

FLASH NOTE

6 November 2017

JNBY | 3306.HK

A unique fashion design power house

Fundamentals

⚡ **A leading local designer brand in China with ~34% adjusted EPS CAGR in FY14-FY17; GM comparable to international peers;**

■ JNBY's sales and adjusted EPS (excl. listing expenses) grew at 18.8%/33.8% CAGR in FY14-FY17 (ended June), in which the former outgrew the apparel industry growth by ~500 bps (~13.5% CAGR during the same period). JNBY's GM rose from 58% in FY14 to 63.2% in FY17, thanks to the men's series (CROQUIS) and 'less' (launched in 2011), which enjoyed a higher GM than JNBY average. JNBY's current GM is comparable to international designer brands, we believe the GM would be sustainable given the brands are still young (5-12 years brand history) and newly launched brands (such as Children series) still has room for GM expansion.

⚡ **Centralized inventory sharing system to lower inventory risk; Omni-channel distribution model to nurture 'Fans Economy'**

■ JNBY's omni-channel distribution model (comprise of offline stores, online platforms and social platform on WeChat) enables them to nurture a 'Fans Economy' which would convert fans/members (purchases driven by their affinity to lifestyle) into consumers. The revenue contribution from this distribution model has increased from 4.2% in FY15 to 11.3% in FY17, while members contributed 62.6% of sales in FY17 (vs. 46% in FY15) which also reflects JNBY members' stickiness.

■ JNBY's blended SSSG (self-operate and distributors' stores) maintained at 7.0%-8.0% in FY15-FY17, thanks to the centralized inventory sharing system which help keep inventory level at ~5 months, and retail discount for off season products at ~30%. With over 60 designers, JNBY currently owns ~4,000 SKUs. JNBY's net stores openings would be at 200-250 stores/year, which is similar to 3 year average (FY15: 157; FY16: 204; FY17: 275)

⚡ **Improved profitability from online channel; Target to expand to product lines such as sportswear, crossover collections**

■ JNBY's online platform used to clear off-season products, however JNBY began to sell new products through online channel from FY16, segment GM rose from 30.8% in FY15 to 48.3% in FY17. In the light of more new products contribution, we expect there are still rooms for GM improvement. Online sales currently accounted for ~8%/6% of sales and GM respectively.

■ Though having owned 6 brands, Management also continues to nurture new brands/ separate product lines in the medium term including sportswear, men's suit and infants' costumes. JNBY will also launch several crossover collections under existing brands with renowned fashion designers.

Catalysts

⚡ **1H18 results;** ⚡ **Increasing market awareness;** ⚡ **Launch of new brand**
⚡ **Potential inclusion in Hang Seng Small Cap Index**

Valuation

⚡ **Trading at FY18E 12.6x PE, deserve re-rating story with attractive dividend yield**

■ We expect JNBY's net profit to grow at 22.2% CAGR in FY17-FY19E, driven by gradual GM expansion from CROQUIS, 'less', children's series and online channel. JNBY is trading at an undemanding valuation 12.6x FY18E PE (~48% discount to peers avg. at 24.0x, incl. HK and A-share listed apparel brands & intl' designers' brands). Despite >60% rally in since its FY17 results, JNBY's healthy financial position (avg ~RMB376mn free cash flow with little ARs in FY15-FY17) enables them delivering a high dividend payout ratio at 75% in FY17, current price implying a 5.6%/6.9% dividend yield in FY18E/19E and we believe JNBY continue to deserve a re-rating story. We arrive JNBY's TP at HK\$13.88 based on 15.6x FY18E PE (35% discount to peers' avg.)

Short Term (6 Month)

Trading Buy

Trading Sell

Current Price: HK\$11.18

Target price: HK\$13.88

Upside: 24.1%

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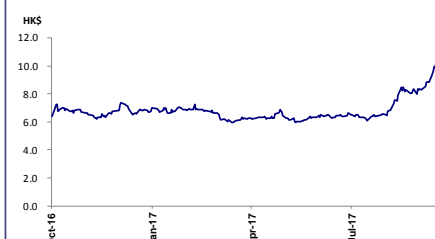
Trading data

