

# Company Report

China Merchants Securities (HK) Co., Ltd.  
Hong Kong Equity Research

## Kingsoft (3888 HK)

### Value emerging on short-term headwinds

- Gaming segment to maintain resilient growth amid weak macro; WPS's subscription business growth continue supported by solid demand
- 2Q22 group revenue +24% yoy, inline, OP +82% yoy, beat consensus by 14%, adj. NP turned to loss dragged by loss from Kingsoft Cloud
- BUY: Near term macro headwinds, but value is emerging, as market is likely over discounting; TP slightly lowered to HKD35

### Mixed 2Q22 results

Kingsoft 2Q22 revenue reached RMB1.8bn, +24%/-1% yoy/qoq, inline. GPM was 80%, OPM was 22.8%, +2.7ppt above consensus, mainly thanks to prudent SG&A expenses spending. Adj. NP turned negative to RMB82mn net loss, vs. consensus forecast net profit of RMB58mn, dragged by higher-than-expected loss from Kingsoft Cloud. Solid balance sheet with total cash balance at RMB19.4bn without loan exposure, plus operating cash flow was RMB865mn in 2Q22.

### Gaming growth resilient despite weak consumption climate

Gaming revenue +31%/-7% yoy/qoq in 2Q22, 7% above our estimate, mainly driven by: 1) Stable performance of its legacy titles such as mobile game - *JX1M* (新剑侠情缘) and PC game - *JX3OL* (剑网3); 2) Robust performance of *JX World III* (剑侠世界3) released in Dec 2021, which will also release its overseas version in Vietnam and Korea during 4Q22 to 1Q23. Mgmt. maintained its FY22 gaming segment revenue guidance of 20% yoy, implying a revenue slowdown for 2H22 vs. 1H22, we believe the main reasons are due to the lack of new licensed games, and planned launch delays given weak macro consumption. However, Kingsoft reinforced its strategies of overseas ambitions and categories expansion, and currently has 3 games that have licenses and wait for release such as *Moyu 2* (魔域2), and 4 games waiting for licenses such as *Project Snow* (尘白禁区) and *Code Mask* (彼界).

### WPS demand remains solid; Kingsoft Cloud faces challenges

WPS segment revenue +18%/+6% yoy/qoq, 5% below our estimate, where personal subscription and institutional subscription business maintained fast growth at 40-50% yoy driven by solid demand, while institutional licensing (domestic innovation, 信创) revenue continued to decline given some budget cut from SOE/government amid tough macro environment and last year's high base. We forecast 2H22E WPS revenue growth to sustain at +21% yoy. **Kingsoft Cloud:** 2Q22 revenue -12.3% yoy due to proactively downsized CDN (Content Delivery Network) business, as well as operating challenges amid COVID resurgences. Adj. net loss reached RMB444mn, vs. RMB449mn loss in 1Q22 and RMB235mn loss in 2Q21. Kingsoft Cloud guided c.10-20% revenue decline for 3Q22 considering the macro challenges, and turned more conservative on adj. EBITDA breakeven target previously set for 4Q22.

### Maintain BUY: TP revised down to HKD35

We forecast FY23/24E group revenue to grow 22%/20% yoy. Our next 12-mo SOTP-TP was lowered to HKD35 from HKD37 on: 1) Earnings revision (Figure 8) due to more conservative on each business line; 2) Roll-forward from 4Q22 to 3Q23; 3) FX changes; 4) Multiples unchanged. We see emerging value, as current share price implies 10x forward P/E for WPS and zero value for KC, with the former at a massive discount c.88% to traded value in A-share market. **Key risks:** 1) Game pipeline; 2) Macro consumption; 3) Competition; 4) Regulation.

### Financials

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	5,594	6,371	7,595	9,261	11,136
Growth (%)	28	14	19	22	20
Adj. net profit to shareholders	1,274	-228	142	810	1,301
Growth (%)	136	(118)	(162)	471	60
Adj. diluted EPS (HKD)	1.1	-0.2	0.1	0.6	1.0
P/E (x)	21.4	n.a.	207.2	36.7	23.1
ROE (%)	6.5	1.6	(0.4)	2.0	3.7

Note: Closing price as of Sept 6, 2022, Sources: Bloomberg, Company, CMS (HK) estimates

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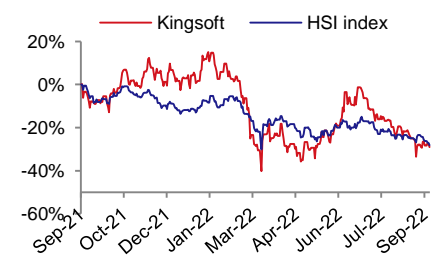
## WHAT'S NEW

2Q22 results; Earnings/TP revision

## BUY

Previous	BUY
Price (Sept 6, 2022)	HKD23.7
12-month Target Price (Potential up/downside)	HKD35 (+48%)
Previous	HKD37

### Price Performance



Source: Bloomberg; Share price as of Sept 6, 2022

%	1m	6m	12m
3888 HK	(18.8)	(24.8)	(50.4)
HSI Index	(4.2)	(7.5)	(27.1)

### Sector: TMT

Hang Seng Index (Sept 6, 2022)	19,203
MSCI China (Sept 6, 2022)	64

### Key Data

52-week range (HKD)	20 - 39
Market cap (USD mn)	32.3
Avg. daily volume (mn)	4.41
FY22E Adj diluted EPS (HKD)	0.1

### Shareholding Structure

Lei Jun	22.7%
Tencent Holdings Limited	7.8%
Pak Kwan Kau	7.3%
Others	0.2%
Free float	62%

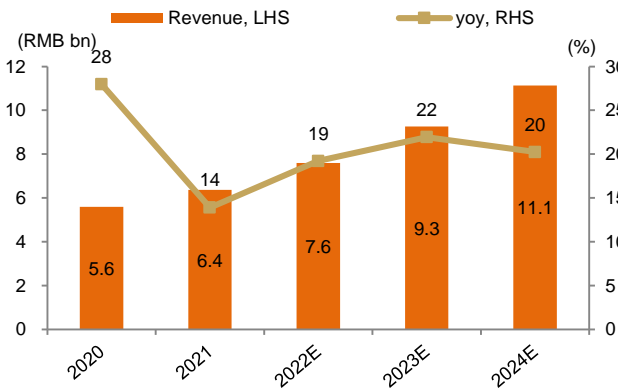
Sources: Bloomberg, Wind, CMS (HK) research

