



Company Report: Phoenix New Media (FENG US)

公司报告：凤凰新媒体 (FENG US)

Ray Zhao 赵睿
+86 755 2397 6755
zhaorui@gtjas.com

17 May 2017

1Q17 Results In Line, Yidian News DAU Reached 48 mn, “Accumulate”

2017年1季度业绩符合市场预期，一点资讯日活达到4,800万，“收集”

- **Phoenix New Media's (PNM) 1Q17 results were in line with market consensus.** PNM's total revenue reached RMB294.5 mn, down 8.8% yoy, in line with expectations. PNM's net ad revenue was RMB241.1 mn, down 11.2% yoy, in line. Paid service revenue reached RMB53.4 mn, up 3.6% yoy. Non-GAAP net loss was RMB23.2 mn.
- **Key points: 1) Expect Yidian News to be monetized further.** Yidian News DAU reached 48 mn in 4M17. We expect Yidian News' revenue to reach around RMB500 mn-RMB700 mn in 2017, up over 100% yoy. **2) Mobile ad revenue growth in 2017 was expected to reach 50%.** In 1Q17, PNM's mobile ad revenue reached RMB121 mn, up 2% yoy, representing 50.3% of total ad revenue. **3) PNM decided to increase market spending in app stores to improve iFeng app downloads.** Currently, DAU of iFeng remained at 30 mn. However, this strategy will sacrifice profit margins, resulting in risk in the medium term.
- **Maintain Target Price at USD5.50 and maintain “Accumulate”.** The monetization of Yidian News might be a catalyst for PNM. Our FY17-FY19 net loss per ADR estimates are RMB1.284, RMB0.552 and RMB0.092, respectively. Our Target Price of USD5.50 represents 1.4x FY17E PBR.
- **凤凰新媒体 2017 年 1 季度业绩符合市场预期。**整体收入为人民币 294.5 百万元，同比下降 8.8%，符合预期。广告收入为人民币 241.1 百万元，同比下降 11.2%，符合预期。付费服务收入为人民币 53.4 百万元，同比上升 3.6%。非 GAAP 净亏损达到人民币 23.2 百万元。
- **要点：1)期待一点资讯进一步货币化。**2017 年 4 月一点资讯日活跃用户为 48 百万。我们预期一点资讯能够在 2017 年实现人民币 5-7 亿的广告收入，同比翻倍。**2) 2017 年移动广告收入增速预期达到 50%。**2017 年 1 季度公司移动端广告收入达到人民币 121 百万元，同比增长 2%，占广告收入 50.3%。**3) 公司决定提高在应用商店的营销费用来提高凤凰 App 的下载量。**目前凤凰 App 的用户停留在 3,000 万。但是这种战略会牺牲公司的利润率，中期有一定的风险。
- **维持目标价为 5.50 美元，维持投资评级为“收集”。**我们认为一点资讯进入货币化可能为公司股价催化剂。我们 2017-2019 财年的每股 ADR 亏损预测是人民币 1.284 元、人民币 0.552 元和人民币 0.092 元。目标价 5.50 美元，相当于 1.4 倍的 2017 年预测市净率。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

US\$5.50

Revised from 原目标价:

US\$5.50

Share price 股价:

US\$3.210

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(12.1)	(15.5)	(16.6)
Rel. % to NASDAQ index 相对纳指变动 %	(14.3)	(17.6)	(33.9)
Avg. ADS price(US\$) 平均 ADS 价 (美元)	3.4	3.6	3.6

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	Earnings /ADS 每 ADS 净利 (RMB)	Earnings /ADS 每 ADS 净利变动 (△%)	PER 市盈率 (x)	BV/ADS 每 ADS 净资产 (RMB)	PBR 市净率 (x)	DP/ADS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2015A	1,609	73	1.024	(71.7)	30.3	3.143	1.6	0.000	0.0	4.2
2016A	1,445	81	1.122	9.6	30.7	3.767	1.3	0.000	0.0	4.1
2017F	1,559	(92)	(1.284)	(214.4)	(27.3)	3.606	1.4	0.000	0.0	(4.4)
2018F	1,666	(40)	(0.552)	(57.0)	(64.3)	3.537	1.4	0.000	0.0	(1.9)
2019F	1,758	(7)	(0.092)	(83.4)	(391.8)	3.526	1.4	0.000	0.0	(0.3)

ADR in issue (m) 总股数 (m)	71.8	Major shareholder 大股东	Phoenix TV 53.0%
Market cap. (US\$ m) 市值 (US\$ m)	256.9	Free float (%) 自由流通比率 (%)	17.5
3 month average vol. 3 个月平均成交股数 ('000)	91.6	FY17 Net gearing (%) FY10 净负债/股东资金 (%)	Net cash
52 Weeks high/low (HK\$) 52 周高/低	4.300 / 3.110		

Source: the Company, Guotai Junan International.