52-Week Range (HK\$)	11.70/5.70
3 Mth Avg Daily Vol (m)	1.40
No. of Shares (m)	518.8
Market Cap (HK\$m)	5,799.6
Major Shareholders (%)	Wu Jian & Family (61.5%)
Auditors	PWC
Result Due	1H18:Feb 2018

Company description

Established in 1990 and listed in HKEx in Oct 2016, JNBY is a leading local designer brand in China (Ranked No. 1 with 9.6% market share in terms of retail sales in 2015). JNBY offers apparel, footwear and other accessories for women, men and children under the brand 'JNBY', 'less', 'CROQUIS', and 'jnby by JNBY' etc. As of June 2017, JNBY's retail network comprises of 1,591 stores, in which ~30% are self-operated stores.

Price chart



* Note:

FLASH NOTE represent short-term trading ideas by Cinda International Research which are distinguished from our normal coverage. The recommended stocks may not be continually followed.

Exhibit 1: Earnings Forecast Revision for FY16E & FY17E earnings

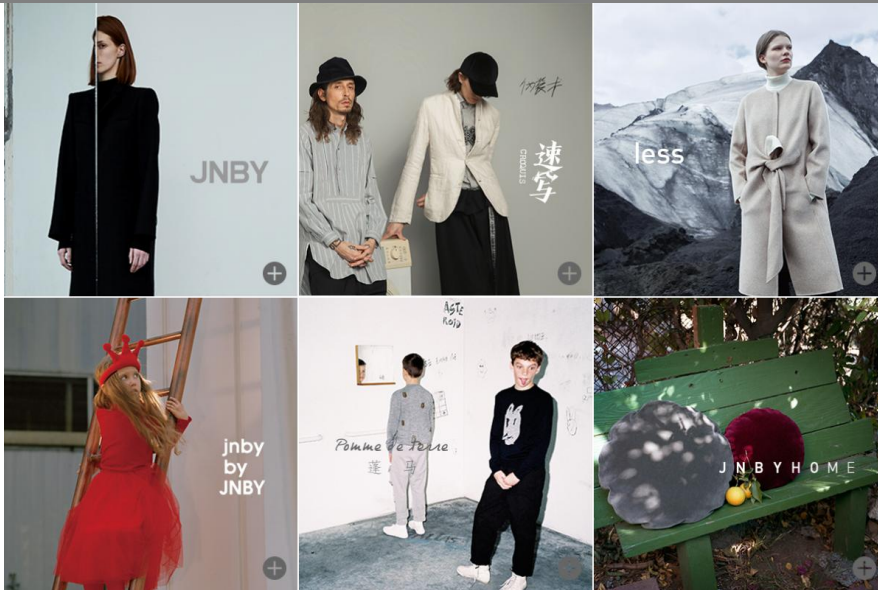
Year to Jun (RMB Mn)	FY14A	FY15A	FY16A	FY17A	FY18E	FY19E	FY20E
Segment Revenue							
Women	1,104	1,201	1,320	1,535	1,747	2,013	2,315
JNBY	1,030	1,111	1,198	1,366	1,515	1,705	1,905
less	74	90	123	169	232	308	410
Men							
CROQUIS	238	298	380	489	622	794	1016
Children							
jnby by JNBY	42	114	203	294	372	432	474
Pomme de terre*	0	0	0	13	26	46	75
Household goods	0	0	0	2	4	6	7
Group	1,383	1,613	1,903	2,319	2,745	3,246	3,812
Segment Revenue Growth							
Women	-	8.8%	10.0%	16.3%	13.8%	15.2%	15.0%
JNBY	-	7.9%	7.8%	14.1%	10.9%	12.5%	11.7%
less	-	21.3%	35.9%	38.0%	37.0%	33.0%	33.0%
Men							
CROQUIS	-	25.3%	27.4%	28.8%	27.2%	27.8%	27.9%
Children							
jnby by JNBY	-	174.7%	77.4%	44.8%	26.9%	16.1%	9.7%
Pomme de terre*	-	-	-	-	-	-	-
Household goods	-	-	-	-	244.6%	150.0%	116.7%
Group	-	16.6%	17.9%	21.9%	18.4%	18.2%	17.4%
Segment Gross Margin							
Women	56.5%	60.0%	61.1%	63.0%	63.9%	64.9%	65.5%
JNBY	56.3%	59.9%	60.7%	62.2%	63.0%	64.0%	64.5%
less	59.4%	60.6%	64.4%	69.7%	70.0%	70.0%	70.0%
Men							
CROQUIS	65.9%	67.7%	68.3%	67.7%	67.9%	68.0%	67.9%
Children							
jnby by JNBY	54.8%	60.1%	61.5%	58.7%	59.0%	59.0%	60.0%
Pomme de terre*	-	-	-	-	-	-	-
JNBYHOME	-	-	-	-78.1%	-40.0%	-20.0%	10.0%
Group	58.0%	61.4%	62.6%	63.6%	63.8%	64.5%	65.0%