### Related Research

1. Kingsoft (3888 HK) - Improving outlook on gaming recovery (BUY) (July 7, 2022)
2. Kingsoft (3888 HK) - Improving outlook after sluggish 2H21 (BUY) (Mar 26, 2022)
3. Kingsoft (3888 HK) - Gaming drag persists as new launches delay (BUY) (Nov 17, 2021)

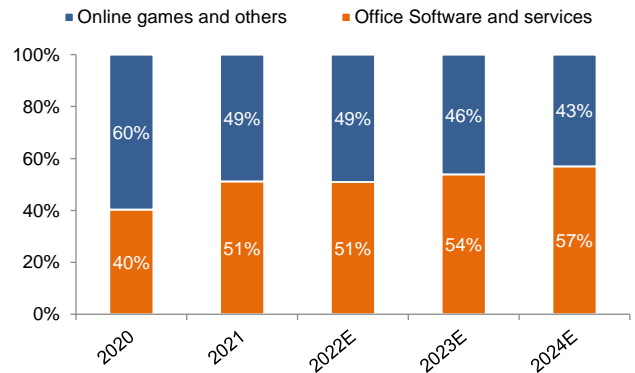
Focus charts

Figure 1: Total revenue



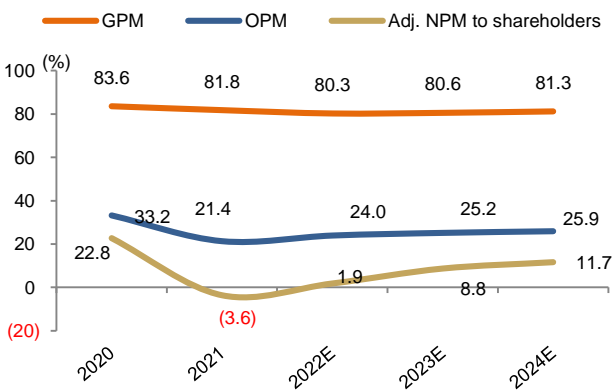
Sources: Company, CMS (HK) estimates

Figure 2: Segment as % of total revenue



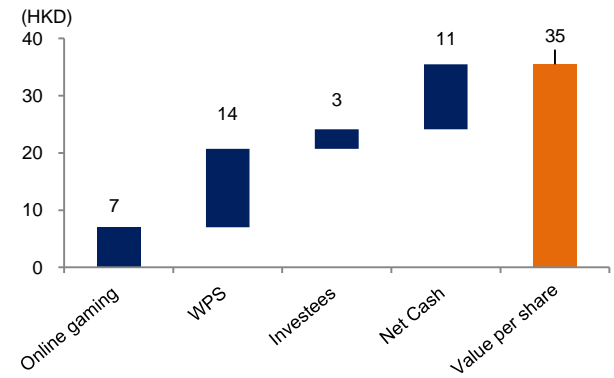
Sources: Company, CMS (HK) estimates

Figure 3: Margin trends



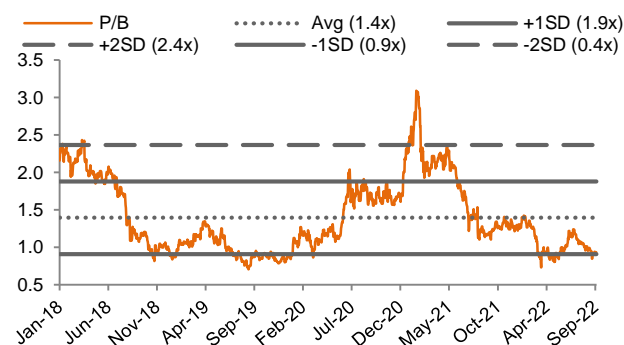
Sources: Company, CMS (HK) estimates

Figure 4: SOTP valuation



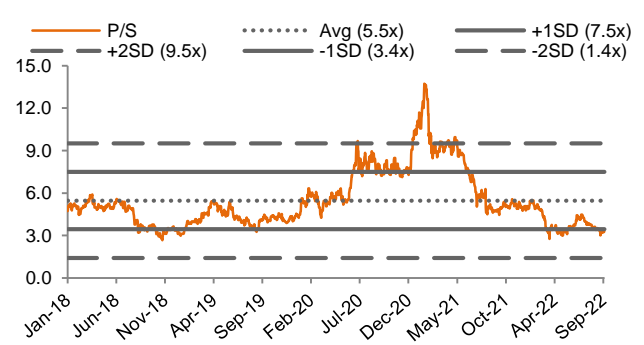
Sources: Company, CMS (HK) estimates

Figure 5: P/B range



Sources: Company, CMS (HK) estimates

Figure 6: P/S range



Sources: Company, CMS (HK) estimates

Figure 7: Kingsoft's 2Q22 results

RMB mn				yoy		qoq		Actual vs CMS		Actual vs Consensus	
	2Q21	1Q22	2Q22	1Q22	2Q22	1Q22	2Q22	2Q22E	% diff	2Q22E	% diff
<b>Revenue</b>	<b>1,480</b>	<b>1,853</b>	<b>1,834</b>	<b>19%</b>	<b>24%</b>	<b>2%</b>	<b>-1%</b>	<b>1,829</b>	<b>0%</b>	<b>1,819</b>	<b>1%</b>
Online games and others	693	982	910	25%	31%	7%	-7%	853	7%		
Office software and services	786	871	925	13%	18%	-4%	6%	976	-5%		
<b>Gross profit</b>	<b>1,208</b>	<b>1,502</b>	<b>1,468</b>	<b>14%</b>	<b>22%</b>	<b>4%</b>	<b>-2%</b>	<b>1,470</b>	<b>0%</b>	<b>1,469</b>	<b>0%</b>
R&D Expense	(532)	(608)	(642)	24%	21%	-11%	6%	(629)	2%		
S&M Expenses	(310)	(269)	(283)	32%	-9%	-13%	5%	(297)	-5%		
G&A Expenses	(133)	(147)	(153)	0%	15%	-5%	4%	(182)	-16%		
Share-based Compensation Costs	(41)	(74)	(63)	134%	54%	2%	-15%	(64)	-2%		
Other income & expenses	38	96	92	35%	143%	-6%	-4%	91	1%		
<b>Operating profit</b>	<b>230</b>	<b>499</b>	<b>419</b>	<b>-2%</b>	<b>82%</b>	<b>51%</b>	<b>-16%</b>	<b>389</b>	<b>8%</b>	<b>367</b>	<b>14%</b>
Other gains/(loss)	48	23	6	-30%	-88%	-17%	-75%	0	n.a.		
Finance income, net	67	78	71	42%	6%	-2%	-9%	101	-30%		
Share of Associates/ JV	(218)	(278)	(417)	19%	92%	-53%	50%	(215)	94%		
<b>Income before tax</b>	<b>127</b>	<b>323</b>	<b>78</b>	<b>-12%</b>	<b>-38%</b>	<b>n.a.</b>	<b>-76%</b>	<b>275</b>	<b>-72%</b>		
Income tax	26	(34)	(29)	-49%	n.a.	-36%	-14%	(41)	-30%		
<b>Net income</b>	<b>153</b>	<b>289</b>	<b>49</b>	<b>-4%</b>	<b>-68%</b>	<b>n.a.</b>	<b>-83%</b>	<b>234</b>	<b>-79%</b>		
<b>Net income to shareholder</b>	<b>49</b>	<b>99</b>	<b>(139)</b>	<b>-15%</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>85</b>	<b>n.a.</b>	<b>39</b>	<b>n.a.</b>
<b>Adj. net profit to shareholder</b>	<b>42</b>	<b>151</b>	<b>(82)</b>	<b>31%</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>149</b>	<b>n.a.</b>	<b>58</b>	<b>n.a.</b>