Phoenix New Media's (PNM) 1Q17 results were in line market consensus. PNM's total revenue reached RMB294.5 mn, down 8.8% yoy, in line with expectations. PNM's net ad revenue was RMB241.1 mn, down 11.2% yoy, in line. Paid service revenue reached RMB53.4 mn, up 3.6% yoy. Non-GAAP net income was RMB23.2 mn. For 2Q17, PNM expects its total revenues to be between RMB362 mn and RMB382 mn, up 3.4% and 9.1% yoy, above expectations. Net advertising revenue is expected to be between RMB311 mn and RMB326 mn, up 4.6% yoy and 9.7% yoy, also above expectations. Paid services revenue is expected to be between RMB51mn and RMB56 mn, better than expectations due to online reading services. However, PNM will increase its marketing spending and profit margin will decline.

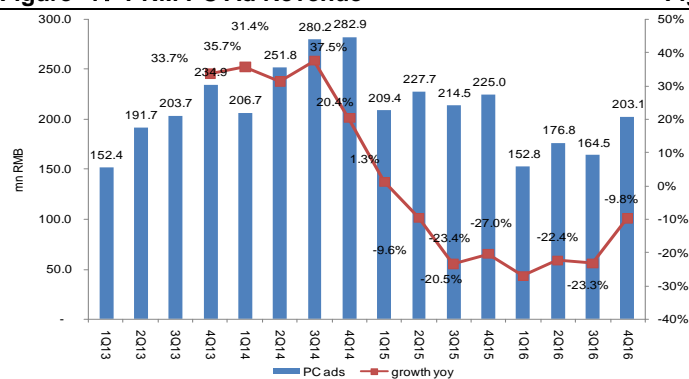
Mobile ad revenue growth may accelerate due to an increase in marketing spending and stronger visibility of Yidian News. PNM has decided to increase market spending in app stores to improve its iFeng app downloads. Currently, DAU of iFeng stayed at 30 mn. However, this strategy will sacrifice profit margins, resulting in risks in the medium term. According to the management, PNM's mobile ad revenue growth in 2017 is expected to reach 50%. In 1Q17, PNM's mobile ad revenue reached RMB121 mn, up 2% yoy, 50.3% of total ad revenue. Yidian News DAU reached 48 mn in 4M17. Both Oppo and Xiaomi have combined the Yidian News flow into the front page of their browsers. Yidian News made revenue of around RMB5 mn-RMB7 mn in 2017, up over 100% yoy. According to iResearch, news flow ads will gain more market share within online ad markets, from 2.2% in 2013 to 22.6% in 2019, which will mainly include news flow ads from general news aggregator sites and social media platforms. We think Yidian News has great growth potential and its ad revenue will exceed that from the iFeng app in 1-2 years. However, we still believe that Yidian News needs more strategic investors from smartphone markers, such as Vivo and Huawei. The strategic smartphone investors will provide more traffic through their browsers and lower costs in their app stores and pre-installed markets. In the long run, we think that Yidian News can maintain its 4th ranking within the news aggregators market after Toutiao.com, Tencent's Daily Express (天天快报), and Alibaba Group's UC headline news.