Source: Company data, CIRL estimates

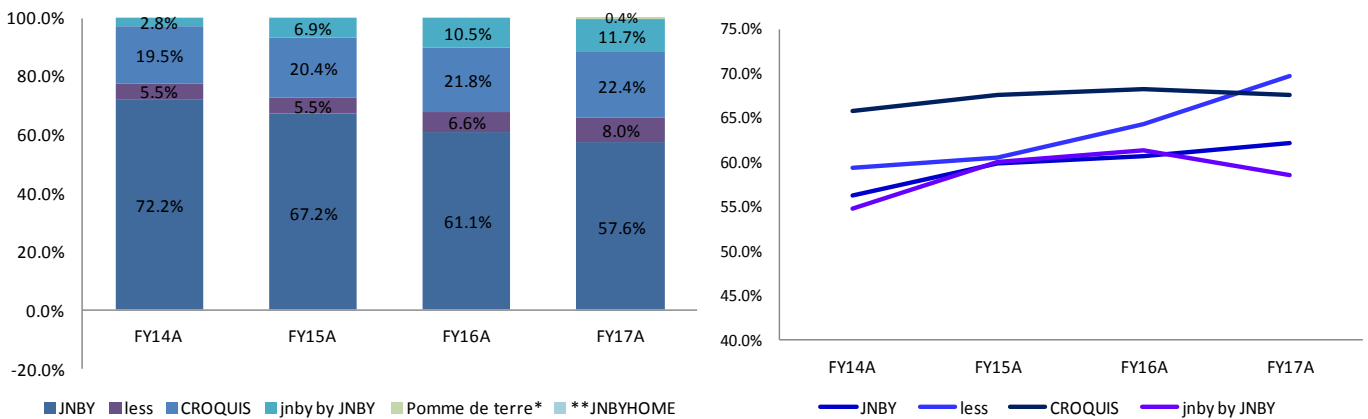
Exhibit 2: JNBY enjoys a comparable GM with international designer brands, while also having higher GM than fast fashion brands

	bloomberg code	GM (%)	OM (%)	PM (%)
<u>Hong Kong/A-share listed</u>				
CHINA LILANG LTD	1234 HK	41%	28%	22%
KORADIOR HOLDING	3709 HK	72%	18%	15%
SHANGHAI LA CH-H	6116 HK	64%	11%	6%
COSMO LADY CHINA	2298 HK	44%	7%	5%
BOSIDENG INTL	3998 HK	45%	6%	5%
GIORDANO INTL	709 HK	59%	11%	8%
I.T LTD	999 HK	61%	6%	3%
ESPRIT HLDGS	330 HK	50%	-4%	0%
BAUHAUS INTL HLD	483 HK	59%	4%	3%
HEILAN HOME CO-A	600398 CH	39%	23%	19%
JOEONE CO LTD-A	601566 CH	56%	16%	19%
SHENZHEN ELLAS-A	603808 CH	68%	21%	18%
LANCY CO LTD-A	002612 CH	55%	5%	12%
FUJIAN SEPTWOL-A	002029 CH	43%	6%	10%
SHENZHEN HUIJI-A	002763 CH	68%	12%	9%
GUANGDONG BOBA-A	002776 CH	29%	22%	18%
Average		53%	13%	11%
JNBY DESIGN LTD	3306 HK	63%	18%	13%
<u>International Designer Brands</u>				
KERING	KER FP	63%	11%	7%
LVMH MOET HENNE	MC FP	65%	18%	11%
JIMMY CHOO PLC	CHOO LN	64%	10%	4%
TED BAKER PLC	TED LN	60%	13%	10%
BRUNELLO CUCINEL	BC IM	N/A	12%	8%
Average		63%	13%	8%
JNBY DESIGN LTD	3306 HK	63%	18%	13%
<u>International Brands</u>				
FAST RETAILING	9983 JP	48%	7%	3%
HENNES & MAURI-B	HMB SS	55%	12%	10%
INDITEX	ITX SM	58%	18%	14%
PVH CORP	PVH US	52%	9%	7%
ADASTRIA CO LTD	2685 JT	57%	8%	5%
MARKS & SPENCER	MKS LN	39%	6%	4%
OVS SPA	OVS IM	N/A	7%	6%
GAP INC/THE	GPS US	36%	10%	6%
AMER EAGLE OUTF	AEO US	37%	9%	6%
HUGO BOSS -ORD	BOSS GR	66%	10%	7%
TED BAKER PLC	TED LN	60%	13%	10%
NEXT PLC	NXT LN	35%	21%	16%
FRENCH CONNECT	FCCN LN	46%	-3%	-2%
ABERCROMBIE & FI	ANF US	61%	2%	1%
URBAN OUTFITTER	URBN US	35%	10%	7%
VF CORP	VFC US	48%	12%	9%
GUESS? INC	GES US	36%	6%	4%
Average		48%	10%	7%
JNBY DESIGN LTD	3306 HK	63%	18%	13%