<b>OCF</b>	<b>631</b>	<b>189</b>	<b>865</b>								
<b>Total cash</b>	<b>18,475</b>	<b>18,783</b>	<b>19,420</b>								
<b>Net cash (debt)</b>	<b>18,475</b>	<b>18,783</b>	<b>19,420</b>								
<b>Total equity</b>	<b>28,266</b>	<b>29,112</b>	<b>29,159</b>								
<b>Net cash/equity</b>	<b>65%</b>	<b>65%</b>	<b>67%</b>								
<b>Margin analysis (%)</b>											
Gross margin	81.6	81.1	80.0	-3.3ppt	-1.6ppt	1.5ppt	-1.1ppt	80.4	-0.4ppt	80.8	-0.7ppt
Operating margin	15.5	27.0	22.8	-5.9ppt	7.3ppt	8.8ppt	-4.1ppt	21.3	1.5ppt	20.1	2.7ppt
NPM from con't operation to shareholder	3.3	5.4	(7.6)	-2.1ppt	-10.9ppt	23.8ppt	-13.0ppt	4.6	-12.2ppt	2.2	-9.8ppt
Adj. NPM from con't operation to shareholder	2.8	8.1	(4.5)	0.7ppt	-7.3ppt	24.0ppt	-12.6ppt	8.1	-12.6ppt	3.2	-7.7ppt

Sources: Company, Bloomberg, CMS (HK) estimates

**Figure 8: Kingsoft's earnings revision**

RMB mn	Revised			Previous			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,595	9,261	11,136	7,762	9,774	11,946	-2%	-5%	-7%
Online games and others	3,727	4,274	4,787	3,749	4,382	5,057	-1%	-2%	-5%
Office software and services	3,868	4,987	6,349	4,013	5,392	6,888	-4%	-8%	-8%
Gross profit	6,101	7,466	9,050	6,292	7,957	9,717	-3%	-6%	-7%
Operating profit	1,819	2,330	2,886	1,857	2,454	3,015	-2%	-5%	-4%
Online games and others	1,080	1,184	1,331	970	1,150	1,300	11%	3%	2%
Office software and services	739	1,146	1,555	887	1,303	1,715	-17%	-12%	-9%
Net income to shareholders	(103)	505	967	491	873	1,152	-121%	-42%	-16%
Adj. net income to shareholders	142	810	1,301	749	1,166	1,462	-81%	-31%	-11%
<b>Margins (%)</b>									
Gross margin	80.3	80.6	81.3	81.1	81.4	81.3	-0.7ppt	-0.8ppt	-0.1ppt
Operating margin	24.0	25.2	25.9	23.9	25.1	25.2	0.0ppt	0.1ppt	0.7ppt
Online games and others	29.0	27.7	27.8	25.9	26.3	25.7	3.1ppt	1.4ppt	2.1ppt
Office software and services	19.1	23.0	24.5	22.1	24.2	24.9	-3.0ppt	-1.2ppt	-0.4ppt
Net margin to shareholders	(1.4)	5.5	8.7	6.3	8.9	9.6	-7.7ppt	-3.5ppt	-1.0ppt
Adj. net margin to shareholders	1.9	8.8	11.7	9.6	11.9	12.2	-7.8ppt	-3.2ppt	-0.6ppt
<b>yoy (%)</b>									
Revenue	19.2	21.9	20.2	21.8	25.9	22.2	-2.6ppt	-4.0ppt	-2.0ppt
Online games and others	20.0	14.7	12.0	20.7	16.9	15.4	-0.7ppt	-2.2ppt	-3.4ppt
Office software and services	18.5	28.9	27.3	22.9	34.4	27.7	-4.5ppt	-5.4ppt	-0.4ppt
Gross profit	17.0	22.4	21.2	20.7	26.5	22.1	-3.7ppt	-4.1ppt	-0.9ppt
Operating profit	33.7	28.1	23.9	36.5	32.1	22.9	-2.8ppt	-4.0ppt	1.0ppt
Online games and others	88.8	9.6	12.4	69.5	18.6	13.0	19.3ppt	-9.0ppt	-0.6ppt
Office software and services	(6.3)	55.1	35.7	12.5	46.9	31.6	-18.8ppt	8.2ppt	4.1ppt
Net income to shareholders	n.a.	n.a.	91.5	24.1	77.9	31.9	n.a.	n.a.	59.6ppt
Adj. net income to shareholders	n.a.	471.3	60.5	n.a.	55.8	25.4	n.a.	415.6ppt	35.1ppt

