



Maanshan Iron & Steel

Strengthened policy; increasing earnings visibility, upgrade to BUY

Investment Focus

Action

Upgrade A/H to BUY; lift TP by 48%/74% to Rmb3.7/ HK\$3.1.

Reasoning

Capacity cut may beat expectation; periodical opportunity likely in 1H17. We expect sector capacity utilization to rebound to 75% as government tries to realize the 5yr target in three years. Besides, mid-frequency furnaces (MFF)' annual output > 40mnt and construction steel supply is highly likely to shrink. We expect periodical opportunity in 1H17 and Maanshan I&S to benefit from high earnings sensitivity.

Benefiting from elimination of low-quality steel; visible turnaround ahead for long products. Long products are close to 50% of Maanshan's steel output and Maanshan should benefit from marginal supply shortage caused by elimination of low-quality steel in neighboring Jiangsu, which has large exposure to MFFs. This should boost Maanshan's capacity utilization and GP/t (which may achieve Rmb240/t in 2017).

Improving product mix for plate products and rising output of automotive plate. Its output volume of automotive plate has increased from 200kt to 1.5mt and it may +40%/+19% YoY to 2.1/2.5mt in 2016/2017.

How do we differ from the market? Market underestimated Maanshan I&S' 8~9mnt production capacity in long products.

Potential catalysts: Elimination of low-quality steel, frequent conventions may reduce supply.

Earnings forecast and valuation

Raise 16/17e EPS by 33%/40% to Rmb0.15/Rmb0.13, and introduce 2018e EPS at Rmb0.14. Raise A/H TP by 48% and 74% to Rmb3.7 and HK\$3.1 (1.3x and 1.0x 2017e P/B). Upgrade Maanshan-A/H to BUY.

Risks

Elimination of low-quality steel misses expectation.

Yan CHEN

Analyst
 yan3.chen@cicc.com.cn
 SAC Reg. No.: S0080515060002
 SFC CE Ref: ALZ159

Coral LI

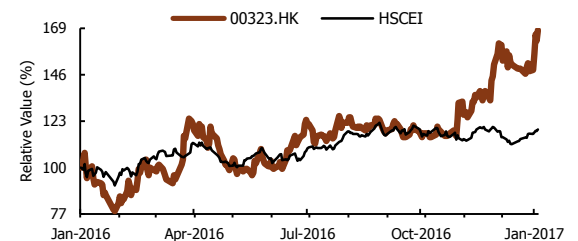
Associate
 coral.li@cicc.com.cn
 SAC Reg. No.: S0080115120032

Jiaojiao NI

Associate
 jiaojiao.ni@cicc.com.cn
 SAC Reg. No.: S0080115110032

Upgrade to BUY

Ticker	600808.SH	00323.HK
CICC investment rating	↑ BUY	↑ BUY
Last close	Rmb2.95	HK\$2.57
CICC target	Rmb3.70	HK\$3.10
52wk price range	Rmb3.18~2.30	HK\$2.61~1.16
Market cap (bn)	Rmb22	HK\$24
Daily value (mn)	Rmb89.88	HK\$33.46
Shares outstanding (mn)	7,701	7,701
Free float (%)	77	23
Daily volume (mn sh)	30.72	13.87
Business sector		Steel



(Rmb mn)	2015A	2016E	2017E	2018E
Revenue	45,109	45,602	46,512	46,512
(+/-)	-24.6%	1.1%	2.0%	0.0%
Net profit	-4,804	1,130	971	1,056
(+/-)	N.M.	N.M.	-14.1%	8.8%
EPS	-0.62	0.15	0.13	0.14
BPS	2.40	2.54	2.79	3.06
DPS	0.00	0.00	0.00	0.00
CPS	0.76	0.39	0.60	0.74
P/E	N.M.	15.7	18.8	16.0
P/B	0.9	0.9	0.8	0.7
EV/EBITDA	N.M.	9.1	8.8	7.3
Dividend yield	0.0%	0.0%	0.0%	0.0%
ROAA	-7.3%	1.8%	1.6%	1.7%
ROAE	-23.0%	5.9%	4.7%	4.7%

Source: Wind, Bloomberg, company data, CICC Research



Financial summary

Financial statement (Rmb mn)	2015A	2016E	2017E	2018E	Financial ratios	2015A	2016E	2017E	2018E
Income statement					Growth ability				
Revenue	45,109	45,602	46,512	46,512	Revenue	-24.6%	1.1%	2.0%	0.0%
COGS	-45,690	-40,297	-41,429	-41,518	Operating profit	-243.3%	N.M.	-8.3%	-3.6%
Selling expenses	-636	-661	-674	-674	EBITDA	-170.8%	N.M.	0.9%	8.1%
Administrative expenses	-1,539	-1,915	-1,907	-1,907	Net profit	N.M.	N.M.	-14.1%	8.8%
Other ops income (expense)	0	0	0	0	Profitability				
Operating profit	-2,755	2,728	2,501	2,412	Gross margin	-1.3%	11.6%	10.9%	10.7%
Finance costs	-813	-743	-710	-677	Operating margin	-6.1%	6.0%	5.4%	5.2%
Other income (expense)	-1,158	-608	-608	-448	EBITDA margin	-4.6%	9.1%	9.0%	9.7%
Profit before income tax	-4,727	1,378	1,184	1,287	Net margin	-10.7%	2.5%	2.1%	2.3%
Income tax	-378	-207	-178	-193	Liquidity				
Minority interest	300	-41	-36	-39	Current ratio	0.68	0.73	0.80	0.90
Net profit	-4,804	1,130	971	1,056	Quick ratio	0.48	0.55	0.60	0.70
EBITDA	-2,072	4,138	4,177	4,514	Cash ratio	0.17	0.19	0.18	0.28
Recurrent net income	-4,804	1,130	971	1,056	Liabilities / assets	66.8%	63.9%	60.6%	58.6%
Balance sheet					Net debt / equity	83.7%	79.9%	67.3%	52.0%
Cash and bank balances	5,143	5,003	4,448	7,029	Return				
Trade and bill receivables	6,121	6,840	7,442	7,442	RoA	-7.3%	1.8%	1.6%	1.7%
Inventories	6,018	4,811	4,947	4,957	RoE	-23.0%	5.9%	4.7%	4.7%
Other current assets	2,879	2,879	2,879	2,879	Per-share data				
Total current assets	20,160	19,533	19,715	22,306	EPS (Rmb)	-0.62	0.15	0.13	0.14
Fixed assets and CIP	38,914	37,841	36,568	35,095	BPS (Rmb)	2.40	2.54	2.79	3.06
Intangible assets and others	3,381	3,381	4,341	5,301	DPS (Rmb)	0.00	0.00	0.00	0.00
Total non-current assets	42,294	41,221	40,909	40,396	Cash flow per share (Rmb)	0.76	0.39	0.60	0.74
Total assets	62,454	60,754	60,624	62,702	Valuation				
Short-term borrowings	11,876	11,876	9,876	9,876	P/E	N.M.	15.7	18.8	16.0
Trade and bill payables	14,091	11,226	11,130	11,154	P/B	0.9	0.9	0.8	0.7
Other current liabilities	3,764	3,757	3,757	3,757	EV/EBITDA	N.M.	9.1	8.8	7.3
Total current liabilities	29,731	26,860	24,763	24,787	Dividend yield	0.0%	0.0%	0.0%	0.0%
Long-term borrowings	10,635	10,635	10,635	10,635					
Total non-current liabilities	11,982	11,982	11,982	11,982					
Total liabilities	41,713	38,842	36,745	36,769					
Share capital	7,701	7,701	7,701	7,701					
Retained profit	10,755	11,885	13,815	15,831					
Equity	18,456	19,586	21,516	23,532					
Total liabilities & equity	62,454	60,754	60,624	62,702					
Cash flow statement									
Pretax profit	-5,104	1,130	971	1,056					
Depreciation & amortization	3,467	3,503	3,703	3,903					
Change in working capital	5,873	-2,377	-833	13					
Others	1,629	784	745	715					
Cash flow from operations	5,865	3,040	4,586	5,688					
Capital expenditure	-2,773	-2,430	-2,430	-2,430					
Others	-848	0	0	0					
Cash flow from investing	-3,621	-2,430	-2,430	-2,430					
Equity financing	5	0	0	0					
Bank borrowings	-2,098	0	-2,000	0					
Others	538	-749	-710	-677					
Cash flow from financing	-1,555	-749	-2,710	-677					
Foreign exchange gain (loss)	147	0	0	0					
Net changes in cash	837	-140	-554	2,580					