Table-1: China Ad Market Expectation

China ad market (bn RMB)	2012	2013	2014	2015	2016	2017E	2018E	2019E
TV	104.6	111.9	117.3	108.5	105.0	103.1	103.4	102.3
Radio	13.6	14.0	14.3	14.5	14.8	15.1	15.3	15.5
Internet	77.3	110.5	154.6	218.5	290.3	388.4	502.2	632.0
News paper	55.6	51.2	50.3	23.3	13.7	9.6	7.4	5.0
Magazine	8.3	7.8	7.7	4.1	2.9	2.3	1.9	1.7
Outdoor	68.7	78.4	100.0	110.6	117.4	123.3	127.0	130.8
Total	328.2	373.8	444.2	479.4	544.1	641.7	757.2	887.2
Growth yoy%								
TV	12.0%	7.0%	4.8%	-7.5%	-3.2%	-1.8%	0.3%	-1.1%
Radio	10.5%	2.7%	2.2%	1.7%	1.5%	2.1%	1.6%	0.9%
Internet	50.7%	42.9%	39.9%	41.3%	32.9%	33.8%	29.3%	25.8%
News paper	18.3%	-7.8%	-1.7%	-53.8%	-41.0%	-30.1%	-22.7%	-32.3%
Magazine	59.9%	-6.2%	-1.2%	-47.3%	-28.5%	-22.3%	-17.3%	-9.6%
Outdoor	14.7%	14.1%	27.6%	10.6%	6.1%	5.0%	3.0%	3.0%
Total	21.9%	13.9%	18.8%	7.9%	13.5%	17.9%	18.0%	17.2%
Internet Ad market	77.3	110.5	154.6	218.5	290.3	388.4	502.2	632.0
growth yoy %	50.7%	42.9%	39.9%	41.3%	32.9%	33.8%	29.3%	25.8%
Mobile ad	5.3	13.4	37.5	99.8	175.0	264.9	369.8	484.3
PC ad	72.0	97.1	117.1	118.7	115.3	123.5	132.4	147.7
Mobile ad as % of total internet ad market	6.9%	12.1%	24.3%	45.7%	60.3%	68.2%	73.6%	76.6%
PC ad as % of total internet ad market	93.1%	87.9%	75.7%	54.3%	39.7%	31.8%	26.4%	23.4%
Internet Ad market by type								
Search	33.0%	31.2%	33.4%	31.2%	26.4%	24.1%	22.6%	21.3%
E-commerce	23.3%	27.0%	25.9%	26.9%	30.0%	31.7%	31.8%	30.9%
Brand graph	26.2%	21.0%	17.7%	14.7%	13.4%	12.1%	11.2%	10.3%
Rich media	4.0%	4.2%	3.2%	3.6%	3.6%	3.4%	3.2%	3.1%
In-video	6.2%	7.1%	8.0%	8.3%	8.3%	8.2%	7.7%	7.2%
News flow (Social media, aggregate news)	0.0%	2.2%	3.6%	7.9%	11.2%	14.3%	18.2%	22.5%
Others	7.3%	7.3%	8.2%	7.4%	7.1%	6.2%	5.3%	4.7%

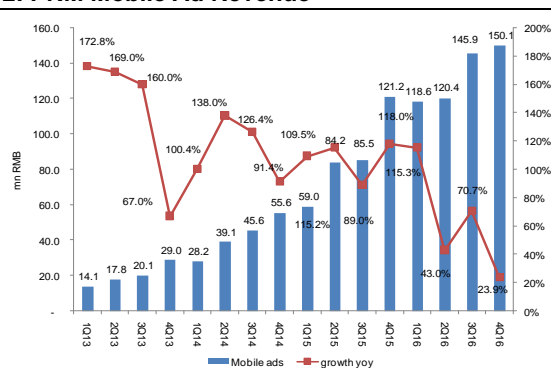
Source: iResearch, Guotai Junan International.

Figure- 1: PNM PC Ad Revenue



Source: the Company, Guotai Junan International.

Figure- 2: PNM Mobile Ad Revenue



Source: the Company, Guotai Junan International.

Maintain Target Price at USD5.50 and maintain “Accumulate”. The monetization of Yidian News might be a catalyst for PNM. Our FY17-FY19 net loss per ADR estimates are RMB1.284, RMB0.552 and RMB0.092, respectively. Our Target Price of USD5.50 represents 1.4x FY17E PBR.