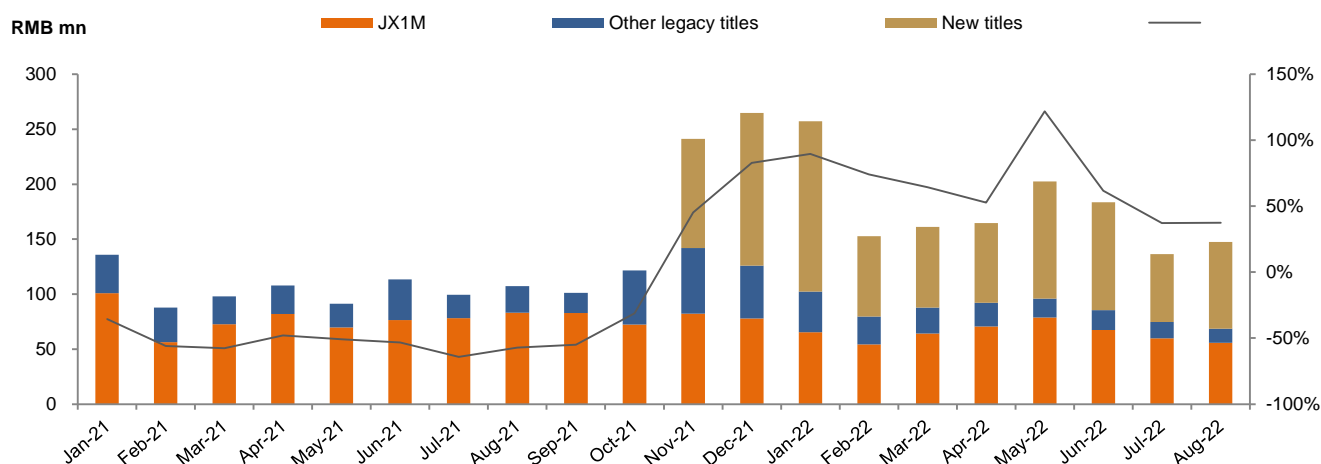
Sources: Company, Bloomberg, CMS (HK) estimates

**Figure 9: Kingsoft's earnings vs. consensus**

RMB mn	CMS forecasts			Consensus			Diff %		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,595	9,261	11,136	7,760	9,348	10,612	-2%	-1%	5%
Gross margin (%)	80.3	80.6	81.3	81.2	81.3	80.9	-0.9ppt	-0.7ppt	0.4ppt
Operating profit	1,819	2,330	2,886	1,881	2,341	2,659	-3%	0%	9%
Operating margin (%)	24.0	25.2	25.9	24.2	25.0	25.1	-0.3ppt	0.1ppt	0.9ppt
Profit before tax	704	1,582	2,374	1,136	1,960	2,403	-38%	-19%	-1%
NP to shareholders	(103)	505	967	270	598	887	-138%	-16%	9%
Adj. NP to shareholders	142	810	1,301	380	734	1,123	-63%	10%	16%
Adj. NPM to shareholders (%)	1.9	8.8	11.7	4.9	7.8	10.6	-3.0ppt	0.9ppt	1.1ppt

Sources: Company, Bloomberg, CMS (HK) estimates; share price as of Sep 6, 2022

Figure 10: Kingsoft key titles' gross billings performance



Sources: Qimai, Company, CMS (HK)

Figure 11: Kingsoft's key gaming pipeline

EN Name	CN Name	Country/Regions	Version	Licensed(Y/N)	Release Date(tentative)	Type	Latest update
<b>Domestic games</b>							
JX3: Yuanqi	剑网3: 缘起	China	PC	Y	2022.5	MMORPG	
Pop Superman	全民泡泡超人	China	Mobile	Y	2022.6	PVP	Cooperate with Xiaoguo and Bubble Mart
Moyu 2	魔域手游2	China	Mobile	Y	4Q22E	MMORPG	
Wolongyin	卧龙吟	China	Mobile	Y	TBA	SLG	
Biphase	双相	China	Mobile	Y	2H22E	RPG	
Code: Mask	彼界	China	Mobile	N	2H22E	CAG	Waiting for gaming license
Project Snow	尘白禁区	China	Mobile	N	2H22E	TPS	Waiting for gaming license
Ballads of Hongye	东方: 平野孤鸿	China	Mobile	N	2H22E	SIM	Free testing version available on Steam
Journey Of Abyss	阿比斯幻境	China	Mobile	N	TBA	AVG	
Project Cat	我和我的猫	China	Mobile	N	TBA	EDU	
NewDawn	NewDawn	China	Mobile	N	TBA	MMORPG	Testing
Code B.R.E.A.K	Code B.R.E.A.K	China	PC	N	TBA	STG	Testing
<b>Overseas games</b>							
JX World 3	剑侠世界3	Vietnam/Korea	Mobile		2022.9/in the early 23E	MMORPG	
Wulinxianxia	武林闲侠	Vietnam/Korea	Mobile		4Q22E	SLG	

Sources: Company, Steam, CMS (HK)

Figure 12: JX World III (劍俠世界3) released its upgraded version and celebrity endorser



Sources: Company, CMS (HK)

Figure 13: Moyu 2 (魔域2) is expected to be released by the end of this year



Sources: TapTap, CMS (HK)

Figure 14: Project Snow (尘白禁区): an ACGN + TPS mobile game is waiting for license and expected to be released in 2H22



Sources: TapTap, CMS (HK)

Figure 15: Code: Mask (彼界) is waiting for license and expected to be released in 2H22



Sources: Company, CMS (HK)

Figure 16: Kingsoft's SOTP valuation table

RMB mn	Valuation metrics	Next 12-month core earnings before MI	Valuation multiple (x)	Valuation	Ownership	Value contribution to Kingsoft	% of total value	Previous Value	Current share price backtest estimate
<b>Online gaming</b>	P/E	1,199	10	11,991	72.0%	8,634	20%	7,787	10
<b>WPS</b>	P/E	1,066	30	31,975	52.7%	16,854	39%	17,292	10
<b>Total core business value</b>						<b>25,488</b>		<b>25,078</b>	
<b>Investees</b>		<b>Next 12-month revenue</b>							
Kingsoft Cloud (KC US)	P/S	10,385	1.0	10,385	37.4%	3,884	9%	4,225	0
Cheetah mobile (CMCM US)	Market cap			561	47.5%	267	1%	308	
<b>Total investees value</b>						<b>4,151</b>	<b>10%</b>	<b>4,534</b>	
<b>Net Cash</b>						13,951	32%	13,951	13,951
<b>Total group value (RMB mn)</b>						<b>43,589</b>		<b>43,563</b>	<b>28,469</b>
RMB/HKD						0.89		0.85	0.89
Total market cap (HKD mn)						48,976		51,250	31,988
# of shares (mn)						1,380		1,381	1,380
<b>Per share value (HKD)</b>						<b>35</b>		<b>37</b>	<b>23</b>
Implied 2022E P/E (x)						310		59	203
Implied 2023E P/E (x)						55		38	36
Implied 2024E P/E (x)						35		30	23

Note: Closing price as of Sept 6, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

Valuation comparison

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (X)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY22E	FY22E	FY23E	Sales
<b>Platform</b>																		
Tencent	700 HK	HKD	BUY	314.2	459.0	385.0	14.0	11.3	22.9	17.9	3.7	4.5	18.0	10.6	12.3	7.7	6.3	8.7
Alibaba	BABA US	USD	BUY	88.5	160.0	234.2	7.0	6.6	10.7	12.0	n.a.	1.8	11.4	6.6	9.3	12.3	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	173.4	261.0	136.7	n.a.	n.a.	n.a.	n.a.	n.a.	4.1	n.a.	n.a.	1.1	24.9	n.a.	n.a.
Baidu	BIDU US	USD	NR	134.9	n.a.	46.6	10.1	8.5	17.2	14.6	2.3	2.6	13.1	6.1	7.6	7.6	7.4	22.9
Alphabet	GOOGL US	USD	NR	106.8	n.a.	1,397.7	11.6	10.4	19.3	16.8	1.1	5.6	14.4	26.8	27.0	4.9	18.0	20.0
Facebook	FB US	USD	NR	158.5	n.a.	426.1	8.1	7.3	14.7	13.2	n.a.	3.7	8.7	21.2	22.2	8.5	2.7	3.1
Naver	035420 KS	KRW	NR	235,000.0	n.a.	27.9	21.7	18.1	34.5	25.2	n.a.	4.6	23.2	4.8	6.3	13.3	n.a.	5.0
<b>China Mean</b>							<b>9.6</b>	<b>8.3</b>	<b>15.5</b>	<b>14.2</b>	<b>3.0</b>	<b>3.0</b>	<b>13.5</b>	<b>7.5</b>	<b>7.9</b>	<b>12.9</b>	<b>6.8</b>	<b>15.8</b>
<b>Global Mean</b>							<b>13.8</b>	<b>11.9</b>	<b>22.8</b>	<b>18.4</b>	<b>1.1</b>	<b>4.6</b>	<b>15.4</b>	<b>17.6</b>	<b>18.5</b>	<b>8.9</b>	<b>10.4</b>	<b>9.4</b>
<b>Cloud</b>																		
Chinasoft	354 HK	HKD	BUY	5.9	10.5	2.3	8.0	7.9	11.1	9.6	0.9	0.7	39.2	9.1	10.0	23.1	11.9	4.2
Tencent	700 HK	HKD	BUY	314.2	459.0	385.0	14.0	11.3	22.9	17.9	3.7	4.5	18.0	10.6	12.3	7.7	6.3	8.7
Alibaba	BABA US	USD	BUY	88.5	160.0	234.2	7.0	6.6	10.7	12.0	n.a.	1.8	11.4	6.6	9.3	12.3	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	23.7	35.0	4.1	8.1	6.4	n.a.	36.7	n.a.	3.9	13.6	n.a.	2.0	20.6	n.a.	30.0
Kingdee	268 HK	HKD	NR	13.9	n.a.	6.1	n.a.	n.a.	n.a.	n.a.	n.a.	8.4	n.a.	n.a.	n.a.	23.4	n.a.	n.a.
Mingyuan Cloud	909 HK	HKD	NR	6.1	n.a.	1.5	n.a.	n.a.	n.a.	n.a.	n.a.	5.0	n.a.	n.a.	n.a.	7.0	n.a.	n.a.
Microsoft	MSFT US	USD	NR	2.5	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	13.6	n.a.	n.a.
Alphabet	GOOGL US	USD	NR	253.3	n.a.	1,888.7	20.0	17.5	28.0	25.3	n.a.	n.a.	22.9	47.2	37.5	n.a.	n.a.	n.a.
Amazon	AMZN US	USD	NR	106.8	n.a.	1,397.7	11.6	10.4	19.3	16.8	1.1	5.6	14.4	26.8	27.0	4.9	18.0	20.0
Salesforce	CRM US	USD	NR	126.1	n.a.	1,284.8	19.9	15.3	n.a.	32.7	n.a.	2.5	21.9	2.2	16.1	17.6	7.0	20.7
Oracle	ORCL US	USD	NR	151.7	n.a.	151.7	33.5	15.4	n.a.	31.9	n.a.	6.2	27.4	0.9	7.9	n.a.	n.a.	n.a.
SAP	SAP US	USD	NR	73.8	n.a.	196.8	18.7	10.6	31.7	14.0	n.a.	5.0	22.4	n.a.	n.a.	n.a.	n.a.	n.a.
VMware	VMW US	USD	NR	114.5	n.a.	48.4	16.9	11.7	28.8	17.4	n.a.	4.1	12.0	32.2	n.a.	n.a.	n.a.	n.a.
Dropbox	DBX US	USD	NR	21.5	n.a.	7.9	10.4	9.8	14.2	13.1	1.5	3.4	10.1	n.a.	n.a.	10.7	9.5	36.8
<b>China Mean</b>							<b>9.3</b>	<b>8.1</b>	<b>14.9</b>	<b>19.1</b>	<b>2.3</b>	<b>3.5</b>	<b>20.5</b>	<b>8.8</b>	<b>8.4</b>	<b>15.4</b>	<b>9.1</b>	<b>14.3</b>
<b>Global Mean</b>							<b>18.7</b>	<b>13.0</b>	<b>24.4</b>	<b>21.6</b>	<b>1.3</b>	<b>4.5</b>	<b>18.7</b>	<b>21.9</b>	<b>22.1</b>	<b>11.1</b>	<b>11.5</b>	<b>25.9</b>
<b>Social network &amp; pan-entertainment</b>																		
Tencent	700 HK	HKD	BUY	314.2	459.0	385.0	14.0	11.3	22.9	17.9	3.7	4.5	18.0	10.6	12.3	7.7	6.3	8.7
Bilibili	BILI US	USD	BUY	22.5	43.0	8.8	n.a.	n.a.	n.a.	n.a.	n.a.	2.5	n.a.	n.a.	n.a.	23.8	n.a.	n.a.
China Literature	772 HK	HKD	HOLD	29.7	68.0	3.9	14.9	11.6	19.8	16.6	1.4	3.2	14.4	6.6	7.9	4.9	14.3	n.a.
Kuaishou	1024 HK	HKD	NR	65.4	n.a.	35.8	n.a.	n.a.	n.a.	n.a.	n.a.	2.6	n.a.	n.a.	n.a.	18.8	n.a.	n.a.
Tencent Music	TME US	USD	NR	4.7	n.a.	7.9	9.1	8.4	13.4	12.8	n.a.	2.0	14.5	6.5	6.6	n.a.	n.a.	n.a.
Weibo	WB US	USD	NR	18.2	n.a.	4.3	7.1	5.7	8.1	7.0	n.a.	2.2	8.4	8.7	11.8	2.4	n.a.	n.a.
iQiyi	IQ US	USD	NR	3.0	n.a.	2.6	25.3	9.7	n.a.	17.6	n.a.	0.6	8.6	0.9	10.0	0.3	n.a.	n.a.
YY	YY US	USD	NR	28.0	n.a.	2.0	n.a.	n.a.	17.9	11.5	0.5	0.8	n.a.	1.3	2.9	2.8	37.8	87.4
Momo	MOMO US	USD	NR	5.0	n.a.	1.0	n.a.	n.a.	4.3	3.9	n.a.	0.6	4.5	12.5	12.8	n.a.	n.a.	n.a.
Huya	HUYA US	USD	NR	3.1	n.a.	0.7	7.8	14.5	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Douyu	DOYU US	USD	NR	1.5	n.a.	0.5	26.8	43.4	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Meta	FB US	USD	NR	158.5	n.a.	426.1	8.1	7.3	14.7	13.2	n.a.	3.7	8.7	21.2	22.2	8.5	2.7	3.1
Netflix	NFLX US	USD	NR	218.4	n.a.	97.1	17.0	15.2	20.6	17.7	n.a.	3.1	n.a.	24.3	21.3	11.0	2.8	6.6
Snapchat	SNAP US	USD	NR	10.8	n.a.	17.8	n.a.	30.2	n.a.	n.a.	n.a.	3.9	n.a.	n.a.	n.a.	17.6	n.a.	n.a.
Spotify	SPOT US	USD	NR	102.6	n.a.	19.8	n.a.	n.a.	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	13.0	n.a.	n.a.
<b>China Mean</b>							<b>15.0</b>	<b>14.9</b>	<b>14.4</b>	<b>12.5</b>	<b>1.8</b>	<b>1.9</b>	<b>11.4</b>	<b>6.7</b>	<b>9.2</b>	<b>10.5</b>	<b>19.5</b>	<b>48.0</b>
<b>Global Mean</b>							<b>12.6</b>	<b>17.6</b>	<b>17.6</b>	<b>15.5</b>	<b>n.a.</b>	<b>3.1</b>	<b>8.7</b>	<b>22.8</b>	<b>21.7</b>	<b>12.5</b>	<b>2.8</b>	<b>4.8</b>