Source: Company data, CICC Research

Company description

Magang is a local state-owned steel manufacturer in Anhui Province, a subsidiary of Magang Group (50.5%). The Hong Kong listing was in 1993 and Shanghai in 1994. In 2015, it produced ~18mn tonnes of steel products, including plates (50%), long products (49%), and train wheels (1%). The company has leading technology in high speed train wheel and tire production, and thus high profit margin compared to other steel products.



Policy on capacity cut beats expectation; periodical opportunity expected for 1H17

The effective capacity elimination will exert material impact on supply

Though way above the government target, the actual capacity cut in 2016 still had limited impact on actual output. According to the State Council's advice on cutting surplus capacity, the crude steel capacity will be cut by 100~150mnt during the 13th FYP. With 2016 marking the first year of supply-side reform, the NDRC's full year target to eliminate 45mnt capacity was already met by October and a total of >81.3mnt steelmaking capacity exited in 2016. However, according to Mysteel, the capacities shut down last year were mostly ineffective ones and only ~10% were in actual operation. It thus barely affected the steel supply.

The 13th FYP target to be completed in three years; capacity utilization rate to see stronger recovery. On the China Iron and Steel Association's 2017 Conference held on January 10, the NDRC's Deputy Director called to finish the 5-yr capacity cut plan within three years (2016~18). Assuming same amount of capacity cut in 2017/18, another 34.3mnt capacity should be removed in 2017; considering the 9.6mnt new capacity in 2017, China's crude steel capacity will total ~1.05bnt by end-2017. Assuming the crude steel output slips 1.5% YoY to 798mnt in 2017; the average capacity utilization will improve by 5ppt from 70.1% in 2015 to 75.1%. In the meantime, the elimination of more effective capacity in 2017/18 is expected to bring material change to the sector supply, thus improving the marginal supply/demand and boosting the steelmakers' earnings.

Figure 1: Capacity utilization ratio if completing the five-year target in three years

kt		2012	2013	2014	2015	2016E	2017E	2018E
Crude Steel Product		716,542	779,041	822,700	803,830	810,301	798,146	783,780
	YoY(%)	4.9%	8.72%	0.9%	-2.3%	0.8%	-1.5%	-1.8%
Net export of crude steel		44,304	50,851	84,199	105,725	107,311	101,945	101,945
	YoY(%)	27%	15%	66%	26%	1.5%	-5%	0%
Domestic apparent consumption of crude steel		672,238	728,190	738,501	698,105	702,990	696,201	681,835
	YoY(%)	3.7%	8.3%	1.4%	-5.5%	0.7%	-1.0%	-2.1%
Crude steel capacity utilization		74.7%	73.5%	72.8%	70.1%	72.9%	75.1%	75.5%

Source: NBS, CICC Research

Crackdown on low-quality steel produced by MFF signals stronger than expected government policies

Regulations on MFF announced in eight provinces and cities. The 150mnt MFF capacity in China produces >40mnt steel p.a., mostly for construction use. It is mainly located in East China (47.8%), especially in Jiangsu (~40mnt, the highest). Currently, 8 provinces and cities (Jiangsu, Tangshan, Shandong, Anhui, Liaoning, etc.) already announced regulations on 98.2mnt MFF capacity.

Stringent regulations to wipe out low-quality steel produced by MFF. On the China Iron and Steel Association's 2017 Conference held on January 10, the NDRC's Deputy Director made it a political task to clear all low-quality steel before June 30. As required by the State Council, 12 inspection teams have been assigned. We believe the stricter-than-ever regulations might entirely wipe out the unqualified steel capacity.



Figure 2: The production impact of regulations on MFF capacity

Region	MFF Regulation Policies	Capacity (mt)	Production Impact
Jiangsu	All MFFs in Xuzhou, Lianyungang, Suqian, Yancheng, Huaian were shut down before 29 Nov and the government checked the demolition work on 30 Nov.	40.0	25%~30% of the average daily construction steel production in Jiangsu
Shandong	From 28 Nov, all MFFs to suspend production and do self inspection on safety, quality and environmental requirements.	16.1	35kt per day
Sichuan	Investigation and punishments on illegal use of MFFs and Industrial Frequency Induction (IFI) furnaces. Cutting supply of electricity & water to illegal equipments.	15.0	40%~45% of the average daily construction steel production in Sichuan
Tangshan	The government required all MFF and IFI furnaces used in producing construction steel and construction steel billet should be checked and removed.	20.0	About 0.5mt per month
Anhui	In the beginning of Dec, all MFF to suspend production and do self inspection on safety, quality and environmental requirements.		0.52kt per day
Liaoning	All MFFs in Liaoyang and Liaoning were requested to suspend production.	7.1	
Subtotal		98.2	
Total capacity of MFF Proportion		150.0	65%

Source: Mysteel, Topics in Focus, CICC Research

A market gap to be filled after the shutdown of unqualified steel capacity; utilization ratio of long-process capacity to further improve. The supply gap left by the clearance of unqualified steel will mostly be filled by long-process steel. Since the steel produced by MFF is not necessarily unqualified (60% with rolling qualification and some with electro smelting qualification), we estimated the improvement in the utilization rate of long-process construction steel under three scenarios:

- 1) Under pessimistic scenario where 40% of MFF are closed or torn down, the output of long-process steel will increase 16mnt with utilization ratio up 3.3ppt to 85.0%;
- 2) Under neutral scenario where 70% of MFF are closed or torn down, the output of long-process steel will increase 24mnt with utilization ratio up 5.7ppt to 87.4%;
- 3) Under extreme scenario, all MFF capacity are closed or torn down, the output of long-process steel will increase 40mnt with utilization ratio up 8.2ppt to 89.9%.

However, as the impact of housing controlling measures starts to emerge in 2H17, the demand for construction steel might see downside risk. Thus, the actual improvement in the utilization ratio of long-process capacity might not be as strong as estimated.

