70) is based on: We value the core poly/wafer business at HKD2.20 (was HKD2.41 per share), based on a FY15-16e ROE-implied PB of 1.62x (was HKD1.71x) applied to our 2015e BVPS of HKD1.37 (was HKD1.42). We value the solar farm development business at HKD0.55 (was HKD0.33) per share, based on a DCF methodology (ROE 15.3%, CoE: 10.4%, g: 1%) and based on GCL's 62%-owned subsidiary, GCL New Energy's (451 HK, not rated) guidance in solar installation target of 2/2.5/3GW for FY15/16/17e. We reiterate our Buy rating on the stock.

Key downside risks: lower-than-expected ASPs or capacity utilisation, reduced solar subsidies, lower-than expected new solar capacity in China, and new equity issuance to address balance sheet concerns.

Valuation metrics

Parameters	Old	New
Cost of equity	10.4%	10.4%
CoE – growth	9.4%	9.4%
Sustainable RoE	16.1%	15.3%
Book value per share (FY14e)	1.42	1.37
PB ratio	1.71x	1.62x
Per share value (rounded) - HKD	2.40	HKD2.2
DCF of solar farm - HKD	0.33	0.55
TP (rounded) - HKD	2.7	2.8

Source: HSBC estimates

Investment thesis

We prefer upstream manufacturers because technical entry barriers are higher for poly and wafer makers. We believe GCL-Poly, a large upstream manufacturer of the polysilicon and wafers, will remain competitive given its production cost leadership, strong R&D team and developing solar farm business.

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Gloria Ho and Jenny Cosgrove

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 27 March 2015, the distribution of all ratings published is as follows:

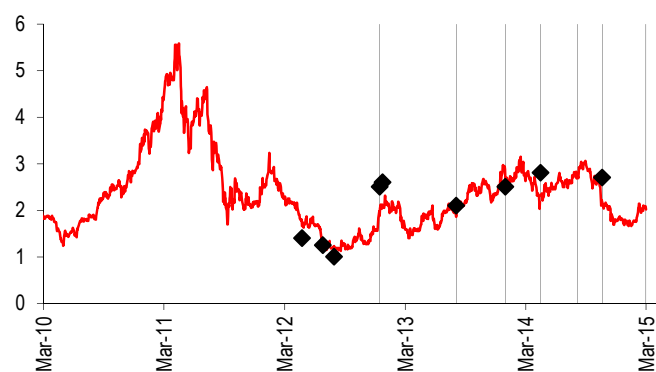
Buy	41%	(29% of these provided with Investment Banking Services)
Hold	39%	(28% of these provided with Investment Banking Services)
Sell	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities

GCL-Poly Energy Holdings (3800.HK) Share Price performance HKD Vs HSBC

rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Underweight (V)	Overweight (V)	08 January 2013
Overweight (V)	Neutral (V)	29 August 2013
Neutral (V)	Underweight (V)	24 January 2014
Underweight (V)	Overweight (V)	11 May 2014
Overweight (V)	Neutral (V)	29 August 2014
Neutral (V)	Overweight (V)	14 November 2014
Overweight (V)	Buy	25 March 2015
Target Price	Value	Date
Price 1	1.40	18 May 2012
Price 2	1.25	20 July 2012
Price 3	1.00	23 August 2012
Price 4	2.50	08 January 2013
Price 5	2.60	17 January 2013
Price 6	2.10	29 August 2013
Price 7	2.50	24 January 2014
Price 8	2.80	11 May 2014
Price 9	2.70	14 November 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
GCL-POLY ENERGY HOLDINGS	3800.HK	2.02	26-Mar-2015	11

Source: HSBC

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