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (x)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY22E	FY22E	FY23E	Sales
<b>Online Gaming</b>																		
Netease	NTES US	USD	BUY	86.8	120.0	57.0	10.7	10.0	17.3	17.0	2.5	4.0	17.0	18.6	16.2	10.8	7.0	15.4
Tencent	700 HK	HKD	BUY	314.2	459.0	385.0	14.0	11.3	22.9	17.9	3.7	4.5	18.0	10.6	12.3	7.7	6.3	8.7
Bilibili	BILI US	USD	BUY	22.5	43.0	8.8	n.a.	n.a.	n.a.	n.a.	n.a.	2.5	n.a.	n.a.	n.a.	23.8	n.a.	n.a.
<b>Kingsoft</b>	<b>3888 HK</b>	<b>HKD</b>	<b>BUY</b>	<b>23.7</b>	<b>35.0</b>	<b>4.1</b>	<b>8.1</b>	<b>6.4</b>	<b>n.a.</b>	<b>36.7</b>	<b>n.a.</b>	<b>3.9</b>	<b>13.6</b>	<b>n.a.</b>	<b>2.0</b>	<b>20.6</b>	<b>n.a.</b>	<b>30.0</b>
iDreamSky	1119 HK	HKD	BUY	5.2	4.4	0.9	35.1	16.2	n.a.	21.2	n.a.	2.1	n.a.	3.4	7.3	29.2	n.a.	52.0
XD	2400 HK	HKD	NR	19.5	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	2.5	38.3	n.a.	2.3	30.0	n.a.	n.a.
Netdragon	777 HK	HKD	NR	16.9	n.a.	1.2	3.0	2.7	7.1	5.9	0.3	1.0	4.2	14.8	16.1	12.9	24.5	8.1
CMGE	302 HK	HKD	NR	1.9	n.a.	0.7	7.4	5.5	7.8	6.0	0.6	1.1	8.8	9.3	11.4	14.6	14.2	6.0
IGG	799 HK	HKD	NR	3.1	n.a.	0.5	n.a.	11.6	n.a.	16.6	n.a.	0.7	n.a.	n.a.	4.4	n.a.	n.a.	n.a.
Archosaur Game	9990 HK	HKD	NR	3.3	n.a.	0.3	n.a.	3.7	n.a.	9.4	n.a.	1.9	n.a.	n.a.	12.6	54.9	n.a.	n.a.
SEA	SE US	USD	NR	58.4	n.a.	32.8	n.a.	n.a.	n.a.	n.a.	n.a.	2.6	n.a.	n.a.	n.a.	31.4	n.a.	n.a.
Nintendo	7974 JP	JPY	NR	57,080.0	n.a.	51.9	8.8	10.5	13.2	16.0	n.a.	3.7	21.8	26.2	21.1	n.a.	n.a.	n.a.
Activision Blizzard	ATVI US	USD	NR	76.8	n.a.	60.1	18.0	13.5	27.0	19.9	4.8	7.7	25.8	11.9	13.3	7.3	5.6	6.2
Electronic Arts	EA US	USD	NR	124.7	n.a.	34.7	21.9	12.3	47.8	17.7	n.a.	5.4	19.8	11.7	20.4	n.a.	n.a.	n.a.
Take-Two	TTWO US	USD	NR	119.5	n.a.	19.9	30.3	22.2	n.a.	25.1	n.a.	6.2	n.a.	2.4	6.7	n.a.	n.a.	n.a.
Nexon	3659 JP	JPY	NR	2,833.0	n.a.	17.2	15.5	12.0	22.9	20.3	n.a.	6.9	22.5	12.1	13.0	12.3	n.a.	15.4
Ncsoft	036570 KS	KRW	NR	374,500.0	n.a.	6.0	9.9	9.3	17.7	15.9	3.4	3.2	13.1	14.2	14.4	3.6	5.2	15.5
Zynga	ZNGA US	USD	NR	8.2	n.a.	9.3	16.0	14.5	25.5	20.1	n.a.	3.3	15.2	n.a.	n.a.	8.4	n.a.	54.2
Netmarble	251270 KS	KRW	NR	60,000.0	n.a.	3.7	22.9	13.8	n.a.	24.3	n.a.	1.8	117.5	n.a.	3.5	5.7	n.a.	15.4
<b>China Mean</b>							<b>12.8</b>	<b>8.6</b>	<b>14.6</b>	<b>16.5</b>	<b>1.9</b>	<b>2.6</b>	<b>16.7</b>	<b>12.6</b>	<b>10.1</b>	<b>21.5</b>	<b>11.8</b>	<b>19.4</b>
<b>Global Mean</b>							<b>17.9</b>	<b>13.5</b>	<b>25.7</b>	<b>19.9</b>	<b>4.1</b>	<b>4.5</b>	<b>33.7</b>	<b>13.1</b>	<b>13.2</b>	<b>11.4</b>	<b>5.4</b>	<b>21.4</b>
<b>E-commerce</b>																		
JD.com	JD US	USD	BUY	59.4	77.0	92.7	16.8	12.9	27.4	19.8	0.8	0.6	20.1	10.6	13.3	17.7	34.5	45.8
Alibaba	BABA US	USD	BUY	88.5	160.0	234.2	7.0	6.6	10.7	12.0	n.a.	1.8	11.4	6.6	9.3	12.3	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	173.4	261.0	136.7	n.a.	n.a.	n.a.	n.a.	n.a.	4.1	n.a.	n.a.	1.1	24.9	n.a.	n.a.
Pinduoduo	PDD US	USD	NR	66.6	n.a.	84.2	18.3	14.4	22.8	18.0	0.4	4.9	17.6	24.7	23.9	25.8	54.8	95.1
Beike	BEKE US	USD	NR	16.8	n.a.	21.3	n.a.	17.6	n.a.	28.4	2.5	2.3	n.a.	1.4	6.5	n.a.	38.0	15.6
Vipshop	VIPS US	USD	NR	9.8	n.a.	6.2	3.8	3.7	7.5	6.9	n.a.	0.4	6.1	13.9	13.0	n.a.	n.a.	n.a.
Baozun	BZUN US	USD	NR	7.7	n.a.	0.5	12.4	7.1	11.1	4.8	0.2	0.3	12.1	1.6	5.6	23.5	50.9	5.2
Amazon	AMZN US	USD	NR	126.1	n.a.	1,284.8	19.9	15.3	n.a.	32.7	n.a.	2.5	21.9	2.2	16.1	17.6	7.0	20.7
eBay	EBAY US	USD	NR	43.0	n.a.	23.6	8.4	8.3	10.6	10.7	1.3	2.4	8.9	20.0	53.5	1.3	8.4	0.0
<b>China Mean</b>							<b>12.6</b>	<b>10.8</b>	<b>18.0</b>	<b>15.8</b>	<b>1.0</b>	<b>1.9</b>	<b>14.6</b>	<b>9.9</b>	<b>10.7</b>	<b>20.3</b>	<b>42.6</b>	<b>41.5</b>
<b>Global Mean</b>							<b>14.1</b>	<b>11.8</b>	<b>10.6</b>	<b>21.7</b>	<b>1.3</b>	<b>2.5</b>	<b>15.4</b>	<b>11.1</b>	<b>34.8</b>	<b>9.4</b>	<b>7.7</b>	<b>10.4</b>
<b>Vertical</b>																		
trip.com	TCOM US	USD	NR	24.9	n.a.	16.0	n.a.	21.6	n.a.	20.9	n.a.	5.9	n.a.	0.2	3.9	22.7	n.a.	n.a.
Autohome	ATHM US	USD	NR	33.2	n.a.	4.2	4.1	3.2	14.8	13.0	n.a.	4.2	11.9	7.9	8.5	2.1	n.a.	n.a.
Tongcheng-Elong	780 HK	HKD	NR	16.2	n.a.	4.6	21.5	12.4	32.3	19.4	0.8	4.5	20.7	4.4	8.3	12.9	41.1	21.7
Expedia	EXPE US	USD	NR	100.9	n.a.	15.9	7.7	6.5	14.4	10.7	n.a.	1.4	4.2	33.2	35.7	27.5	n.a.	67.6
<b>China Mean</b>							<b>11.1</b>	<b>10.9</b>	<b>20.5</b>	<b>16.0</b>	<b>0.8</b>	<b>4.0</b>	<b>12.3</b>	<b>11.4</b>	<b>14.1</b>	<b>16.3</b>	<b>41.1</b>	<b>44.7</b>