Figure 3: Scenario analysis on increase in the utilization ratio of long-process capacity

mt	Total capacity	Long-process capacity	Long-process output	Capacity utilization
Rebar	388.0	256.1		
Steel wire rods	300.0	234.0		
Construction steel in total	688.0	490.1	400.5	81.7%
Pessimistic assumption (40% MFF shut down or dismantled)				
Increase in long-process output			16.0	
		490.1	416.5	85.0%
Neutral assumption (70% MFF shut down or dismantled)				
Increase in long-process output			28.0	
		490.1	428.5	87.4%
Extreme assumption (100% MFF shut down or dismantled)				
Increase in long-process output			40.0	
		490.1	440.5	89.9%

Source: Mysteel, CICC Research

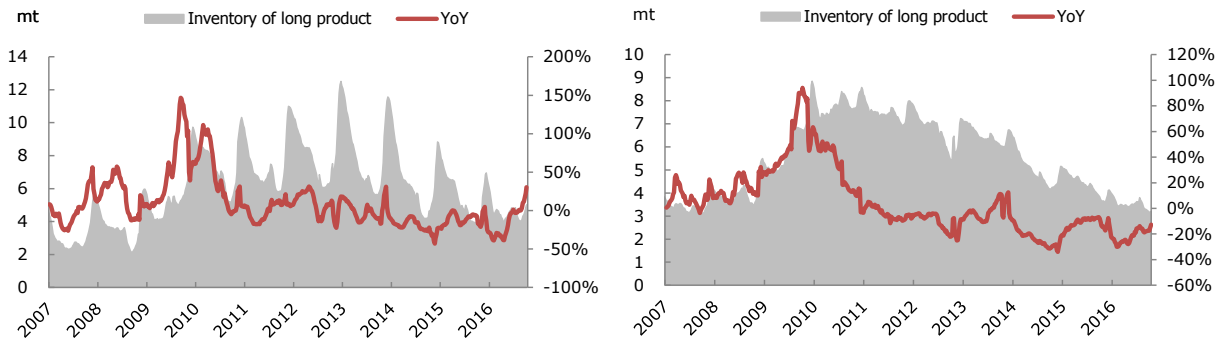
Environmental protection inspections to become a new normal and drive the market-oriented capacity cut in the mid/long-term

Periodical output adjustment from environmental regulations to improve mid-term marginal supply/demand. The three rounds of inspections in 2016 and the



introduction of environmental protection tax should help adjust the steel output. We expect future inspections to become a new normal in the steel sector. In the near term, the inspections, by suppressing periodical supply, would improve the marginal supply/demand. Considering the social and steelmakers inventory are now both at a low level, the marginal impact of production restrictions for environmental protection purpose might increase.

Figure 4: Recovering inventory of long products (left); continued decline in inventory of plate products



Source: SteelHome, CEIC, CICC Research

Rising environmental protection cost likely to continue and benefit leading players. Under new national environmental protection standards, environmental protection should take up 13% total investment in steel per ton. If investment in steel averages at >Rmb3000/t, the environmental protection investment will amount to >Rmb400/t, and environmental protection operation expense will exceed >Rmb200/t, 50% higher than under the old standard. For small and medium private enterprises, the cost of environmental protection operation only ranged from Rmb50/t to Rmb100/t. According to calculation, to fully meet the standards of new environmental protection regulations, the cost of renovating waste water and exhaust gas treatment equipment and the other environmental protection facilities will amount to ~Rmb100bn with additional environmental protection expenditure of nearly Rmb80bn per year. For a medium-sized steel mill with a capacity of 5mnt and no environmental protection facilities at all, it will have to invest ~Rmb2bn in environmental protection facilities to meet the new standard, and the steel operation cost will increase Rmb200/t. If this steelmaker fails to keep a decent profitability, it will face the risk of being crowded out.

Figure 5: Environmental protection investment and operation cost per ton under the new and the old standards (unit: Rmb/t)

	New standard	Old standard	Baogang
EP investment per tonne of steel	400	250	660
EP operating cost per tonne of steel	200	140	150

Note: investment data of Baogang is from its project in Zhanjiang, while operating cost data of it is from its 2014 annual report

Source: Company data, chinaisa.org.cn, CICC Research

Conclusion

More serious policy in 2017 and accelerating exit of effective capacity will impact steel production. If the closure of MFF beats expectations, construction steel will likely to shrink in the short run. Production restriction due to high environmental protection pressure and important meetings as well as low inventory may give rise to periodical opportunity 1H17 for steel prices. In 1H17, steel prices might be front loaded and we expect prices to hit the top in 2Q17.



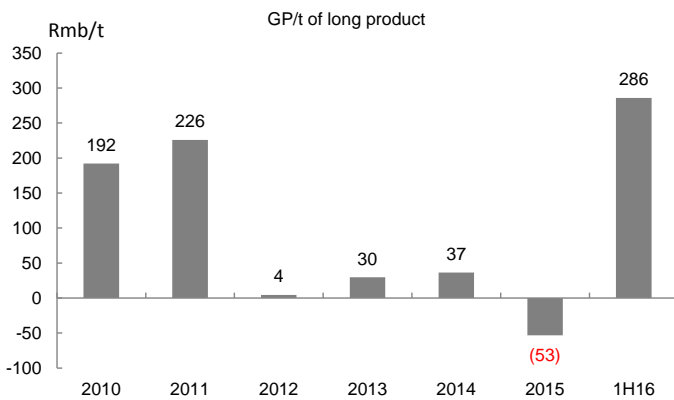
Long product's earnings turned around; optimizing product mix to improve M/L-T competitiveness

Maanshan Iron & Steel is a leading regional steel manufacturer with a total capacity of ~20mnt (16mnt at HQ and ~3.80mnt at subsidiary Yangtze River Iron & Steel). The firm makes a full range of products with its business splitting into the three segments of plate products, long products, and wheels & axels.

Long product's earnings turned around

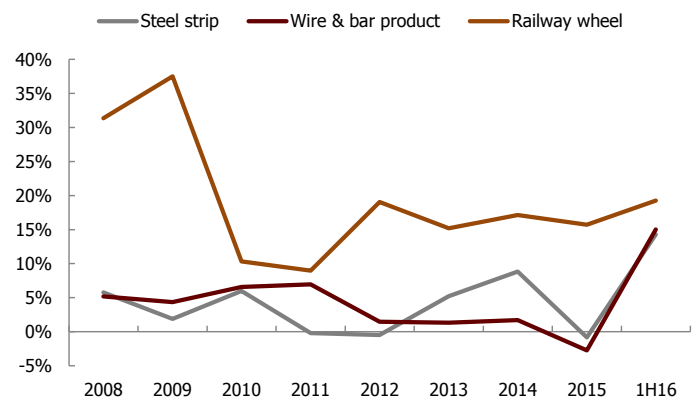
Long product business' earnings turned around amid sector upturn. After years of sluggish performance, the firm's long product business rode industry trend and recorded significant improvement. In 1H16, long product's GP/t reached Rmb286, higher than the highpoint of Rmb226/t in 2011. Gross margin of long product jumped 17.7ppt from -2.7% in 2015 to 15%. In 1H16, long products generated Rmb1.16bn gross profit, accounting for 40% total gross profit of the firm.