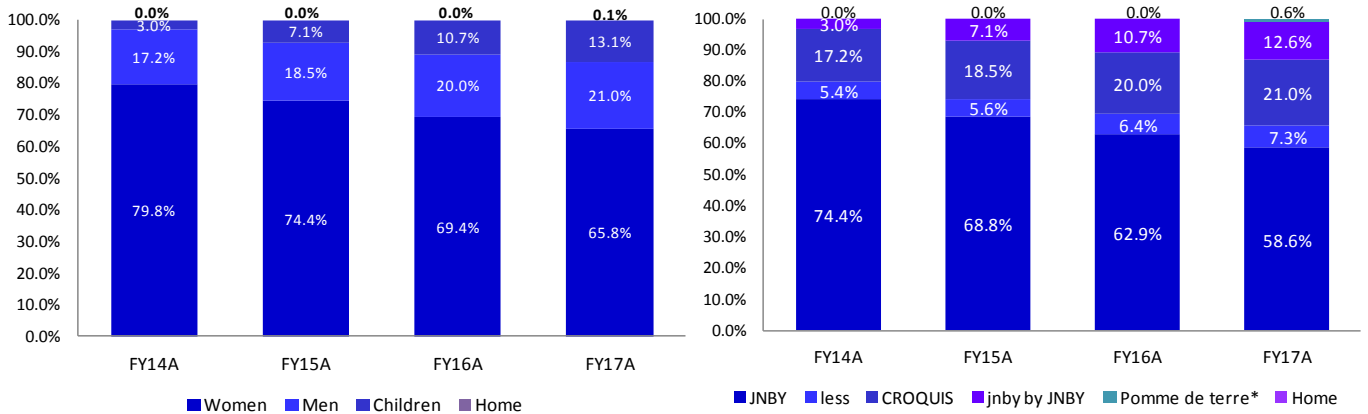
Source: Bloomberg, company data, CIRL

Exhibit 3: JNBY's current brand portfolio


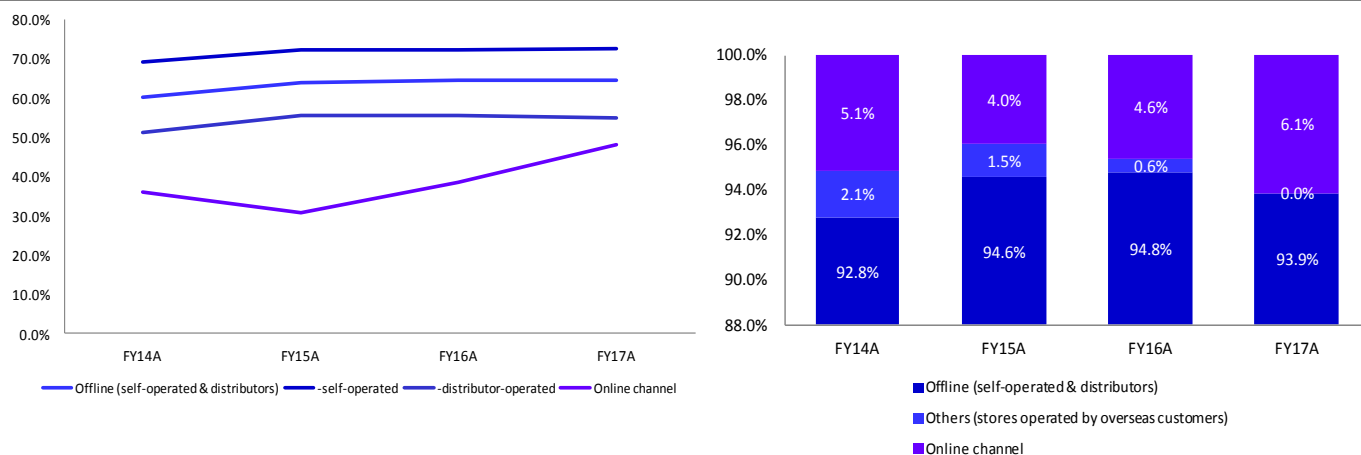
Source: Company data, CIRL

Exhibit 4: JNBY revenue and GM breakdown (left: revenue ; right: brand GM)


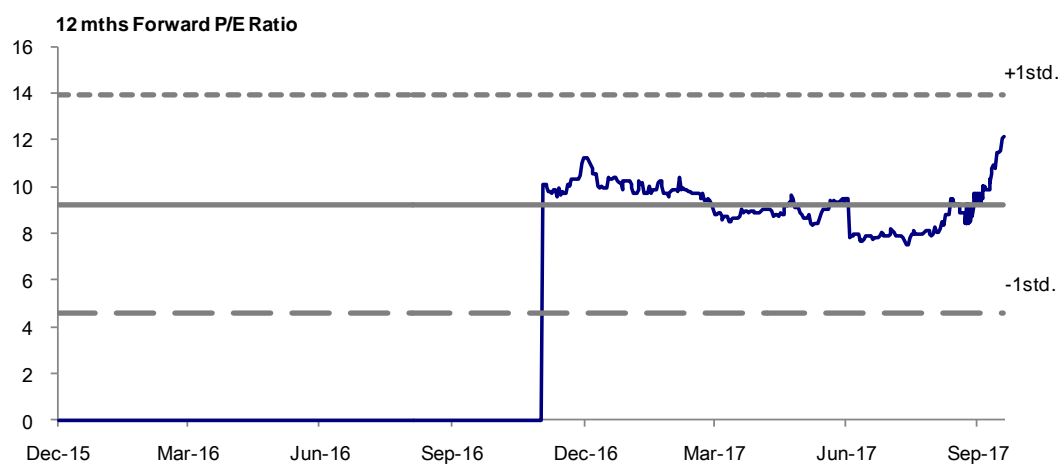
Source: Company data, CIRL (* Pomme de terre was launched in March 2016 & opened first store in Jul 2016; ** JNBYHOME was launched in December 2016 & opened first store in Jan 2017)

Exhibit 5: JNBY revenue breakdown (left: by nature; right: by brand)


Source: Company data, CIRL (* Pomme de terre was launched in March 2016 & opened first store in Jul 2016; ** JNBYHOME was launched in December 2016 & opened first store in Jan 2017)

Exhibit 6: JNBY's online channel GM still has room to improve


Source: Company data, CIRL

Exhibit 7: JNBY's 12 month forward P/E Ratio


Source: Bloomberg, CIRL

Exhibit 7: Financial statement
Income statement

Year to Jun (RMB Mn)	FY15A	FY16A	FY17A	FY18E	FY19E
Revenue	1,613	1,903	2,319	2,745	3,246
Gross profit (reported)	991	1,190	1,475	1,752	2,093
EBITDA	326	373	493	605	758
Depreciation	29	30	34	45	62
EBIT	296	343	460	561	695
Net interest income (exp.)	(14)	(1)	9	4	5
Associates	0	0	0	0	0
Exceptionals/others	0	0	0	0	0
Profit before tax	282	342	468	565	700
Tax expenses	(85)	(103)	(137)	(165)	(205)
Minority interest	0	0	0	0	0
Net profit	197	239	332	400	496
Dividends	0	0	249	280	348
Adjusted diluted EPS (RMB)	103.5	0.607	0.700	0.762	0.944