Note: Closing prices as of Sept 6, 2022; For future estimates of NR Co.s, BBG consensus used; Sources: BBG, Company, CMS (HK) estimates

## Financial Summary

### Balance Sheet

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
PPE	1,185	1,259	1,382	1,572	1,813
Investment in JV/ Asso	12,933	12,277	10,788	9,613	8,578
Other non-current assets	1,195	1,348	1,348	1,348	1,348
<b>Total non-current assets</b>	<b>15,313</b>	<b>14,884</b>	<b>13,518</b>	<b>12,534</b>	<b>11,740</b>
Financial assets at fair value through profit or loss	3,911	2,902	2,902	2,902	2,902
Pledge deposit	13	9	9	9	9
Cash and Cash Equivalents	14,049	16,190	18,894	22,250	25,890
Trade receivables	772	839	911	926	1,114
Other current assets	986	1,711	1,158	1,408	1,689
<b>Total current assets</b>	<b>19,732</b>	<b>21,652</b>	<b>23,875</b>	<b>27,496</b>	<b>31,604</b>
<b>Total assets</b>	<b>35,044</b>	<b>36,535</b>	<b>37,393</b>	<b>40,030</b>	<b>43,343</b>
Account Payables	291	423	380	463	557
Other Payables	1,158	1,427	1,519	1,852	2,227
Bank Loans	0	0	0	0	0
Deferred Revenue	1,476	2,003	1,983	2,542	3,086
Other current liabilities	319	243	243	243	243
<b>Total current liabilities</b>	<b>3,244</b>	<b>4,096</b>	<b>4,125</b>	<b>5,100</b>	<b>6,113</b>
Deferred revenue	98	144	144	144	144
Deferred Tax Liabilities	1,059	1,030	1,030	1,030	1,030
Interest-bearing Bank Loans	0	0	0	0	0
Convertible bonds	2,197	2,249	2,249	2,249	2,249
Other non-current liabilities	219	225	225	225	225
<b>Total non-current liabilities</b>	<b>3,573</b>	<b>3,647</b>	<b>3,647</b>	<b>3,647</b>	<b>3,647</b>
<b>Total Shareholders' Equity</b>	<b>24,665</b>	<b>24,784</b>	<b>24,915</b>	<b>25,736</b>	<b>26,986</b>
Minority Interest	3,563	4,008	4,707	5,547	6,598
<b>Total Equity</b>	<b>28,228</b>	<b>28,792</b>	<b>29,622</b>	<b>31,283</b>	<b>33,584</b>
<b>Total equity and liabilities</b>	<b>35,044</b>	<b>36,535</b>	<b>37,393</b>	<b>40,030</b>	<b>43,343</b>

### Cashflow Statement

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
<b>Operating cash flow</b>	<b>2,991</b>	<b>2,220</b>	<b>2,703</b>	<b>3,290</b>	<b>3,613</b>
PBT	2,069	1,143	704	1,582	2,374
Depreciation	404	129	180	180	205
Share-based compensation cost	241	219	274	306	334
Working Capital chg	825	382	509	711	544
Others	-548	347	1,036	511	157
<b>Investing cash flow</b>	<b>-7,575</b>	<b>-1,605</b>	<b>186</b>	<b>202</b>	<b>223</b>
CAPEX	-493	-302	-304	-370	-445
Change in time deposits	-3,496	-2,084	0	0	0
Others	-3,585	782	490	573	669
<b>Financing cash flow</b>	<b>1,876</b>	<b>-480</b>	<b>-186</b>	<b>-136</b>	<b>-197</b>
Dividends	-238	-228	-40	10	-50
Net borrowing	-531	0	0	0	0
Others	2,645	-252	-146	-146	-146
<b>Net cash flow</b>	<b>-2,708</b>	<b>135</b>	<b>2,704</b>	<b>3,356</b>	<b>3,639</b>

Note: Closing price as of Sept 6, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

### Profit & Loss Statement

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	5,594	6,371	7,595	9,261	11,136
Cost of revenues	-917	-1,157	-1,494	-1,795	-2,086
<b>Gross profit</b>	<b>4,677</b>	<b>5,214</b>	<b>6,101</b>	<b>7,466</b>	<b>9,050</b>
Selling and marketing	-838	-1,065	-1,142	-1,414	-1,711
General and admin	-454	-570	-622	-762	-938
R&D expenses	-1,656	-2,328	-2,628	-3,117	-3,738
Share-based Compensation	-179	-219	-274	-306	-334
Other income/expenses	306	328	384	463	557
Total operating expenses	-2,822	-3,854	-4,282	-5,136	-6,164
<b>Operating profit</b>	<b>1,855</b>	<b>1,361</b>	<b>1,819</b>	<b>2,330</b>	<b>2,886</b>
Other gains/losses	155	842	29	0	0
Net financial income	330	273	344	426	523
Share of Associates/ JV	-271	-1,333	-1,489	-1,175	-1,035
<b>Income before tax</b>	<b>2,069</b>	<b>1,143</b>	<b>704</b>	<b>1,582</b>	<b>2,374</b>
Income tax	-271	-190	-108	-237	-356
Minority interest	549	558	699	840	1,051
<b>Net income to shareholders</b>	<b>1,250</b>	<b>395</b>	<b>-103</b>	<b>505</b>	<b>967</b>
<b>Adjusted net income to shareholders</b>	<b>1,274</b>	<b>-228</b>	<b>142</b>	<b>810</b>	<b>1,301</b>

### Financial ratios (%)

	FY20	FY21	FY22E	FY23E	FY24E
<b>yoy growth</b>					
Revenue	28.0	13.9	19.2	21.9	20.2
Gross profit	31.3	11.5	17.0	22.4	21.2
Operating profit	83.2	-26.7	33.7	28.1	23.9
Net profit to shareholders	n.a.	-68.4	n.a.	n.a.	91.5
Adjusted net income to shareholders	135.8	n.a.	n.a.	471.3	60.5
Adjusted diluted EPS	135.0	n.a.	n.a.	45.3	32.0
<b>Key ratio</b>					
ROE	6.5	1.6	-0.4	2.0	3.7
Gross margin	83.6	81.8	80.3	80.6	81.3
Operating margin	33.2	21.4	24.0	25.2	25.9
Net margin to shareholders	22.3	6.2	-1.4	5.5	8.7
Adj. net margin to shareholders	22.8	-3.6	1.9	8.8	11.7
Payout ratio	18.4	10.0	10.0	10.0	10.0
<b>Per share &amp; valuation</b>					
Adjusted diluted EPS (RMB)	0.9	-0.2	0.1	0.6	0.9
Adjusted diluted EPS (HKD)	1.1	-0.2	0.1	0.6	1.0
BVPS (RMB)	18.0	18.0	18.0	18.6	19.5
DPS (RMB)	0.2	0.0	0.0	0.0	0.1
<b>Valuation</b>					
P/E (x)	21.4	n.a.	207.2	36.7	23.1
P/B (x)	1.1	1.2	1.2	1.2	1.1
Dividend yield (%)	0.8	0.1	0.0	0.2	0.3

## Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
HOLD	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
HOLD	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

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