Figure 6: Maanshan long products' GP/t



Source: Company data, CICC Research

Figure 7: Breakdown gross margin by products

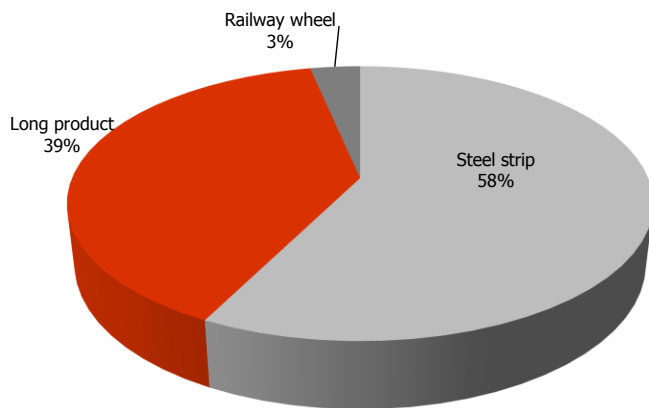


Source: Company data, CICC Research

Despite shrinking share of long product in output, Maanshan I&S is still a leading manufacturer of long products in east China. Due to product mix adjustment in recent years, long product only accounted for 47% total output of Maanshan Iron & Steel in 1~3Q16 (vs. 58% in 2013). Maanshan keeps an annual long product output of 8~9mnt, and its production scale of construction steel still ranks the top among listed players. As the firm is close to Jiangsu province and Shandong province where the supervision over MFF is more serious, Maanshan will likely gain the market share in east China (a market previously taken by MFF) to enhance its capacity utilization and profitability.

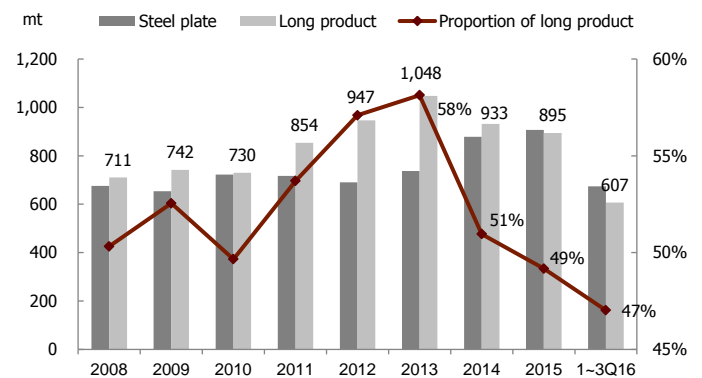


Figure 8: Breakdown of revenue



Source: Company data, CICC Research

Figure 9: Long products kept falling as percentage of total output



Source: Company data, CICC Research

A clear goal of product mix optimization to improve M/L-T competitiveness

Refine the main business of iron & steel to increase product's added-value. According to the firm's product mix upgrading target (figure 10), Maanshan will focus on the five products, i.e. wheel & axle, automotive plate, home appliance steel, section steel and wire rod and to produce products with higher added-value. By 2020, the output of automotive plate and home appliance steel will likely reach 4.8mnt.

Figure 10: The 13th FYP target for product mix optimization of Maanshan

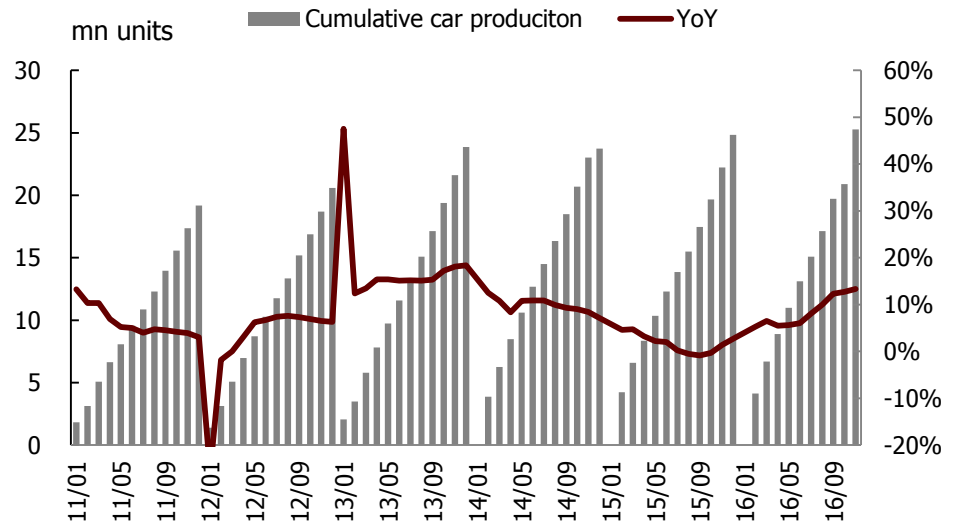
Categories	Name	2015	2020 (Target)	+/-
Target of upgrade	Proportion of variety steel	23%	>50%	
	Auto sheet	150	300	100%
	Home appliance sheet	80	180	125%
Key products	Electric steel	7	35	400%
	Mid & high end shaped steel	8	45	463%
	Railway wheel	13.5	24	78%
	Industrial wire product	30	75	150%
	Special bar product	10	85	750%

Source: Company data, CICC Research

Despite being a late comer, Maanshan has ramped up its automotive plate business and become a tier-1 player in the automotive plate market. The firm started later than its competitors in automotive plate sector, but it has developed at a fast pace. Maanshan's automotive plate output expanded from 0.20mnt in 2005 to 1.50mnt in 2015, ranking 5th nationwide. We expect its automotive plate output to rise to 2.10/2.50mnt in 2016/17e, up 40%/19% YoY. The firm mainly produces inner plate, and there is a gap between the price of inner and exterior plate. Despite narrowing purchasing tax discount, the demand for automotive plate this year will likely grow 5~6%, and automotive plate will likely keep decent profitability. The expanding of automotive plate capacity will enhance plate product's integrated gross margin and the profitability of Maanshan Iron & Steel.



Figure 11: Automobile output and accumulative YoY growth



Source: Wind Info, CICC Research

It takes time for earnings from wheels & axels to rise

An absolute bellwether in the market of train wheels; await HSR wheel orders.

At present, domestic HSR wheel market is monopolized by Zhibo Locchini Railway Equipment Co., Ltd., a JV of Locchini and Zhibo, and core technologies are owned by foreign company. Maanshan Iron & Steel is the absolute bellwether in domestic train wheel market, with an wheel & axle capacity of 300Kt. The wheel for 250km/h and 300km/h HSR developed by Maanshan has passed tests and is under trial production. As HSR wheel output will only be >1,000t at the initial stage, the contribution of HSR wheel to overall earnings will be limited. Future import subscription will likely increase earnings. In the short run, obtaining orders will like provide catalyst to the firm's valuation.



Raise earnings forecast and TP; upgrade A/H to BUY

2016 likely to see upside earnings surprise as steel price outgrew cost rise in 4Q16. Over 1~3Q16, Maanshan's net profit attributable to shareholders reached Rmb760mn and increased by Rmb3.3bn YoY. In 3Q16, GP/t fell by Rmb180 to Rmb265 due to Rmb172 rise in cost driven by raw material prices. However, steel price saw strong performance in 4Q16 and outgrew raw material prices. We expect GP/t to keep improving QoQ to Rmb310/t in 4Q16.

High earning sensitivity among manufacturers of plain steel. Strengthening government policies on capacity cut should accelerate capacity elimination and drive recovery in sector's capacity utilization. If closure of low-quality steel's capacity beats expectation, construction steels' supply is highly likely to shrink in the near term. Therefore, we expect periodical opportunity in 1H17 and Maanshan to benefit from high earnings upside amid low inventory and production restrictions from strict environmental protection rules and convention of important meeting. At present, Maanshan's market cap is Rmb1,531/t and it should benefit from strong earnings upside.

Figure 12: Listed steel names' market-cap/t

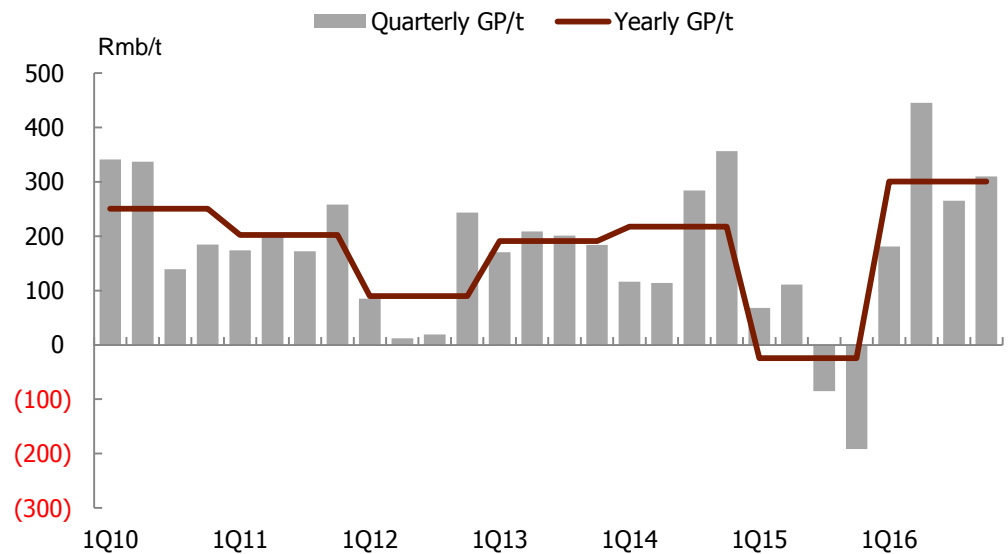
	Name	Crude steel output (mt, 2015)	Market value (Rmb bn)	MV/t (Rmb/t)
000709.SZ	Hebei iron & steel	31.4	36.7	1,170
600782.SH	Xinyu iron & steel	8.4	10.2	1,217
000932.SZ	Hunan valin steel	14.9	18.3	1,231
600808.SH	Maanshan iron & steel	14.3	21.8	1,531
600282.SH	Nanjing iron & steel	8.6	13.3	1,545
000898.SZ	Angang steel	20.5	39.2	1,913
600022.SH	Shandong iron and steel	11.0	21.8	1,983
000708.SZ	Daye special steel	1.0	6.2	5,927

Source: Company data, Wind Info, CICC Research

Materialization of earnings growth and expectation of sector improvement to open upside room for valuation. Steelmakers' valuation is positively correlated with GP/t. Maanshan's current profitability is slightly higher than the peak seen in 2010~2011 (Figure 13), and Maanshan-A is trading at ~1.1x P/B vs. 0.8~1.4x back then, while Maanshan-H is trading at 0.8x vs. 1.5x back then. Looking ahead, we see upside room in its valuations as earnings materialize and sector expectation improves.



Figure 13: Maanshan's GP/t reached a high since 2010



Source: Company data, CICC Research

Raise Maanshan-A/H's earnings forecast and upgrade A/H to BUY

Maanshan will likely take the lead in benefiting from government crackdown on low-quality steel and its long products business may beat expectation. We raise blended sales price of its steel products by 14% and 11% to Rmb2,449/t and Rmb2,492/t in 2016/2017. **We raise 2016/2017e EPS forecast by 33% and 40% to Rmb0.15 and Rmb0.13, and introduce 2018e EPS at Rmb0.14, implying 9% YoY growth in 2018** and GP/t at Rmb298/Rmb293 in 2017/2018 (close to the highs in 2010~2011). At present, Maanshan-A/H is trading at 1.1x and 0.8x P/B, implying upside room considering P/B range in comparable periods. **We raise TP by 48% and 74% to Rmb3.7 and HK\$3.1** (1.3x and 1.0x 2017e P/B). **Upgrade Maanshan-A/H to BUY.**

Figure 14: Earnings forecast revision

Rmb mn	2016E			2017E			2018E
	Before	After	+/- %	Before	After	+/- %	
ASP (Rmb/t)	2,308	2,449	6%	2,259	2,492	10%	2,492
Sales volume (Kt)	18,000	17,600	-2%	1,815	17,660	-3%	1,766
Revenue	44,037	45,602	4%	43,495	46,512	7%	46,512
Operating profit	766	1,145	50%	577	951	65%	835
Net profit	819	1,130	38%	705	971	38%	1,056
EPS(Rmb)	0.11	0.15	33%	0.09	0.13	40%	0.14