Balance sheet

Year to Jun (RMB Mn)	FY15A	FY16A	FY17A	FY18E	FY19E
Cash & equiv	159	175	495	572	675
Trade receivables	71	78	83	99	118
Other receivables	317	146	234	234	234
Inventories	394	439	570	649	766
Other current assets	0	0	334	382	381
Fixed assets	27	34	59	72	67
Intangible assets	4	5	7	7	7
Investment, associates etc	65	118	144	94	94
Total assets	1,037	995	1,925	2,109	2,341
Account payables	85	111	151	179	203
Other payables	292	337	469	469	469
Short-term debt	20	0	0	0	0
Other current liabs	19	251	35	35	35
Long-term debts	107	0	0	0	0
Deferred tax and others	14	9	13	13	13
Other long-term liabs	0	0	0	0	0
Total liabilities	538	707	668	696	720
Share capital	0	0	5	5	5
Reserves	499	288	1,253	1,408	1,617
Shareholders' equity	499	288	1,257	1,413	1,622
Minorities	0	0	0	0	0
Total equity	499	288	1,257	1,413	1,622
Net cash (debt)	32	175	495	572	675

Cash flow

Year to Jun (RMB Mn)	FY15A	FY16A	FY17A	FY18E
Pre-tax profit	282	342	468	565
Taxes paid	(85)	(136)	(157)	(132)
Depreciation & amortization	29	30	34	45
Associates & Others	135	194	239	114
CFO bef. WC change	361	430	585	591
Change in working cap	7	3	(137)	(71)
Cashflow from operation	367	433	448	520
CAPEX	(30)	(35)	(56)	(62)
Free cash flow	337	398	391	458
Dividends	0	0	249	280
Balance sheet adj.	(122)	(255)	(967)	(662)
Share issued	0	0	648	0
Others	0	0	0	0
Net cash flow	216	143	320	76
Net cash (debt) start	(183)	32	175	495
Net cash (debt) at year-end	32	175	495	572

Ratios

Year to Jun (RMB Mn)	FY15A	FY16A	FY17A	FY18E
Growth rate (%)				
Revenue	16.6%	17.9%	21.9%	18.4%
EBITDA	29.2%	14.6%	32.2%	22.6%
EBIT	30.7%	15.7%	34.0%	21.9%
Net profit	31.4%	21.5%	38.5%	20.6%
Fully diluted EPS	31.4%	-99.4%	15.3%	8.4%
Margins (%)				
Gross margin (reported)	33.3%	62.6%	63.6%	63.8%
EBITDA	20.2%	19.6%	21.3%	22.0%
EBIT	18.4%	18.0%	19.8%	20.4%
Net margin	12.2%	12.6%	14.3%	14.6%
Other ratios				
ROE (%)	48.9%	60.8%	42.9%	30.0%
ROA (%)	19.7%	23.6%	22.7%	19.8%
Net gearing (%)	-6.4%	-60.8%	-39.4%	-40.5%
Interest coverage (x)	-21.2	-311.4	52.1	126.6
Receivables days	17.4	14.3	12.7	12.1
Payables days	50.1	56.7	65.3	66.0
Inventory days	230.7	224.8	246.2	238.7
Effective tax rate (%)	-30.2%	-30.0%	-29.2%	-29.2%

