

Company Report

China Literature (772 HK)

Joy of Life – the watershed of IP adaptations

- Joy of Life (JOL)'s success showed promise to IP adaptations
- Positive on Co.'s edges in IP development and market potentials
- Maintain BUY with TP at HKD38

Late comer JOL becomes the web series king in 2019

On November 26, 2019, Joy of Life (aka Qing Yu Nian 庆余年), a time-travel themed drama series adapted from China Literature's famous IP and co-produced by Tencent Pictures and New Classics Media (NCM), was quietly released. Despite little beforehand promotion, JOL quickly became the most-watched drama series of the year. Both Guduo Data and Baidu Indexes showed that the interest for JOL have surpassed all other 2019 top series. In terms of reputation, JOL was rated 7.9/10 by over 200k users on Douban, and outshined most of the male-oriented web series. All of these bode well for a huge success in male-oriented literature IP adaptation space. Although JOL's super advanced viewing option on streaming platforms caused controversy, it was still an innovative monetization method which should be accepted by viewers over time after proper adjustments. More monetization methods can also be exploited to help long-form video platforms diversify from the over-reliance on member subscription revenue, and eventually benefit both long-form video platforms and content providers such as China Literature.

JOL shed lights on China Literature's IP development

The success of JOL signifies a crucial milestone for China Literature and shed lights on the Company's endeavor on IP adaptations. We believe JOL has excelled as a result of the following: 1) Great IP value. JOL was adapted from a 2007 online literature blockbuster written by Company's platinum writer Mao Ni. Leveraging JOL novel's large and hardcore fan base, the drama series quickly accumulated a large viewer base at initial start; 2) Reasonable plot adaptation. The adapted series has well combined the wittiness from online literature works with the historical sense and tactic plots in regular drama series to expand JOL's user base. Thanks to the close collaboration between the IP creator and the drama producer, the show was also able to maintain its original IP's essences and avoid great deviation from the novel despite under tightened regulation; 3) High standard cast. Unlike many other top web series that have invested most of the resources in popular stars, JOL assembled many veteran actors with strong acting capabilities, who held accountable for the series' overall high acting standard in addition to its commendable costume, makeups, props and productions; and 4) China Literature, NCM and Tencent Pictures' deep collaboration throughout the entire production process to ensure the all-round content quality.

Maintain BUY with TP at HKD38

We believe China Literature will continue to expand its coverage towards entire value chain through joint IP development. Moreover, it will further tailor successful IPs across different media, platforms and verticals to fully exploit their value. We remain optimistic on Company's leadership in IP development and the great potential of IP adaptation market. We maintain BUY rating with TP at HKD38, implying 26x FY20E P/E vs. its current P/E at 24x.

Financials

RMBmn	FY17	FY18	FY19E	FY20E	FY21E
Revenue	4,095	5,038	6,849	8,483	9,778
Growth	60%	23%	36%	24%	15%
Adj. Net profit to shareholders	723	901	984	1,292	1,569
Growth	727%	25%	9%	31%	21%
Adj diluted EPS (HKD)	1.06	1.11	1.09	1.44	1.75
P/E (x)	32.3	30.9	31.3	23.8	19.6
ROE	6%	6%	5%	6%	6%

Note: Closing price as of Jan 2, 2020 Sources: Bloomberg, Company data, CMS (HK) estimates

Leo LIU, CFA Matt MA
+852 3189 6117 +852 3189 6394
leoliu@cmschina.com.hk mattma@cmschina.com.hk

Calvin NG
+852 3189 6176
calvinngyl@cmschina.com.hk

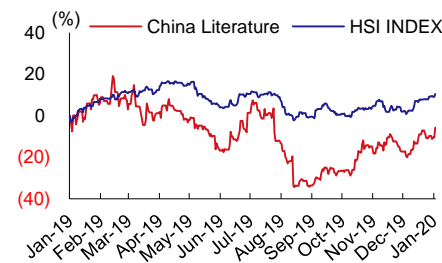
WHAT'S NEW

Joy of Life becomes the web series king in 2019

BUY

Previous	BUY
Price	HKD34.25
12-month Target Price (Potential up/downside)	HKD38 (+11%)
Previous	HKD38