Source: Company data, CICC Research

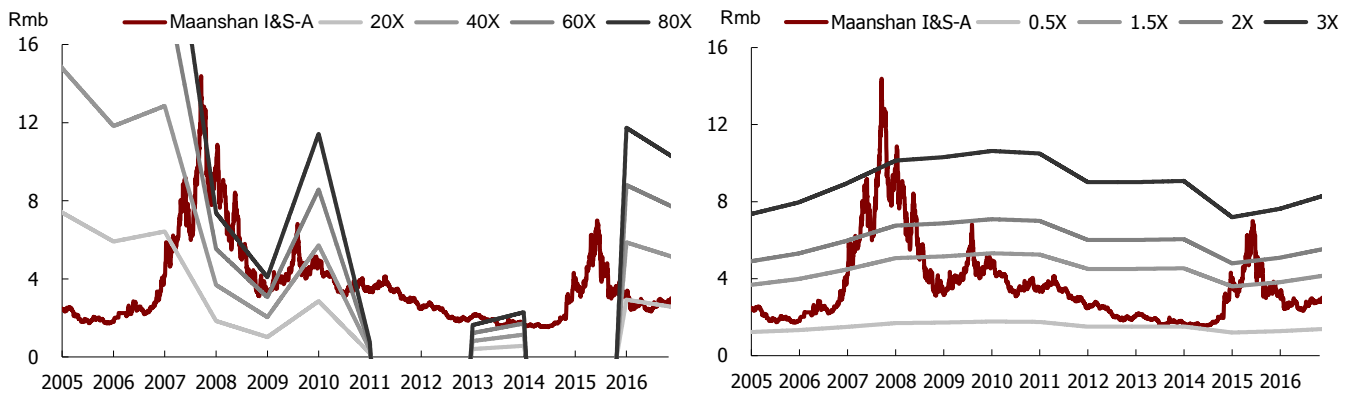


Figure 15: Quarterly financials

(Rmb mn)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	YoY	QoQ	1-3Q15	1-3Q16	YoY
Revenue	13,644	15,221	15,569	15,388	11,748	11,700	11,279	10,383	9,226	11,775	11,990	6.3%	1.8%	34,726	32,991	-5.0%
Cost	13,157	14,666	14,156	13,861	11,441	11,184	11,702	11,163	8,438	9,740	10,751	-8.1%	10.4%	34,326	28,929	-15.7%
Taxes and surcharge	45	48	73	70	60	66	22	53	34	71	42	91.7%	-41.8%	148	147	-0.5%
Gross profit	442	507	1,340	1,457	247	450	(444)	(833)	754	1,964	1,197	-369.4%	-39.0%	253	3,916	1450.3%
Selling expense	104	128	130	152	148	152	173	163	141	177	166	-3.8%	-6.0%	473	484	2.5%
G&A expense	306	293	350	363	460	362	341	375	401	647	368	8.1%	-43.1%	1,164	1,417	21.7%
Financial expense	365	329	310	240	304	261	273	(26)	221	187	257	-5.8%	37.8%	839	664	-20.8%
Asset impairment	186	159	187	240	98	269	310	942	471	202	150	-51.8%	-25.8%	677	822	21.3%
Fair value gain/(loss)	(0)	0	0	1	0	(0)	0	1	4	(0)	20			0	23	
Investment income	37	37	36	39	26	18	29	21	24	54	64	121.2%	18.4%	73	143	95.4%
Exchange gain/(loss)		0	0	0	0	0	0				0			0	0	
Profit from operations	(481)	(363)	401	502	(739)	(576)	(1,512)	(2,267)	(452)	806	340	-122.5%	-57.8%	(2,827)	695	-124.6%
Profit from operations excluding fair value and investment income	(518)	(400)	364	462	(765)	(594)	(1,541)	(2,288)	(480)	752	256	-116.6%	-65.9%	(2,900)	529	-118.2%
Non-operating income	59	42	36	404	98	74	105	107	76	65	24	-76.7%	-62.3%	277	165	-40.4%
Non-operating expense	1	1	1	83	1	13	1	2	1	1	1	-28.9%	-30.8%	15	2	-83.7%
Profit before tax	(422)	(322)	435	822	(642)	(515)	(1,408)	(2,162)	(377)	870	364	-125.9%	-58.1%	(2,565)	857	-133.4%
Income tax	56	(37)	29	200	27	176	17	158	16	46	28	65.5%	-40.1%	220	90	-59.1%
Minority interest	(32)	(1)	2	75	(74)	(50)	(86)	(91)	(45)	23	30	-134.7%	30.3%	(210)	8	-103.8%
Net profit	(446)	(284)	404	547	(595)	(641)	(1,339)	(2,229)	(348)	801	307	-122.9%	-61.7%	(2,575)	759	-129.5%
EPS (Rmb)	(0.06)	(0.04)	0.05	0.07	(0.08)	(0.08)	(0.17)	(0.29)	(0.05)	0.10	0.04	-122.9%	-61.7%	(0.33)	0.10	-129.5%
Gross Margin	3.6%	3.6%	9.1%	9.9%	2.6%	4.4%	-3.7%	-7.5%	8.5%	17.3%	10.3%	14.1ppt	-7ppt	1.2%	12.3%	11.2ppt
Selling expense/revenue	0.8%	0.8%	0.8%	1.0%	1.3%	1.3%	1.5%	1.6%	1.5%	1.5%	1.4%	-0.1ppt	-0.1ppt	1.4%	1.5%	0.1ppt
G&A expense/revenue	2.2%	1.9%	2.2%	2.4%	3.9%	3.1%	3.0%	3.6%	4.4%	5.5%	3.1%	0ppt	-2.4ppt	3.4%	4.3%	0.9ppt
Fin expense/revenue	2.7%	2.2%	2.0%	1.6%	2.6%	2.2%	2.4%	-0.2%	2.4%	1.6%	2.1%	-0.3ppt	0.6ppt	2.4%	2.0%	-0.4ppt
Operating margin	-3.5%	-2.4%	2.6%	3.3%	-6.3%	-4.9%	-13.4%	-21.8%	-4.9%	6.8%	2.8%	16.2ppt	-4ppt	-8.1%	2.1%	10.2ppt
Net margin	-3.3%	-1.9%	2.6%	3.6%	-5.1%	-5.5%	-11.9%	-21.5%	-3.8%	6.8%	2.6%	14.4ppt	-4.2ppt	-7.4%	2.3%	9.7ppt
Effective tax rate	-13.3%	11.6%	6.8%	24.3%	-4.2%	-34.1%	-1.2%	-7.3%	-4.2%	5.3%	7.6%	8.8ppt	2.3ppt	-8.6%	10.5%	19.1ppt

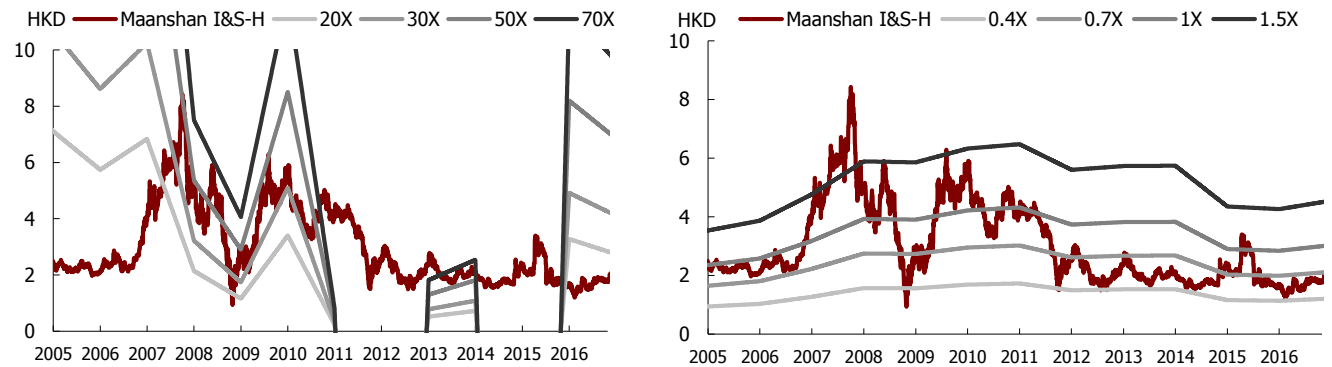
Source: Company data, CICC Research

Figure 16: Maanshan-A's historical P/E and P/B bands



Source: Wind Info, CICC Research

Figure 17: Maanshan-H's historical P/E and P/B bands



Source: Wind Info, CICC Research



Figure 18: Comparable valuations for steel sector

Name	Ticker	Currency	Price	P/E				P/B				EV/EBITDA			
				2017-1-12	2014A	2015A	2016E	2017E	2014A	2015A	2016E	2017E	2014A	2015A	2016E
Angang Steel*	000898.SZ	RMB	5.5	43.2	n.a	33.0	38.5	0.8	0.9	0.9	0.9	9.8	43.4	10.4	11.0
Maanshan I&S*	600808.SH	RMB	3.0	100.0	n.a	28.2	32.8	1.0	1.3	1.2	1.1	8.5	n.a	8.8	8.8
Hebei I&S*	000709.SZ	RMB	3.5	52.7	64.1	35.2	45.7	0.9	0.8	0.8	0.8	14.0	12.5	12.8	13.0
Xinxing Ductile Iron Pipe*	000778.SZ	RMB	5.3	23.3	32.4	48.1	35.2	1.2	1.1	1.1	1.1	11.9	13.4	13.7	13.0
Yulong Steel Pipe*	601028.SH	RMB	10.6	72.1	64.2	88.3	58.1	3.3	3.2	3.1	3.0	29.7	34.0	42.2	31.0
CICC covered A share average				44.6	69.4	29.2	30.8	1.0	1.1	1.0	1.0	24.0	46.9	10.2	10.3
CICC covered A share median				36.0	64.1	30.6	34.0	1.0	1.1	1.0	1.0	10.8	28.4	9.6	9.9
Taigang Stainless	000825.SZ	RMB	5.1	65.6	n.a	25.6	23.3	1.2	1.2	1.3	1.2	13.0	13.1	8.8	8.1
Lingyuan I&S	600231.SH	RMB	2.9	n.a	102.5	87.0	66.7	1.5	1.5	1.1	1.0	n.a	n.a	14.7	13.9
Xining Special Steel	600117.SH	RMB	5.7	95.7	n.a	164.0	53.1	1.6	3.2	3.9	3.7	15.1	n.a	n.a	n.a
Jiuquan I&S	600307.SH	RMB	2.8	458.1	n.a	35.1	38.9	1.1	1.7	1.9	1.8	17.4	n.a	10.6	10.6
Bayi I&S	600581.SH	RMB	6.8	n.a	n.a	520.0	250.4	3.2	-9.8	-5.8	-5.9	n.a	n.a	n.a	n.a
Jinan I&S	600022.SH	RMB	2.6	n.a	235.5	63.2	46.3	1.1	1.0	1.3	1.3	24.5	n.a	10.6	9.2
Nanjing I&S	600282.SH	RMB	3.4	44.5	n.a	47.2	34.2	1.5	1.7	1.9	1.8	13.3	n.a	11.0	10.2
Pangang Group Steel Vanadi	000629.SZ	RMB	2.5	n.a	n.a	571.1	84.8	1.4	2.0	2.5	2.5	15.1	n.a	n.a	n.a
Sangang Mingguang	002110.SZ	RMB	13.3	221.3	n.a	18.5	17.2	2.7	3.9	3.0	2.5	24.9	n.a	12.4	11.0
Daye Special Steel	000708.SZ	RMB	13.8	23.1	22.1	20.7	19.5	1.9	1.8	1.7	1.6	11.4	13.6	12.1	10.9
SGIS Songshan	000717.SZ	RMB	5.7	n.a	n.a	378.7	103.3	4.7	18.9	36.6	29.1	66.0	n.a	14.1	13.3
Bengang Steel Plates	000761.SZ	RMB	5.6	75.3	n.a	27.4	27.9	1.1	1.2	1.4	1.4	10.9	9.5	7.7	7.0
Hunan Valin Steel	000932.SZ	RMB	6.1	245.7	n.a	n.a	74.0	1.8	2.2	2.4	2.3	13.4	n.a	n.a	n.a
Beijing Shougang	000959.SZ	RMB	7.4	630.5	n.a	91.9	72.2	1.7	1.8	1.7	1.6	41.8	n.a	27.4	23.4
Baotou Steel	600010.SH	RMB	2.9	39.4	n.a	478.3	136.7	2.3	1.0	2.1	2.0	24.3	n.a	23.5	17.2
Hangzhou I&S	600126.SH	RMB	8.6	862.0	n.a	24.8	27.5	2.2	1.1	0.7	0.7	61.1	n.a	n.a	n.a
Anyang I&S	600569.SH	RMB	3.3	274.2	n.a	n.a	n.a	1.1	n.a	n.a	n.a	8.4	n.a	n.a	n.a
Xinyu I&S	600782.SH	RMB	3.7	25.2	135.2	28.1	46.8	1.3	1.3	0.8	0.8	8.3	n.a	n.a	n.a
Liuzhou I&S	601003.SH	RMB	4.7	71.6	n.a	112.1	98.1	2.1	2.5	2.7	2.6	14.4	n.a	n.a	n.a
Chongqing I&S	601005.SH	RMB	2.5	210.0	n.a	252.0	126.0	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Changbao Steeltube	002478.SZ	RMB	13.5	23.6	22.1	24.3	49.3	2.0	1.9	1.8	1.8	15.5	12.9	15.0	19.9
Kingland Pipeline	002443.SZ	RMB	11.9	53.1	79.6	58.5	68.6	3.3	3.2	3.1	3.1	37.1	47.4	31.1	42.4
JILUI Hi-tech	002318.SZ	RMB	10.2	36.4	41.8	49.5	46.2	4.5	3.6	3.4	3.3	22.5	22.8	25.8	26.3
A share average				171.9	100.5	130.0	61.3	1.7	1.9	2.8	2.4	22.9	32.0	12.6	11.6
A share median				71.6	102.5	41.2	45.7	1.4	1.3	1.4	1.3	14.0	13.4	11.0	10.9
Angang Steel*	347 HK	HKD	5.3	33.1	n.a	27.2	31.8	0.6	0.7	0.7	0.7	9.8	43.4	10.4	11.0
Maanshan I&S*	323 HK	HKD	2.5	67.3	n.a	20.5	23.8	0.7	0.9	0.9	0.8	8.5	n.a	8.8	8.8
CICC covered H share average				50.2	n.a	n.a	148.9	0.7	0.8	0.8	0.8	9.1	43.4	9.6	9.9
CICC covered H share median				50.2	n.a	n.a	27.8	0.7	0.8	0.8	0.8	9.1	43.4	9.6	9.9
Chongqing I&S	1053 HK	HKD	2.2	145.8	n.a	188.4	94.2	0.8	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Fosun International	656 HK	HKD	11.1	9.2	9.4	8.7	7.6	1.2	1.1	1.0	0.9	12.3	11.7	13.4	11.2
Chia Oriental Group	581 HK	HKD	1.2	46.1	n.a	n.a	n.a	0.3	n.a	n.a	n.a	2.8	n.a	n.a	n.a
Shougang Concord Intl.	697 HK	HKD	0.3	n.a	n.a	n.a	n.a	0.5	n.a	n.a	n.a	n.a	n.a	n.a	n.a
H share Average				60.3	9.4	61.2	n.a	0.7	0.9	0.9	0.8	8.3	27.6	10.9	10.3
H share Median				46.1	9.4	23.8	n.a	0.7	0.9	0.9	0.8	9.1	27.6	10.4	11.0
Arcelor Mittal	MT NA	EUR	7.6	n.a	n.a	21.0	n.a	0.5	0.7	1.0	0.0	7.6	10.3	8.7	0.0
Nucor Corp.	NUE US	USD	61.2	27.6	39.7	27.6	17.3	2.5	2.5	2.5	2.3	10.5	12.9	10.9	8.2
United States Steel	X US E	USD	35.5	51.4	n.a	n.a	26.4	1.4	1.7	2.2	2.0	7.5	33.2	15.9	7.0
Nippon Steel	5401 JP	JPY	2,741.5	10.3	12.0	16.9	31.9	0.9	0.9	0.9	0.9	7.3	7.0	9.7	11.2
JFE Holdings	5411 JP	JPY	1,877.0	10.6	7.8	31.9	57.2	0.6	0.6	0.6	0.6	7.4	6.3	8.9	10.5
POSCO	005490 KS	KRW	269,000.0	36.2	303.6	14.4	11.7	0.5	0.6	0.5	0.5	6.0	6.6	6.1	5.9
Tata Steel	TATA IN	INR	447.0	12.1	21.3	n.a	21.0	1.1	1.0	1.5	1.6	7.2	8.1	16.7	8.4
Other market average				24.7	76.9	22.4	27.6	1.1	1.1	1.3	1.1	7.6	12.0	11.0	7.3
Other market median				19.8	21.3	21.0	23.7	0.9	0.9	1.0	0.9	7.4	8.1	9.7	8.2
Total Average				120.3	80.9	100.7	52.0	1.4	1.6	2.3	2.0	18.3	24.9	12.9	11.0
Total Median				46.1	64.1	31.3	34.7	1.1	1.2	1.2	1.1	11.9	13.1	10.6	10.4

(Note: Companies with asterisk use CICC estimates, others are based on market consensus.)

Source: Wind Info, CICC Research



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Editing: Se CHEN



Beijing

China International Capital Corporation Limited

28th Floor, China World Office 2
1 Jianguomenwai Avenue
Beijing 100004, P.R. China
Tel: (86-10) 6505-1166
Fax: (86-10) 6505-1156

Shenzhen

China International Capital Corporation Limited – Shenzhen Branch

#2503, 25th Floor, China Merchants Bank Tower
7088 Shennan Boulevard, Futian District
Shenzhen 518040, P.R. China
Tel: (86-755) 8319-5000
Fax: (86-755) 8319-9229

Shanghai

China International Capital Corporation Limited – Shanghai Branch

32nd Floor Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, P.R. China
Tel: (86-21) 5879-6226
Fax: (86-21) 5888-8976

Singapore

China International Capital Corporation (Singapore) Pte. Limited

#39-04, 6 Battery Road
Singapore 049909
Tel: (65) 6572-1999
Fax: (65) 6327-1278

Hong Kong

China International Capital Corporation (Hong Kong) Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong
Tel: (852) 2872-2000
Fax: (852) 2872-2100

United Kingdom

China International Capital Corporation (UK) Limited

Level 25, 125 Old Broad Street
London EC2N 1AR, United Kingdom
Tel: (44-20) 7367-5718
Fax: (44-20) 7367-5719

Beijing Jianguomenwai Avenue Branch

1st Floor, Capital Tower
6A Jianguomenwai Avenue
Beijing 100022, P.R. China
Tel: (86-10) 8567-9238
Fax: (86-10) 8567-9235

Shanghai Defeng Road Branch

Room 1105, Building A
299-1 Defeng Road, Fengxian District
Shanghai 201400, P.R. China
Tel: (86-21) 5879-6226
Fax: (86-21) 6887-5123

Nanjing Hanzhong Road Branch

Section C, 30th Floor, Asia Pacific Tower
2 Hanzhong Road, Gulou District
Nanjing 210005, P.R. China
Tel: (86-25) 8316-8988
Fax: (86-25) 8316-8397

Xiamen Lianyue Road Branch

4th Floor, Office Building, Paragon Center
1 Lianyue Road, Siming District
Xiamen 361012, P.R. China
Tel: (86-592) 515-7000
Fax: (86-592) 511-5527

Chongqing Honghu Road (West) Branch

1st & 10th Floors, Ourui Lanjue Center
Block 9, Honghu Road (W), New North District
Chongqing 401120, P.R. China
Tel: (86-23) 6307-7088
Fax: (86-23) 6739-6636

Foshan Jihua 5th Road Branch

12th Floor, Trend International Business Building
2 Jihua 5th Road, Chancheng District
Foshan 528000, P.R. China
Tel: (86-757) 8290-3588
Fax: (86-757) 8303-6299

Ningbo Yangfan Road Branch

11th Floor, Building Five, 999 Yangfan Road
Hi-tech Industrial Development Zone
Ningbo 315103, P.R. China
Tel: (86-574) 8907-7288
Fax: (86-574) 8907-7328

Beijing Kexueyuan South Road Branch

6th Floor, Block A, Raycom Infotech Park
2 Kexueyuan South Road, Haidian District
Beijing 100022, P.R. China
Tel: (86-10) 8286-1086
Fax: (86-10) 8286 1106

Shenzhen Fuhuayilu Branch

Room 201, Annex Building
Shenzhen Duty Free Commercial Tower
6 Fuhua 1st Road, Futian District
Shenzhen 518048, P.R. China
Tel: (86-755) 8832-2388
Fax: (86-755) 8254-8243

Guangzhou Tianhe Road Branch

40th Floor, Teentower
208 Tianhe Road
Guangzhou 510620, P.R. China
Tel: (86-20) 8396-3968
Fax: (86-20) 8516-8198

Wuhan Zhongnan Road Branch

4301-B, Poly Plaza
99 Zhongnan Road, Wuchang District
Wuhan 430070, P.R. China
Tel: (86-27) 8334-3099
Fax: (86-27) 8359-0535

Tianjin Nanjing Road Branch

10th Floor, Tianjin Global Trading Center
219 Nanjing Road, Heping District
Tianjin 300051, P.R. China
Tel: (86-22) 2317-6188
Fax: (86-22) 2321-5079

Yunfu Xinxing Dongdi North Road Branch

2nd Floor, Service Building C1, Wens Science & Technology Garden, Dongdi North Road
Xincheng Town, Xinxing County
Yunfu 527499, P.R. China
Tel: (86-766) 2985-0888
Fax: (86-766) 2985-018

Fuzhou Wusi Road Branch

38th Floor, Henglicheng Office Building
No.128 Wusi Road, Gulou District
Fuzhou 350001, P.R. China
Tel: (86-591) 8625 3088
Fax: (86-591) 8625 3050

Shanghai Middle Huaihai Road Branch

398 Huaihai Road (M)
Shanghai 200020, P.R. China
Tel: (86-21) 6386-1195
Fax: (86-21) 6386-1180

Hangzhou Jiaogong Road Branch

1st Floor, Euro American Center
18 Jiaogong Road
Hangzhou 310012, P.R. China
Tel: (86-571) 8849-8000
Fax: (86-571) 8735-7743

Chengdu Binjiang Road (East) Branch

1st & 16th Floors, Shangri-La Center
Block 9B, Binjiang Road (East)
Chengdu 610021, P.R. China
Tel: (86-28) 8612-8188
Fax: (86-28) 8444-7010

Qingdao Middle Hongkong Road Branch

11th Floor, Shangri-La Center
Block 9, Hongkong Road (M), South District
Qingdao 266071, P.R. China
Tel: (86-532) 6670-6789
Fax: (86-532) 6887-7018

Dalian Gangxing Road Branch

16th Floor, Wanda Center
6 Gangxing Road, Zhongshan District
Dalian 116001, P.R. China
Tel: (86-411) 8237-2388
Fax: (86-411) 8814-2933

Changsha Chezhan Road (North) Branch

3rd Floor, Annex Building, Securities Tower
459 Chezhan Road (North), Furong District
Changsha 410001, P.R. China
Tel: (86-731) 8878-7088
Fax: (86-731) 8446-2455