Source: Company data, CIRLestimates

Exhibit 8: Peers comparison

bloomberg code	Mkt Cap (HKD mm)	Price (HKD)	Share Price Movement (%)		PER (x)					Yield (%)						
			3M	YTD	FY14	FY15	FY16	FY17E	FY18E	FY14	FY15	FY16	FY17E	FY18E	FY19E	
Hong Kong/A-share listed																
CHINA LILANG LTD	1234 HK	7,592	6.28	19.7	46.6	10.8	9.8	12.0	11.2	10.7	4.6%	5.0%	4.8%	6.4%	6.6%	7.2%
KORADIOR HOLDING	3709 HK	2,933	6.03	(19.1)	(29.0)	16.5	12.2	11.0	-	-	1.7%	2.6%	0.0%	0.0%	0.0%	0.0%
SHANGHAI LA CH-H	6116 HK	10,998	10.04	1.0	24.6	6.3	6.6	8.0	7.8	7.6	0.0%	0.0%	0.0%	7.7%	8.0%	0.0%
COSMO LADY CHINA	2298 HK	6,482	3.02	2.4	0.7	9.7	8.6	20.3	17.0	13.7	3.3%	3.8%	2.1%	2.1%	2.8%	3.3%
BOSIDENG INTL	3998 HK	7,157	0.67	(2.9)	0.0	6.1	32.2	15.5	-	-	8.5%	3.4%	4.0%	0.0%	0.0%	0.0%
GIORDANO INTL	709 HK	6,959	4.43	1.4	5.7	17.0	16.3	16.0	14.1	12.8	5.7%	6.1%	6.2%	7.1%	7.8%	8.2%
I.T LTD	999 HK	4,831	4.04	2.3	30.3	17.6	15.9	23.8	15.8	11.4	2.5%	3.0%	2.1%	3.0%	4.3%	5.2%
ESPRIT HLDGS	330 HK	8,987	4.70	19.3	(22.8)	42.7	-2.5	470.0	68.1	39.5	1.5%	0.3%	0.0%	0.0%	1.1%	1.9%
BAUHAUS INTL HLD	483 HK	654	1.78	(0.6)	36.9	5.1	5.0	12.4	-	-	8.7%	8.4%	3.4%	0.0%	0.0%	0.0%
HEILAN HOME CO-A	600398 CH	49,983	11.13	1.6	(12.4)	16.7	13.7	13.6	12.6	11.4	4.3%	3.7%	5.1%	5.5%	6.0%	6.5%
JOEONE CO LTD-A	601566 CH	10,378	18.06	(1.8)	(13.3)	23.5	20.9	20.9	18.2	15.7	7.0%	3.4%	6.5%	4.0%	4.6%	5.3%
SHENZHEN ELLAS-A	603808 CH	9,701	28.76	14.9	(1.0)	38.7	42.1	39.0	28.1	22.6	0.0%	0.6%	0.8%	1.0%	1.1%	1.3%
LANCY CO LTD-A	002612 CH	6,748	16.87	9.3	(20.9)	44.2	73.9	35.2	27.1	20.9	1.5%	0.7%	0.3%	0.7%	0.8%	0.9%
FUJIAN SEPTWOL-A	002029 CH	8,211	10.87	(1.5)	(9.6)	22.7	24.5	26.6	22.0	19.1	1.2%	1.1%	1.1%	0.5%	0.7%	0.3%
SHENZHEN HUIJI-A	002763 CH	7,008	18.02	(9.4)	(19.3)	31.4	29.9	32.7	23.6	19.1	0.0%	1.1%	1.4%	2.6%	2.6%	2.6%
GUANGDONG BOBA-A	002776 CH	7,074	29.42	7.9	(12.9)	34.1	36.1	45.8	33.0	24.8	2.6%	0.4%	0.3%	0.0%	0.0%	0.0%
Average		9,731		2.8	0.2	21.5	23.2	50.2	23.0	17.6	4.1%	2.9%	2.9%	3.7%	3.9%	3.9%
JNBY DESIGN LTD	3306 HK	5,800	11.18	74.1	51.9	-	-	15.8	13.7	12.6	6.2%	0.0%	0.0%	7.3%	5.6%	6.9%
International Designer Brands																
KERING	KER FP	454,720	3,600.89	32.8	85.7	64.9	46.7	44.4	25.8	22.7	1.1%	1.0%	1.1%	1.5%	1.8%	2.0%
LVMH MOET HENNE	MC FP	1,182,513	2,332.42	19.3	41.5	34.3	37.6	35.0	26.3	23.8	1.4%	1.3%	1.5%	1.8%	2.0%	2.1%
JIMMY CHOO PLC	CHOO LN	9,239	23.71	0.7	64.3	55.0	40.7	37.2	24.8	22.8	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TED BAKER PLC	TED LN	12,601	283.54	10.0	(2.2)	25.8	29.9	25.5	25.8	21.6	1.4%	1.8%	2.0%	0.0%	2.2%	2.5%
BRUNELLO CUCINEL	BC IM	17,560	258.24	15.7	39.7	56.2	61.6	59.8	43.0	39.4	0.5%	0.4%	0.5%	0.8%	0.9%	1.0%
Average		136,439		15.7	45.8	47.2	43.3	40.4	29.2	26.1	1.1%	1.1%	1.3%	1.4%	1.7%	1.9%
JNBY DESIGN LTD	3306 HK	5,800	11.18	74.1	51.9	-	-	15.8	13.7	12.6	6.2%	0.0%	0.0%	7.3%	5.6%	6.9%
International Brands																
FAST RETAILING	9983 JP	274,038	2,583.47	13.2	(9.7)	31.4	30.3	66.6	34.7	31.0	0.9%	0.9%	0.9%	1.0%	1.0%	1.1%
HENNES & MAURI-B	HMB SS	320,650	193.74	(6.2)	(17.6)	18.8	16.7	20.2	19.2	17.3	5.8%	4.7%	4.6%	4.7%	4.7%	4.8%
INDITEX	ITX SM	882,659	283.21	(6.9)	(3.3)	32.6	43.4	35.5	33.6	28.2	1.4%	1.4%	1.6%	2.0%	2.4%	2.7%
PVH CORP	PVH US	77,059	995.27	5.2	41.4	18.7	17.7	18.3	19.0	16.7	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
ADASTRIA CO LTD	2685 JT	8,198	167.99	(8.1)	(18.9)	9.7	-170.7	14.6	10.4	11.5	1.7%	1.6%	2.5%	3.2%	3.1%	3.1%
MARKS & SPENCER	MKS LN	54,664	33.64	0.2	(5.7)	46.1	8.5	8.8	11.3	12.0	6.2%	6.7%	6.5%	6.0%	5.7%	5.8%
OVS SPA	OVS IM	13,190	58.10	(0.6)	33.8	19.9	58.3	18.8	18.1	13.6	0.0%	0.0%	2.2%	2.2%	2.7%	3.1%
GAP INC/THE	GPS US	80,931	206.37	12.7	17.9	15.7	9.5	11.0	13.2	12.8	2.6%	3.3%	3.5%	3.5%	3.4%	3.6%
AMER EAGLE OUTF	AEO US	18,359	103.69	14.1	(12.4)	11.4	22.0	12.3	10.7	11.7	2.8%	3.7%	3.7%	3.8%	3.8%	3.5%
HUGO BOSS -ORD	BOSS GR	46,355	658.45	1.6	24.7	27.4	16.3	23.9	20.2	19.0	5.7%	4.7%	3.4%	3.8%	4.0%	4.3%
TED BAKER PLC	TED LN	12,320	277.21	8.9	(3.4)	25.2	29.3	24.9	25.2	21.1	1.5%	1.8%	2.0%	0.0%	2.2%	2.6%
NEXT PLC	NXT LN	67,379	460.22	3.5	(6.5)	10.0	10.0	9.6	11.0	11.0	3.4%	4.1%	4.1%	4.1%	6.2%	4.7%
FRENCH CONNECT	FCCN LN	442	4.59	9.1	30.0	-7.6	-49.3	-8.7	-14.6	-45.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ABERCROMBIE & FI	ANF US	6,417	94.25	21.2	0.7	202.4	7.8	11.7	-219.2	-448.8	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
URBAN OUTFITTER	URBN US	21,295	193.89	32.5	(12.7)	13.4	15.1	14.4	13.3	16.8	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
VF CORP	VFC US	214,707	545.47	10.6	31.0	27.2	22.3	22.6	23.1	20.1	1.6%	1.9%	2.2%	2.5%	2.7%	2.9%
GUESS? INC	GES US	10,895	130.85	23.9	38.6	62.4	15.9	17.2	37.7	28.3	4.7%	5.3%	5.3%	5.4%	5.4%	5.4%
Average		124,092		7.9	7.5	35.8	21.5	20.6	20.0	18.1	3.2%	3.4%	3.3%	3.5%	3.6%	3.6%
JNBY DESIGN LTD	3306 HK	5,800	11.18	74.1	51.9	0.0	0.0	0.0	13.7	12.6	6.2%	0.0%	0.0%	7.3%	5.6%	6.9%

Source: Bloomberg, CIRL

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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Analyst Certification

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