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Company Report

Table- 2: Quarterly Results Estimates of PNM

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17E	3Q17E	4Q17E
Total revenue	322.9	350.0	360.0	411.9	294.5	375.1	409.8	479.3
Net advertising revenues	271.4	297.2	310.4	353.2	241.1	319.6	357.8	417.6
Paid service revenues	51.6	52.8	49.6	58.7	53.4	55.4	52.1	61.7
MVAS	29.1	30.9	26.4	21.3	29.8	23.2	24.7	21.1
Game	22.5	21.9	19.7	25.5	23.0	22.3	20.1	26.0
Growth								
Total revenue	-12%	-4%	-15%	6%	-32%	16%	17%	33%
Net advertising revenues	1%	-5%	3%	2%	-11%	8%	15%	18%
Paid service revenues	-47%	-52%	-45%	-31%	4%	5%	5%	5%
MVAS	-61%	-65%	-63%	-64%	3%	-25%	-6%	-1%
game	2%	-4%	2%	2%	2%	2%	2%	2%
Cost of revenues	158.2	180.5	182.9	205.2	162.5	198.8	213.1	244.4
Revenue sharing fees paid to telecom operators and channel partners	18.9	19.3	16.6	17.3	17.3	21.2	22.7	26.1
Content and operation costs	95.4	117.2	119.5	138.6	106.3	130.1	139.4	159.9
Business tax and surcharges	17.3	15.3	16.4	15.2	14.5	17.8	19.1	21.9
Bandwidth costs	26.5	28.8	30.4	34.1	24.3	29.8	31.9	36.6
Cost of revenues	-16.8%	-18.8%	-12.8%	-0.9%	2.7%	10.1%	16.5%	19.1%
Revenue sharing fees paid to telecom operators and channel partners	-63.4%	-71.4%	-67.9%	-62.8%	-8.1%	9.9%	37.2%	50.3%
Content and operation costs	5.1%	15.4%	10.9%	30.1%	11.4%	11.0%	16.7%	15.4%
Business tax and surcharges	-19.5%	-28.1%	-20.7%	-22.9%	-16.2%	16.2%	16.2%	44.2%
Bandwidth costs	0.5%	-10.7%	2.2%	14.5%	-8.2%	3.5%	4.9%	7.4%
	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17E	3Q17E	4Q17E
Total revenues	322.9	350.0	360.0	411.9	294.5	375.1	409.8	479.3
Cost of revenues	(158.2)	(180.5)	(182.9)	(205.2)	(162.5)	(198.8)	(213.1)	(244.4)
Gross profit	164.8	169.5	177.1	206.7	132.0	176.3	196.7	234.8
Sales and marketing expenses	(75.6)	(87.0)	(74.2)	(102.4)	(95.5)	(97.5)	(106.6)	(129.4)
General and administrative expenses	(45.1)	(57.6)	(37.9)	(41.2)	(32.0)	(45.0)	(53.3)	(62.3)
Technology and product development expenses	(40.4)	(42.1)	(37.8)	(41.7)	(44.6)	(56.8)	(62.1)	(72.6)
Operating income	3.8	(17.2)	27.2	21.5	(40.1)	(23.1)	(25.2)	(29.5)
Interest income	7.4	7.4	6.4	7.0	6.3	5.0	5.0	9.7
Currency translation gain (Loss)	(1.9)	2.4	0.6	8.5	(2.3)	0.0	0.0	0.0
Other, net	5.2	2.7	(0.2)	11.6	0.8	0.0	0.0	0.0
Earnings before taxes	14.5	(4.7)	34.0	48.5	(35.3)	(18.1)	(20.2)	(19.8)
Provision for income tax	(3.4)	1.4	(2.9)	(9.3)	2.3	0.0	0.0	0.0
Minority								
Net income (Loss)	11.1	(3.3)	31.1	39.3	(32.9)	(18.1)	(20.2)	(19.8)
Net income per ADS RMB	0.160	(0.035)	0.439	0.551	(0.446)	(0.258)	(0.289)	(0.283)
Weighted average number of ADS	72.9	72.9	71.8	71.8	71.7	71.7	71.7	71.7
Non GAAP operating income	7.6	(12.7)	19.0	23.0	(31.8)	(21.6)	(23.7)	(28.0)
Non GAAP net income	14.7	3.4	24.8	41.4	(23.2)	(17.1)	(19.4)	(19.0)
Growth								
Gross profit	-5.8%	-15.5%	-1.9%	-7.6%	-19.9%	4.0%	11.1%	13.6%
Operating income	-45.2%	-164.3%	228.7%	-42.0%	-1153.1%	34.3%	-192.6%	-237.5%
Net income (Loss)	-72.7%	-71.2%	40.1%	88.2%	-181.1%	-262.9%	520.6%	-163.8%
Non GAAP operating income	-75.5%	-158.6%	-52.6%	13.1%	-202.4%	-383.8%	86.3%	-247.0%
Non GAAP net income	-67.3%	-2.0%	-39.2%	15.0%	-151.7%	-216.8%	-666.8%	-176.6%

Source: the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement (DEC Fiscal Year mn RMB)	2015A	2016A	2017E	2018E	2019E
Total Revenues	1,609	1,445	1,559	1,666	1,758
Cost of Revenues	(829)	(727)	(819)	(827)	(838)
Gross profit	780	718	740	839	920
Sales and Marketing Expenses	(346)	(339)	(429)	(450)	(475)
General and Administrative Expenses	(184)	(182)	(193)	(200)	(211)
Technology and Product Development Expenses	(171)	(162)	(236)	(253)	(266)
Operating income	79	35	(118)	(64)	(32)
Interest Income	28	28	26	25	26
Currency Translation Gain(Loss)	(1)	10	(2)	0	0
Other, Net	(8)	19	1	0	0
Earnings before Taxes	98	92	(93)	(38)	(6)
Provision for Income Tax	(26)	(14)	2	0	0
minority	1.1	2.3	(1.0)	(1.6)	(0.5)
Net Income (Loss)	73.5	80.5	(92.1)	(39.6)	(6.6)
Basic ADS	1.024	1.122	(1.284)	(0.552)	(0.092)
Diluted ADS	1.016	1.116	(1.277)	(0.549)	(0.091)
Weighted average number of ADS mn	72	72	72	72	72
Diluted average number of ADS mn	72	72	72	72	72