Price Performance



Source: Bloomberg

%	1m	6m	12m
772 HK	14.0	(10.2)	(2.4)
HSI	7.9	(1.1)	13.6

Sector: Technology, Media & Telecom

Hang Seng Index	28,544
MSCI China	86

Key Data

52-week range (HKD)	23.0-43.4
Market cap (HKD bn)	34.7
Avg. daily volume (mn)	1.9
FY20E adj. diluted EPS (HKD)	1.44

Shareholding Structure

Tencent Holdings	57.8%
Trustbridge Partners	4.9%
FMR LLC	4.5%
Deal Plus Global LTD	4.5%
Cao Huayi	4.1%
Wu Wenhui	2.7%
No. of shares outstanding (mn)	1,012.3
Free float	21.5%

Sources: Bloomberg, Wind, CMS (HK) research

Related Research

- China Internet - Full preparation is the best guarantee for bright future (Dec 18, 2019)
- China Literature (772 HK) - There's a rainbow always after the rain (Nov 7, 2019)

JOL ascended to the 2019 web series throne

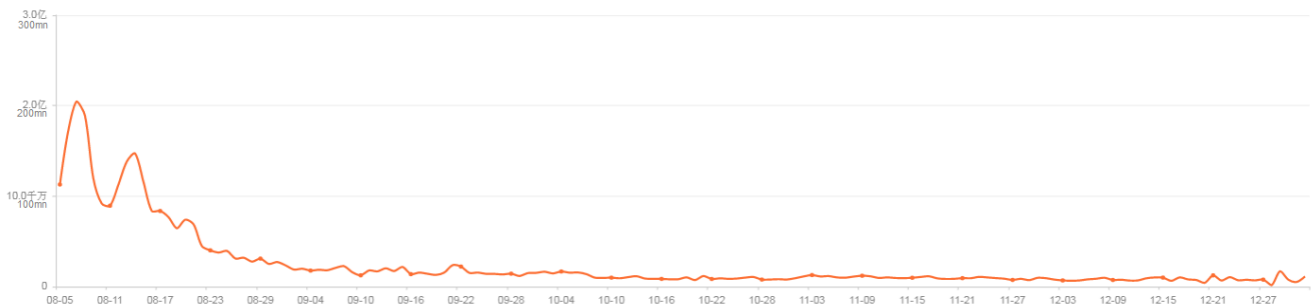
On November 26, 2019, Joy of Life (JOL, aka Qing Yu Nian 庆余年) – a time-travel themed costume drama adapted from China Literature’s famous IP and co-produced by Tencent Pictures and New Classics Media (NCM, China Literature’s wholly-owned subsidiary) – was quietly released on Tencent Video and iQiyi platforms. Although the beforehand promotion and distribution efforts were close to zero due to the tightened regulations for costume dramas, JOL quickly became the most-watched series of the year. After 30 days since launch, the daily views for JOL on Tencent Video have already surpassed 200mn. With the inclusion of views on iQiyi platform, JOL’s total views should certainly far surpass all the other top popular series in 2019. In comparison, the daily views for The Untamed (陈情令), a summer hit exclusive on Tencent Video platform, reached 200mn for just once, whilst another Tencent Video exclusive hit The King’s Avatar (全职高手) only peaked at 140mn views.

Figure 1: JOL daily views on Tencent Video platform



Sources: Guduodata, CMS (HK)

Figure 2: The Untamed daily views on Tencent Video platform



Sources: Guduodata, CMS (HK)

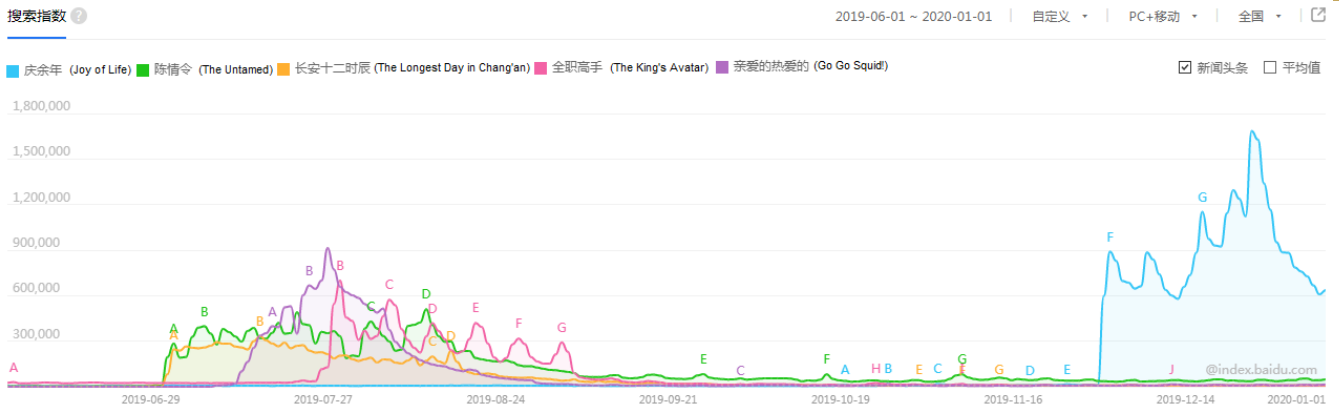
Figure 3: The King’s Avatar daily views on Tencent Video platform



Sources: Guduodata, CMS (HK)

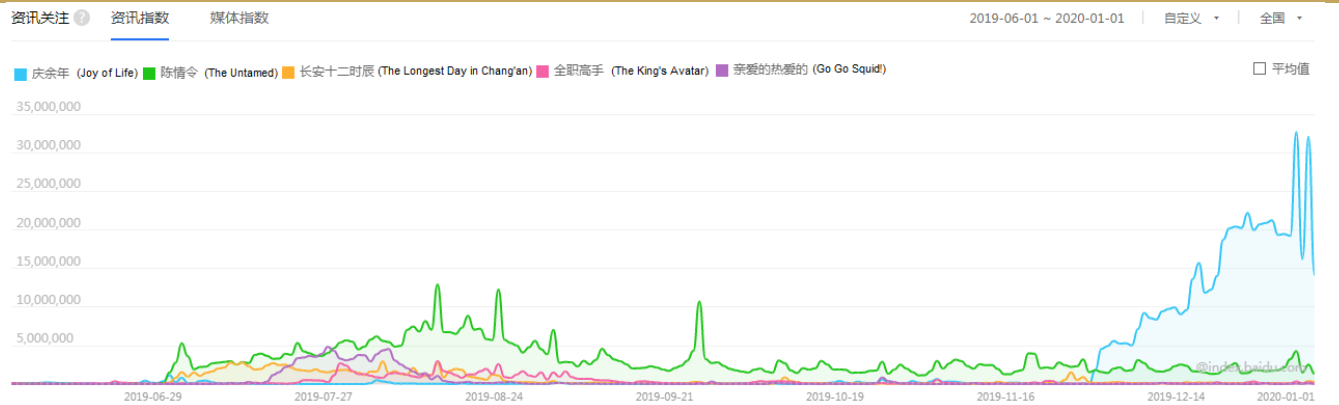
With a strong following for the show, public interest in JOL has also exploded. Baidu Index as a proxy showed that interest for JOL have overtaken all other 2019 top series and ascended to the top. In the meantime, endata Broadcast Index (integrated data such as media popularity, user popularity, user ratings and viewership) also showed similar signs of JOL's recent popularity. Although the negative impacts of VVIP event might have also contributed some heats to the public interest level, overall, we believe the quality and popularity of the drama itself still played the major roles.

Figure 4: Baidu search index of JOL compared with other top 2019 web series



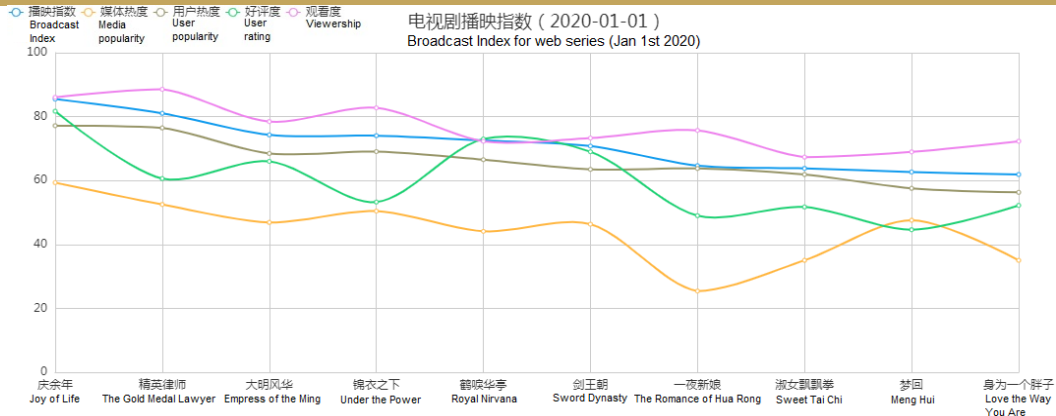
Sources: Baidu Index, CMS (HK)

Figure 5: Baidu information index of JOL compared with other top 2019 web series



Sources: Baidu Index, CMS (HK)

Figure 6: Endata Broadcast Index of JOL



Sources: Endata, CMS (HK)

Moreover, in terms of reputation, JOL achieved a 7.9 rating aggregated from 200k users on Douban, which is quite a solid score for a web series adapted from a male-oriented online literature IP. In the past, male-oriented IP adapted series used to be seen as a collective failure, with most of the adaptations received terrible ratings. On one hand, the lack of literature platform/original authors' direct involvements in the production processes, and over-reliance on popular stars led to generally unsatisfactory content quality. On the other hand, unlike many female-oriented IP adaptations that can receive many high ratings from star fans despite with mediocre quality, male-oriented adaptations' viewers are usually much pickier on the stories and content quality.

Figure 7: JOL's rating on Douban

庆余年 (2019)



导演: 孙皓
 编剧: 王倦 / 猫腻
 主演: 张若昀 / 李沁 / 陈道明 / 吴刚 / 李小冉 / 更多...
 类型: 剧情 / 古装
 制片国家/地区: 中国大陆
 语言: 汉语普通话
 首播: 2019-11-26(中国大陆)
 集数: 46
 单集片长: 45分钟
 又名: 庆余年 第一季 / Joy of Life
 IMDb链接: tt11273352



Sources: Douban, CMS (HK)

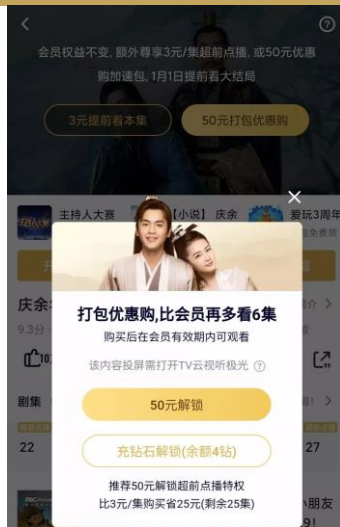
Figure 8: Douban ratings of most of the male-oriented IP adaptations

剧名 (Web Series)	首播 (Release Date)	豆瓣评分 (Douban Rating)
青云志 (Noble Aspirations)	7/31/2016	5.5
择天记 (Fighter of the Destiny)	4/17/2017	4.2
莽荒纪 (The Legend of Jade Sword)	4/30/2018	3.1
武动乾坤 (Martial Universe)	8/7/2018	4.5
斗破苍穹 (Battle Through the Heavens)	9/3/2018	4.6
将夜 (Ever Night)	10/31/2018	7.5
长安十二时辰 (The Longest Day In Chang'an)	6/27/2019	8.3
全职高手 (The King's Avatar)	7/24/2019	7.4
从前有座灵剑山 (Once Upon a Time in Lingjian Mountain)	11/12/2019	7.1

Sources: Douban, CMS (HK)

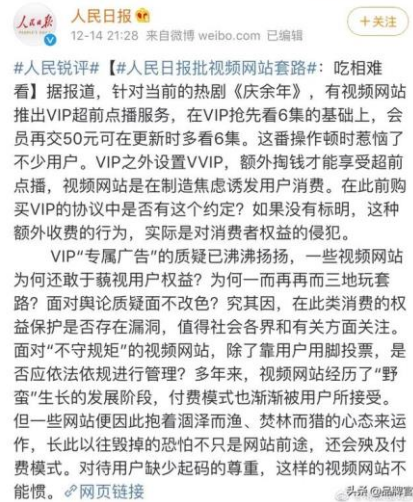
Although the adoption of super advanced viewing through the VVIP format for JOL on Tencent Video and iQiyi (VVIP members can pay RMB 50 yuan to consecutively watch 6 episodes ahead of ordinary members, or pay RMB 3 yuan per episode to watch ahead of ordinary members; the 50 yuan plan was subsequently removed in December 17, 2019 whilst the 3 yuan plan remained intact) caused controversy and even drew criticism from the People's Daily, we believe this is still a correct direction forward for long-form video platforms to continue bringing forth more fine-tuned and differentiated payment formats. Conceptually, the super advanced viewing is no different from the generally accepted fast pass concept in theme parks. As long-form video platforms gradually learn better about users' differentiated paying willingness and nurture users' acceptances through better set-up payment options, we believe the controversy should eventually fade away. Apart from the super advanced viewing option, monetization opportunities can also come from payment for more ending choices, more membership tiers, sale of drama & game bundles and offline derivative activities etc., to diversify from the over-reliance on member subscription revenue. As monetization opportunities appear in more scenarios and content costs rationalize, profitability for long-form video platforms will become more visible whilst content producers will also be able to enjoy more revenue sharing in the future.

Figure 9: Tencent Video’s original VVIP format for JOL



Sources: Tencent Video, CMS (HK)

Figure 10: Criticism of VVIP from People’s Daily



Sources: People’s Daily, Weibo, CMS (HK)

JOL’s IP development exemplifies the right approach for China Literature

In our opinion, the successes in both viewership and reputation of JOL signifies a crucial milestone for China Literature and illustrates the company’s important attempt to cover the entire value chain in the developments of IP adaptations. We believe JOL has excelled as a result of the following:

- 1) A great IP value. JOL is adapted from a 2007 online literature work written by China Literature’s platinum writer Mao Ni. On the ranking of “Mopian Hurun Creative Works IP With Greatest Potential 2018”, JOL received 21st place, and Mao Ni was ranked as the top 1 author with largest number of valuable IPs. For years, JOL novel has accumulated a large and hardcore fan base. Therefore, even if the beforehand promotion and distribution efforts were close to zero because of regulation policies, the drama still has the capability and foundation to kick start the very first viewer base;
- 2) Reasonable plot adaptation. The adapted series has well combined the wittiness from online literature works and the historical sense and tactic plots in regular series to expand JOL’s user base outside of the original fans. Moreover, although the show has dampened the original time-travelling concept to satisfy the regulatory requirements, it has respectfully followed the core essences and sci-fi setting of the original literature work. This is highly attributable to a well-established collaboration channel between the IP creator (China Literature and Mao Ni) and the content producer (NCM and Tencent Pictures) to ensure minimal deviation from the original work for the show, which has helped the show to win double supports from both book and drama fans;

Figure 11: JOL's first book achieved a 8.2 high rating on Douban

庆余年·壹



作者: 猫腻
出版社: 中国友谊出版公司
副标题: 天下权臣宝典
出版年: 2008-7
页数: 313
定价: 28.00元
装帧: 平装16开
丛书: 庆余年
ISBN: 9787505724358



Sources: Douban, CMS (HK)

Figure 12: Mopian Hurun Creative Works IP With Greatest Potential 2018 – author ranking

作者 (Author)	上榜作品数 (No. of ranked works)	上榜作品排名 (Rankings of ranked works)
1 猫腻 (Mao Ni)	3	No. 1,8,21
1 天蚕土豆 (Tian Can Tu Dou)	3	No. 7,17,42
1 我吃西红柿 (Wo Chi Xi Hong Shi)	3	No. 33,36,46
4 今何在 (Jin He Zai)	2	No. 11,24
4 烽火戏诸侯 (Feng Huo Xi Zhu Hou)	2	No. 9,66
4 梦入神机 (Meng Ru Shen Ji)	2	No. 16,38
4 辰东 (Chen Dong)	2	No. 10,50
4 忘语 (Wang Yu)	2	No. 2,31

Sources: Baijiahao, CMS (HK)

3) High standard cast. Unlike many other top web dramas that invested most of the resources in popular stars, JOL did not fully rely on bankable stars to attract star fans and viewership, but instead assembled many veteran actors with strong acting capabilities such as Chen Daoming, Yu Rongguang etc. Driven by this excellent actor lineup, the series has maintained an overall high acting standard in addition to its commendable costume, makeup, props and productions, almost with no obvious shortcomings; and

4) The deep collaboration among parties within Tencent's ecosystem. China Literature, NCM and Tencent Pictures have deeply collaborated with each other in the whole process of the IP joint development, linking the original writer, producers and platforms all together to ensure the all-round quality. During the production phase, China Literature organized many early screening for book fans to receive valuable feedbacks, and also linked the original writer with the production team to ensure the full integration of original core values in the show. During the promotion & distribution phase, China Literature utilized multi-marketing scenarios in order to simultaneously promote the popularity of the literature and the show, and expand the IP impacts to cover larger viewer bases. Moreover, a series of social media interactions and well-made antique online poster spreads also contributed to the further heat-up of the series.

Figure 13: JOL's cast contains a combination of bankable stars and veteran actors

 张若昀 Ruoyun Zhang 演员 Actor (饰 范闲) 代表作: 庆余年 / 法医秦明 / 无心法师	 李沁 Qin Li 演员 Actress (饰 林婉儿) 代表作: 中国机长 / 诛仙 I / 知否传
 陈道明 Daoming Chen 演员 Actor (饰 庆帝) 代表作: 唐山大地震 / 归来 / 英雄	 吴刚 Gang Wu 演员 Actor (饰 陈萍萍) 代表作: 战狼2 / 风声 / 人民的的名义
 李小冉 Xiaoran Li 演员 Actress (饰 长公主) 代表作: 武媚娘 / 庆余年 / 无人区	 袁泉 Quan Yuan 演员 Actress (饰 叶轻眉) 代表作: 高启无期 / 心花路放 / 中国机长
 于荣光 Ringo Yu 演员 Actor (饰 肖恩) 代表作: 国产凌凌漆 / 新警察故事 / 神话	 辛芷蕾 Zhilei Xin 演员 Actress (饰 海棠朵朵) 代表作: 绣春刀II / 修罗战场 / 如懿传 / 庆余年

Sources: Douban, CMS (HK)

Figure 14: JOL released a series of social media interactions and well-made antique online posters

 #为什么弹幕说郭麒麟是郭德纲儿子# 4.7万讨论 4.9亿阅读	
 #郭麒麟承包庆余年的笑点# 3.3万讨论 3.6亿阅读	
 #郭麒麟新浪# 2.6万讨论 2.1亿阅读	
 #郭麒麟被自己感动哭了# 把自已感动哭了郭麒麟 2.9万讨论 2.3亿阅读	
 #郭麒麟这个角色太适合他了# 1.2万讨论 1.3亿阅读	

Sources: copyquan, CMS (HK)

China Literature enters a new phase for future IP development

We believe in the future, the coverage of entire value chain through joint IP development will become a standard model for China Literature to follow. Vertically within the IP development value chain, the emphasis on multilateral collaboration will start from the very beginning of the chain – IP creation – and extend to the very end of the chain – promotion and distribution. This is also the core reason why China Literature acquired New Classics Media in the first place, designing to speed up its downstream IP development capability and to earlier ensure the high quality of IP adaptations. Horizontally across different adaptation areas, a successful IP can be further tailored into a super IP across different media, platforms and verticals. For example, plans to publish JOL related derivative products such as anime and mobile game are also in China Literature's pipeline, to fully leverage the drama enlarged IP value. We continue to remain optimistic on China Literature's leadership in IP development and the great potential of IP adaptation market. We maintain BUY rating for China Literature with TP at HKD38, implying 26x FY20E P/E vs. Company's current P/E at 24x.

Financial Summary

Profit & Loss

RMBmn	FY17	FY18	FY19E	FY20E	FY21E
Total net revenues	4,095	5,038	6,849	8,483	9,778
Cost of revenues	(2,020)	(2,480)	(3,260)	(4,060)	(4,615)
Gross profit	2,075	2,558	3,589	4,423	5,163
S&M expenses	(965)	(1,293)	(2,063)	(2,375)	(2,640)
G&A expenses	(684)	(726)	(997)	(1,203)	(1,415)
Other gains, net	111	339	399	280	100
Interest Income	104	201	167	127	124
Net reversal of impair. losses on financial assets	(26)	37	2	0	0
Operating profit	615	1,115	1,097	1,251	1,332
Finance costs	(35)	(148)	(123)	(11)	0
Share of profit of investments using equity method	66	111	165	165	165
Income before tax	646	1,078	1,139	1,405	1,497
Income tax expense	(83)	(165)	(229)	(281)	(299)
Non-controlling interest	(7)	(2)	(0)	0	0
NI attrib. to shareholders	556	911	909	1,124	1,198
Adj. NI attrib. to shareholders	723	901	984	1,292	1,569

Financial Ratios

	FY17	FY18	FY19E	FY20E	FY21E
yoy growth					
Online business	77%	10%	-10%	12%	8%
IP operations	56%	160%	222%	38%	22%
Others	-35%	-6%	-9%	2%	2%
Revenue	60%	23%	36%	24%	15%
Adj. net income	727%	25%	9%	31%	21%
Profitability					
Adj. OP margin	21%	21%	17%	17%	17%
Adj. net margin attrib. to shareholders	18%	18%	14%	15%	16%
ROE	6%	6%	5%	6%	6%
ROA	5%	4%	3%	4%	5%
Per share ratios (RMB)					
Diluted EPS	0.72	1.00	0.90	1.11	1.19
Adj. Diluted EPS	0.94	0.99	0.97	1.28	1.55
Adj. Diluted EPS (HKD)	1.06	1.11	1.09	1.44	1.75
Valuation					
P/E	32.3	30.9	31.3	23.8	19.6

Balance Sheet

RMBmn	FY17	FY18	FY19E	FY20E	FY21E
Cash & cash equivalents	7,502	8,342	4,872	4,468	4,663
Term deposits	1,104	482	839	839	839
Trade and note receivables	760	1,830	1,712	2,121	2,445
Prepayment, deposits and other assets	319	757	979	979	979
Inventories	222	130	875	875	875
Television series and film rights	0	2,857	2,502	2,502	2,502
Deferred income tax assets	20	96	96	96	96
Financial assets at FV	0	471	471	471	471
PPE	36	48	58	69	78
Intangible assets	4,501	12,141	12,176	12,240	12,353
Investments in associates and JV	342	681	869	869	869
Other assets	330	0	0	0	0
Total assets	15,137	27,835	25,450	25,529	26,170
Trade payable	657	1,131	1,304	1,624	1,846
Other payable and accrual	720	1,818	1,118	1,118	1,118
Deferred revenue	394	1,045	1,045	1,045	1,045
Tax liabilities	229	515	515	515	515
Borrowings	475	1,765	460	0	0
Financial liabilities at FV	0	3,145	1,684	779	0
Others liabilities	0	0	0	0	0
Total liabilities	2,475	9,420	6,126	5,080	4,524
Total equity	12,663	18,415	19,324	20,448	21,646

Cashflow

RMBmn	FY17	FY18	FY19E	FY20E	FY21E
Operating cashflow	886	918	509	1,077	1,317
Net income	563	912	909	1,124	1,198
Income taxes paid	(78)	(130)	0	0	0
Depreciation & amortization	176	164	195	222	220
Others	85	(126)	(273)	(180)	0
Working capital chg	140	97	(322)	(89)	(102)
CF from IA	(433)	(177)	(1,973)	(1,023)	(1,121)
Payment for business combinations, net of cash acquired	(8)	(518)	(1,188)	(726)	(779)
Purchase PPE	(18)	(29)	(34)	(42)	(49)
Purchase intangible assets	(116)	(154)	(205)	(254)	(293)
Others	(292)	525	(546)	0	0
CF from FA	6,725	(180)	(2,006)	(460)	0

Note: Closing price as of Jan 2, 2020

Sources: Bloomberg, Company, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Regulatory Disclosure

Please refer to the important disclosures on our website <http://www.newone.com.hk/cmshk/en/disclosure.html> or <http://www.cmschina.com.hk/Research/Disclosure>.

Disclaimer

This document is prepared by China Merchants Securities (HK) Co., Limited ("CMS HK"). CMS HK is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571). This document is for information purpose only. Neither the information nor opinion expressed shall be construed, expressly or impliedly, as an advice, offer or solicitation of an offer, invitation, advertisement, inducement, recommendation or representation of any kind or form whatsoever to buy or sell any security, financial instrument or any investment or other specific product. The securities, instruments or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to participate in some or all of them. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. CMS HK is not registered as a broker-dealer in the United States and its products and services are not available to U.S. persons except as permitted under SEC Rule 15a-6.

The information and opinions, and associated estimates and forecasts, contained herein have been obtained from or are based on sources believed to be reliable. CMS HK, its holding or affiliated companies, or any of its or their directors, officers or employees ("CMS Group") do not represent or warrant, expressly or impliedly, that it is accurate, correct or complete and it should not be relied upon. CMS Group will not accept any responsibility or liability whatsoever for any use of or reliance upon this document or any of the content thereof. The contents and information in this document are only current as of the date of their publication and will be subject to change without prior notice. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realized. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Opinions expressed herein may differ or be contrary to those expressed by other business divisions or other members of CMS Group as a result of using different assumptions and/or criteria.

This document has been prepared without regard to the individual financial circumstances and investment objectives of the persons who receive it. Use of any information herein shall be at the sole discretion and risk of the user. Investors are advised to independently evaluate particular investments and strategies, take financial and/or tax advice as to the implications (including tax) of investing in any of the securities or products mentioned in this document, and make their own investment decisions without relying on this publication.

CMS Group may have a long or short position, make markets, act as principal or agent, or engage in transactions in securities of companies referred to in this document and may also perform or seek to perform investment banking services or provide advisory or other services for those companies. This document is for the use of intended recipients only and this document may not be reproduced, distributed or published in whole or in part for any purpose without the prior consent of CMS Group. CMS Group will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This document is for distribution only under such circumstances as may be permitted by applicable law. This document is not directed at you if CMS Group is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. In particular, this document is only made available to certain US persons to whom CMS Group is permitted to make available according to US securities laws, but cannot otherwise be made available, distributed or transmitted, whether directly or indirectly, into the US or to any US person. This document also cannot be distributed or transmitted, whether directly or indirectly, into Japan and Canada and not to the general public in the People's Republic of China (for the purpose of this document, excluding Hong Kong, Macau and Taiwan).

Important Disclosures for UK Persons

“IN THE UNITED KINGDOM, THIS DOCUMENT IS FOR DISTRIBUTION ONLY TO PERSONS WHO: (I) ARE PERSONS FALLING WITHIN THE DEFINITION OF “INVESTMENT PROFESSIONALS” PURSUANT TO ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE “FINANCIAL PROMOTION ORDER”); (II) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) (“HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS ETC”) OF THE FINANCIAL PROMOTION ORDER; OR (III) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) MAY OTHERWISE LAWFULLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS DOCUMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

FOR NON-INDEPENDENT RESEARCH COMMISSIONED OR PRODUCED BY PERSONS AUTHORISED IN THE UK BY THE FSA: THIS DOCUMENT DOES NOT PROVIDE AN IMPARTIAL OR OBJECTIVE ASSESSMENT OF THE SUBJECT MATTER AND DOES NOT CONSTITUTE INDEPENDENT “INVESTMENT RESEARCH” UNDER THE APPLICABLE RULES OF THE FINANCIAL SERVICES AUTHORITY IN THE UK. CONSEQUENTLY, THIS DOCUMENT HAS NOT BEEN PREPARED IN ACCORDANCE WITH LEGAL REQUIREMENTS DESIGNED TO PROMOTE THE INDEPENDENCE OF INVESTMENT RESEARCH AND IS NOT SUBJECT TO ANY PROHIBITION ON DEALING AHEAD OF THE DISSEMINATION OF INVESTMENT RESEARCH.

Hong Kong

China Merchants Securities (HK) Co., Ltd.

Address: 48/F, One Exchange Square, Central, Hong Kong

Tel: +852 3189 6888 Fax: +852 3101 0828