Cash flow statement (DEC Fiscal Year mn RMB)	2015A	2016A	2017E	2018E	2019E
Net Income	72	78	(91)	(38)	(6)
Depreciation and Amortization Expenses	45	24	22	22	22
Other income and gains, net	115	2	13	6	6
Working capital change	(12)	64	(430)	332	(409)
Others	0	0	0	0	0
Cash Flow from Operating Activities	221	169	(486)	322	(386)
Investing Activities					
Purchase of Property and Equipment and Intangibles	(43)	(26)	(23)	(24)	(24)
Placement of Term Deposits	(3,288)	(12)	0	0	0
Maturity of Time Deposit	2,563	0	0	0	1
Others	(488)	0	0	0	(1)
Cash Flow from Investing Activities	(1,257)	(37)	(23)	(24)	(24)
Financing Activities					
Proceeds from Exercise of Stock Options	7	8	8	9	10
Repurchases of Shares	(66)	(247)	454	(297)	409
Proceeds from short-term loans	124	228	389	(263)	443
Others	0	(228)	(389)	263	(443)
Cash Flow from Financing Activities	64	(239)	463	(288)	419
Other Adjustments					
Foreign Exchange Rate Effect on Cash and ...	(3)	0	0	0	0
Cash Flow Net Changes in Cash	(975)	(108)	(47)	11	9
BB	1,286	311	203	156	167
EB	311	203	156	167	176

Source: the Company, Guotai Junan International.

Balance sheet (DEC Fiscal Year mn RMB)	2015A	2016A	2017E	2018E	2019E
Current Assets					
Cash and Cash Equivalents	311	203	156	167	176
Restricted Cash	125	355	355	355	355
Term Deposits	770	781	781	781	781
Accounts Receivable, Net	506	405	876	503	961
Amounts Due from Related Parties	125	156	313	198	351
Deferred Tax Assets	59	64	70	78	85
Prepayments and Other Current Assets	36	54	43	61	49
Convertible debts from a related party	0	104	0	0	0
Total Current Assets	1,931	2,123	2,595	2,142	2,758
Non Current Assets					
Property and Equipment, net	81	72	74	75	76
Intangible Assets, Net	12	9	10	11	13
Available-for-sale investments	514	939	949	958	968
Equity investments, net	12	9	9	9	9
Other Non-current Assets	18	16	18	19	21
Total Non-current Assets	636	1,046	1,059	1,073	1,087
Total Assets	2,567	3,169	3,654	3,215	3,846
Current Liabilities					
Short-term loans	131	359	748	485	927
Accounts Payable	289	261	412	273	425
Salary and Welfare Payable	114	130	139	138	147
Accrued Expenses and Other Current Liabilities	81	111	113	118	121
Taxes Payable	93	76	83	92	101
Advances from Customers	15	28	39	33	45
Amounts Due to Related-parties	19	19	24	19	25
Total Current Liabilities	743	983	1,559	1,157	1,790
Non Current Liabilities					
Deferred Tax	1	1	1	1	2
Long-term Liabilities	18	22	24	26	29
Total Non-Current Liabilities	20	23	25	28	31
Total Liabilities	763	1,006	1,584	1,184	1,822
Minority	(1)	(3)	(3)	(3)	(3)
iFeng's Shareholders Equity	1,806	2,166	2,074	2,034	2,027
BVPS	3.143	3.767	3.606	3.537	3.526

Key Indicators	2015A	2016A	2017E	2018E	2019E
Non GAAP Gross Profit	786	714	744	767	923
Non GAAP Operating Profit	113	37	-105	-86	-26
Non GAAP Net Profit	125	84	-79	-62	-1
Non GAAP Gross margin	48.9%	49.4%	47.7%	46.1%	52.5%
Non GAAP Operating margin	7.0%	2.6%	-6.7%	-5.2%	-1.5%
Non GAAP Net margin	7.8%	5.8%	-5.0%	-3.7%	0.0%
ROA	3.0%	2.8%	-2.7%	-1.2%	-0.2%
ROIC	4.2%	4.1%	-4.4%	-1.9%	-0.3%
Net debt	net cash	net cash	net cash	net cash	net cash

17 May 2017

Phoenix New Media 凤凰新媒体 (FENG US)

Company Report

Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

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

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

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

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk