

RECOMMENDATION (BUY)

Luzhou Bank Co., Ltd. (1983.HK)

June 11 2024

Rooted in the Chengdu-Chongqing Double City Economic Circle and Elevating Luzhou Strategy: Creating a High-Quality, First-Rate Boutique City Commercial Bank

HSI **18,176.34**
HSMBI 2,794.74
TP (HK\$) 3.55
Potential Up/Down 84.90%

Market Data

Closing Price(HK\$) 1.92
52-WeekHigh/Low(HK\$) 2.61/1.70
Market Cap(HK\$bn) 5.218
Free-float Market Cap 1.446

Price Performance

Up/Down 1m 3m 12m
Absolute -6.39 -6.39 -26.73
Relative -2.34 -12.44 -19.02



Source: Capital IQ, uSmart

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Initiation of Coverage, BUY, TP: HK\$3.55

- ❑ **Located in "City of Spirits" Luzhou, backed by Luzhou Laojiao and Luzhou state-owned enterprises.** Luzhou Bank, established on September 15, 1997, is headquartered in Luzhou, a city renowned for its liquor industry. Situated at the confluence of the Yangtze River and the Tuo River, Luzhou boasts abundant tourism resources and is the only city in China home to two national famous liquor brands: Luzhou Laojiao and Langjiu. The company was listed on HKEX in December 2018, becoming the first listed bank in a prefecture-level city in Western China. Luzhou Bank is deeply involved in urban and livelihood development in Luzhou. Its major shareholders include Luzhou Laojiao Group, Sichuan Jiale Enterprise Group, Luzhou Xinfu Mining Group Co., Ltd., and Luzhou Municipal Finance Bureau, among others.
- ❑ **A first-rate boutique city commercial bank in Southwest China, emphasizing high-quality development, precision management, and innovation.** With a focus on "democratic management" and "employee care," the bank offers a comprehensive training system and clear promotion pathways. It maintains a stable business structure across corporate banking, retail banking, and financial markets: ① delivering efficient, value-added solutions to corporate clients, ② offering differentiated, innovative products to retail clients, and ③ monitoring macroeconomic and monetary policy trends to adjust investment strategies, optimizing the volume and structure of bond investments to maximize returns. As of December 31, 2023, corporate banking clients grew by 31.75% to 49,203, while retail banking clients increased by 9.05% to 1.4024 million. High-end clients rose by 5.98% to 9,132, and high-net-worth clients increased by 0.49% to 1,628.
- ❑ **Business transformation has optimized asset structure, increased the proportion of high-quality clients, and demonstrated robust net interest margin control.** By managing high-cost liabilities and enhancing low-cost deposit marketing, the bank achieved a net interest spread of 2.69% and a net interest margin of 2.39% in 2023, both industry-leading rates. Revenue and net profit grew by 22.25% and 23.12%, respectively. Capitalizing on opportunities in the Chengdu-Chongqing Double City Economic Circle, the bank's total assets reached RMB157.64 billion, with a non-performing loan ratio of 1.35%, 0.4 percentage points lower than the national average. The provision coverage ratio hit a five-year high at 372.42%, and core Tier 1 and capital adequacy ratios were 8.12% and 12.74%, respectively, exceeding regulatory requirements by 2.24 percentage points. Luzhou Bank effectively reduces deposit costs through its strong public deposit advantages, creating flexibility for asset allocation.
- ❑ **Earnings forecast and investment rating.** Leveraging the Chengdu-Chongqing Double City Economic Circle and the development of Luzhou's "One Body with Two Wings" strategy, the company is actively contributing to urban and livelihood development in Luzhou. With its crucial role in financing key projects, the company's asset growth is expected to accelerate significantly. Projected growth rates for interest-earning assets are 17.50%, 16.20%, and 15.60% for 2024-2026. The company's refined management and interest margin control are expected to maintain a high net interest margin (NIM), projected at 2.55%, 2.62%, and 2.68% for 2024-2026. Revenue growth rates for 2024-2026 are expected to be 33.16%, 23.21%, and 22.40%, while net profit attributable to shareholders is forecasted to grow by 47.60%, 31.65%, and 26.31%, respectively. Considering the company's robust growth strategy, precision in management, and operational efficiencies — with net interest margin consistently leading among HKEX-listed city commercial banks for the past two years — and the anticipated asset expansion driven by the Chengdu-Chongqing Double City Economic Circle development, the growth potential is substantial. We apply a 6.5x 2024E P/E (forward 1-year price-to-earnings ratio), translating to a 0.88x P/B ratio, resulting in a target price of HKD3.55 per share. We initiate coverage with a "Buy" rating.
- ❑ **Risk warning:** ①Economic downturn exceeds expectations.②Financial regulations exceed expectations.③Asset expansion fails to meet expectations.

Earnings Forecast ('000 RMB)

Fiscal Year	2022A	2023A	2024E	2025E	2026E
Revenue	3,901,997	4,770,347	6,352,401	7,826,961	9,580,564
YoY %	3.33%	22.25%	33.16%	23.21%	22.40%
Net INT income	3,258,171	3,088,261	3,868,907	4,619,080	5,461,939
Net non-INT income	643,826	1,682,086	2,483,494	3,207,881	4,118,625
Attributable NP	807,529	994,237	1,467,454	1,931,863	2,440,204
YoY %	9.98%	23.12%	47.60%	31.65%	26.31%
EPS(¥)	0.26	0.33	0.50	0.68	0.86
EPS(HK\$)	0.28	0.36	0.55	0.73	0.93
PE(x)	7.59	6.02	3.94	2.94	2.31

Source: Company data, uSmart estimate

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1. City Commercial Banks Originated from Urban Credit Cooperatives

1.1 City Commercial Banks, originating from Urban Credit Cooperatives, have undergone a 44-year evolution through four distinct phases, marked by increasing differentiation

City Commercial Banks (CCBs) were formerly known as Urban Credit Cooperatives (UCCs): Since the mid-1980s, the number of UCCs rapidly expanded. However, as the People's Bank of China (PBOC) required cleanup and rectification, the approval of new UCCs gradually ceased. In 1995, policies mandated the establishment of Urban Cooperative Banks (CCBs) based on the existing UCCs, with pilot projects starting in major cities. By 1998, policies required these CCBs to be renamed City Commercial Banks. Over time, issues such as high levels of non-performing loans in CCBs became apparent. In 2004, the China Banking Regulatory Commission (CBRC) encouraged CCBs to consolidate and restructure to enhance risk resistance capabilities. The development history of CCBs can be divided into the following phases:

1. Phase of Rapid Expansion (1979-1994): This phase coincides with the establishment of a non-public economy and socialist market economy system following China's reform and opening-up. City Commercial Banks were formed by restructuring UCCs, incorporating local government and enterprise investments. The first UCC was established in 1979 in Zhumadian, Henan Province, aimed at providing financial support to small and medium-sized enterprises (SMEs) and facilitating local economic development. In January 1986, the State Council issued the "Provisional Regulations on Bank Management of the People's Republic of China," clarifying the status of UCCs. In June of the same year, the PBOC issued the "Provisional Regulations on the Management of Urban Credit Cooperatives," specifying the nature, service scope, and establishment conditions of UCCs. From the mid-1980s, the establishment of UCCs accelerated, reaching 3,330 by the end of 1989, with total assets of RMB28.4 billion. From 1989 to 1992, the PBOC conducted a cleanup and rectification of UCCs. By the end of 1993, the number of UCCs had surged to nearly 4,800, with total assets of RMB187.8 billion.

2. Phase of Reform and Transformation (1995-2003): In September 1995, the State Council issued the "Notice on the Establishment of Urban Cooperative Banks," marking the beginning of the transformation of UCCs into City Commercial Banks (CCBs). The notice defined Urban Cooperative Banks as joint-stock commercial banks formed by local enterprises, residents, and government investments, aimed at providing financial services to support local

economic development, particularly for urban SMEs. The first batch of Urban Cooperative Banks was established in 35 major cities starting in 1995.

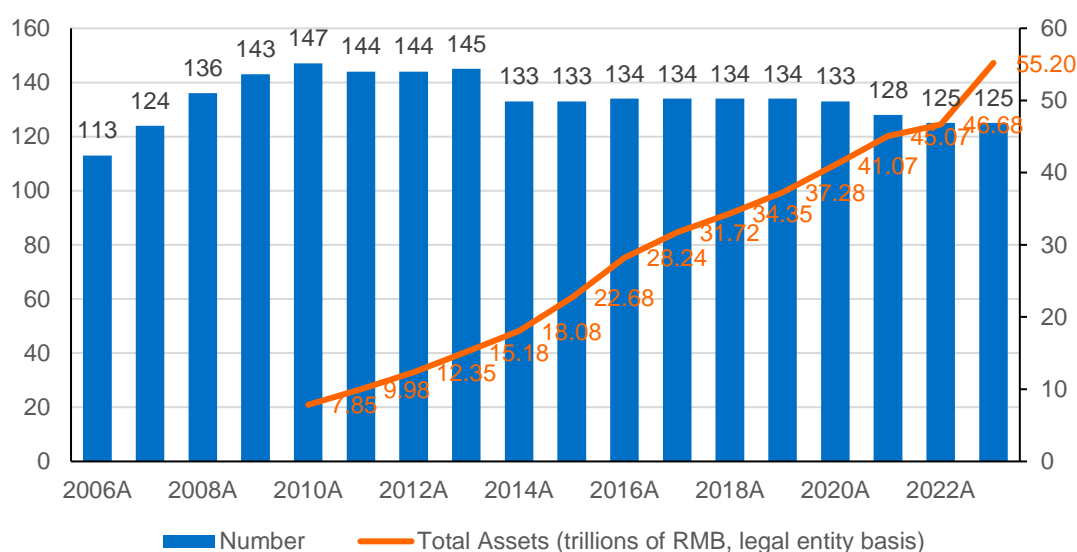
3. Phase of Leapfrog Development (2004-2012): In November 2004, the China Banking Regulatory Commission (CBRC) issued the "Outline for the Supervision and Development of City Commercial Banks," outlining the regulatory focus and overall strategy for the reform and development of CCBs, which spurred their rapid growth. The outline emphasized the implementation of risk ratings for CCBs starting in 2004, setting development goals and plans based on risk ratings and admission standards. It encouraged restructuring and joint operations based on comprehensive non-performing asset disposal, promoting capital restructuring and mergers within administrative and economic regions. This phase saw CCBs enter a new period of development, involving the introduction of strategic investors, cross-regional expansion, and listing on capital markets.

4. Phase of Differentiated Development (2005-Present): Under the dual pressures of economic cycles and regulatory demands, some CCBs successfully transformed and broke through, while others faced significant operational pressures. Since 2020, CCBs have embarked on a new wave of mergers and restructuring.

1.2 City Commercial Banks Show Significant Differentiation

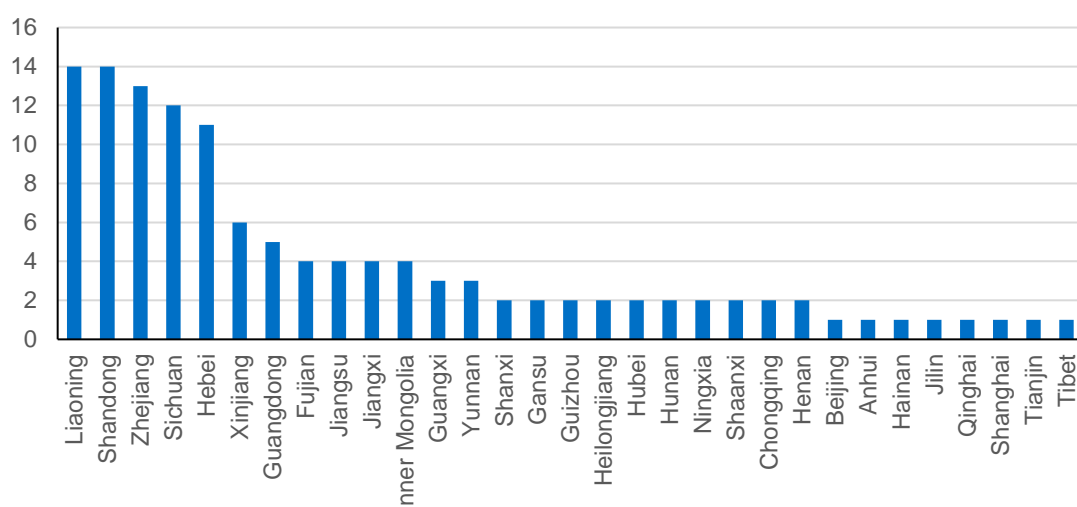
The landscape of CCBs has changed significantly: the number of CCBs grew from 113 in 2006 to 147 in 2010. From 2016 to 2019, the number remained stable at 134, but subsequently declined to 133 in 2020, 128 in 2021, and the latest count being 125 (with a decrease of 1 in Sichuan, 4 in Shanxi, 1 in Liaoning, and 3 in Henan). As of July 8, 2023, there are a total of 125 CCBs nationwide.

Despite a reduction in the number of CCBs due to various challenges, their overall scale has steadily increased. This indicates a growing differentiation within the CCB sector, with leading CCBs continuing to expand their balance sheets and strengthen their market position. In 2010, the total assets of CCBs were only RMB7.85 trillion. This figure surpassed RMB10 trillion in 2012, RMB20 trillion in 2015, RMB30 trillion in 2017, and RMB40 trillion in 2020. As of December 31, 2023, the total assets have exceeded RMB55 trillion.

Figure 1: Number of CCBs and Total Assets (in trillion RMB, legal entity basis) from 2006 to 2023

Source: Wind, National Administration of Financial Regulation (NAFR), uSmart

Liaoning, Shandong, Zhejiang, Sichuan, and Hebei have the highest numbers of City Commercial Banks (CCBs), with the Jiangsu-Zhejiang region leading in total assets. Among the 125 CCBs, Liaoning and Shandong each have 14 banks, followed by Zhejiang (13), Sichuan (12), and Hebei (11). Xinjiang and Guangdong have 6 and 5 banks, respectively, while Fujian, Jiangsu, Jiangxi, and Inner Mongolia each have 4. Other provinces have 1 to 3 banks. In terms of total assets, Zhejiang and Jiangsu top the list despite not having the most banks, while Liaoning ranks third. Conversely, Tibet, Hainan, and Qinghai each have only one CCB and rank lower in total assets.

Figure 2: Number of CCBs by Province

Source: Wind, uSmart

Overall, regions like Hebei and Liaoning exhibit lower asset quality, while Jiangsu and Zhejiang, with abundant financial resources, generally have better asset quality. Sichuan shows significant differentiation, with some areas having weaker asset quality. By the end of 2022, Beijing Bank's total assets reached 3,387.952 billion RMB. There are 9 banks with total assets between RMB1,000 and 3,000 billion, including Jiangsu Bank, Shanghai Bank, Ningbo Bank, and Nanjing Bank. Sixteen banks have total assets between RMB500 and 1,000 billion, such as Chengdu Bank, Changsha Bank, Guangzhou Bank, and Tianjin Bank. Seventy-three banks have assets between RMB100 and 500 billion, including Guilin Bank, Hebei Bank, Jiujiang Bank, and Dalian Bank. Thirteen banks have assets less than RMB100 billion, including Dazhou Bank, Zigong Bank, Yibin Commercial Bank, and Shizuishan Bank. In 2022, thirty-two CCBs, including Liaoshen Bank, Mengshang Bank, Qijing Commercial Bank, and Shengjing Bank, had non-performing loan (NPL) ratios above the national average, mainly in Hebei and Liaoning. Liaoshen Bank's NPL ratio reached 4.67%, significantly higher than the national average of 1.85%, with a provision coverage ratio exceeding 500%. Coastal province Zhejiang, being economically developed, shows minimal regional disparities, while Sichuan in the southwest exhibits considerable regional differences, with key resources like population and finance concentrated in Chengdu. In 2022, the more profitable CCBs were mainly in Jiangsu and Zhejiang. Eight out of thirteen CCBs in Zhejiang ranked among the top 30 in ROE. Specifically, Chengdu Bank, Zhejiang Tailong Bank, and Taizhou Bank had ROEs exceeding 15%. Moreover, Zhejiang Tailong Bank and Taizhou Bank had net interest margins over 3%, higher than the national average.

2. Sichuan, a province rich in population and resources, is experiencing bank differentiation and pursuing high-quality development

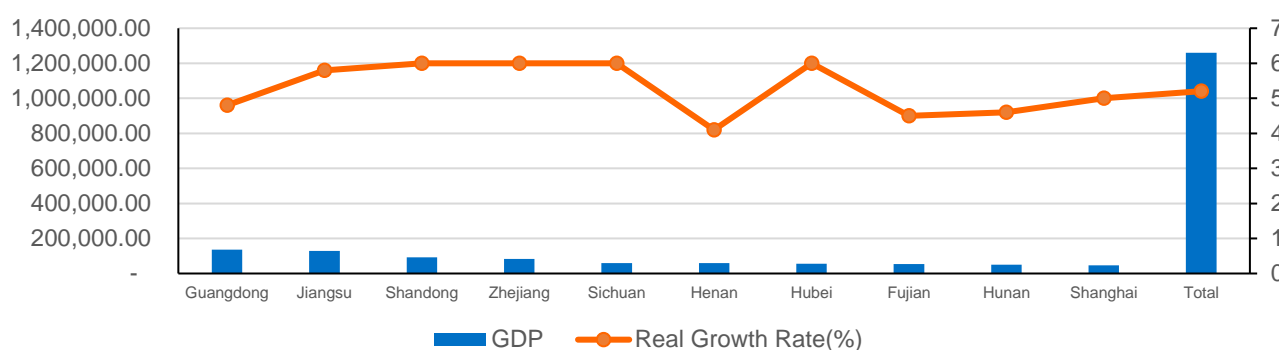
2.1 Sichuan, a central province in the southwest and northwest, shows significant development potential, driven by the collaborative growth of the Chengdu-Chongqing Double City Economic Circle

Sichuan Province, strategically located at the intersection of the Silk Road Economic Belt and the Yangtze River Economic Belt, is a major population, resource, and economic hub in China. It borders Shaanxi, Guizhou, Yunnan, and Qinghai, serving as a key link between the southwest and northwest regions. Covering approximately 486,000 square kilometers with a population of about 84 million, Sichuan includes 18 prefecture-level cities and 3 autonomous prefectures. Thanks to its strategic location, favorable regulatory environment, and supportive policies for infrastructure and economic

development, Sichuan's growth potential is evident. In October 2021, the "Outline for the Construction Plan of the Chengdu-Chongqing Double City Economic Circle" was released, promoting robust development of the Double city Economic Circle, cultivating urban clusters, expanding provincial sub-center cities, and enhancing inter-city infrastructure connectivity and public service sharing.

High-Quality development in the Chengdu-Chongqing area, Sichuan leads in economic growth: In 2023, the Chengdu-Chongqing Double City Economic Circle achieved a new milestone with a regional GDP of RMB8.2 trillion, an increase of 6.1% YoY. Sichuan Province's economy reached a new high, with a regional GDP of RMB6 trillion, growing by 6.0% YoY. This elevated its national ranking by one position to 5th place, with the growth rate tying for first among the top ten largest provincial economies in China.

Figure 3: 2023 National and Top 10 Provincial GDP (100 million RMB) and Growth Rate (%)



Source: National Bureau of Statistics, Provincial Bureaus of Statistics, uSmart

Luzhou is located in the southeast of Sichuan Province, at the junction of Sichuan, Chongqing, Yunnan, and Guizhou, and at the confluence of the Yangtze and Tuo Rivers. Its unique geographical position and developed waterway transportation give Luzhou a natural advantage in its economic development. According to the Chengdu and Chongqing City Cluster Development Plan issued by the National Development and Reform Commission (NDRC), Luzhou is positioned to be a regional central city in south of Sichuan Province. In 2017, Luzhou became the first prefecture-level city in West China out of a third batch of government endorsed pilot Free Trade Zones, or FTZs, with the launch of Chuannan Lingang FTZ under the Overall Plan for the China (Sichuan) Pilot FTZ. Capitalizing on favorable policies and its relevant geographic advantages, Luzhou expedited the development of three key industrial zones in its jurisdiction, namely, Luzhou Hi-Tech Industrial Development Zone, Luzhou Yangtze River Economic Development Zone and China Liquor Golden Triangular Industrial Zone, through which, it managed to further enjoy the benefits of development of Yangtze River Economy Belt promoted by the PRC Government.

Table 1: Top 10 Cities by GDP in Sichuan Province in 2023

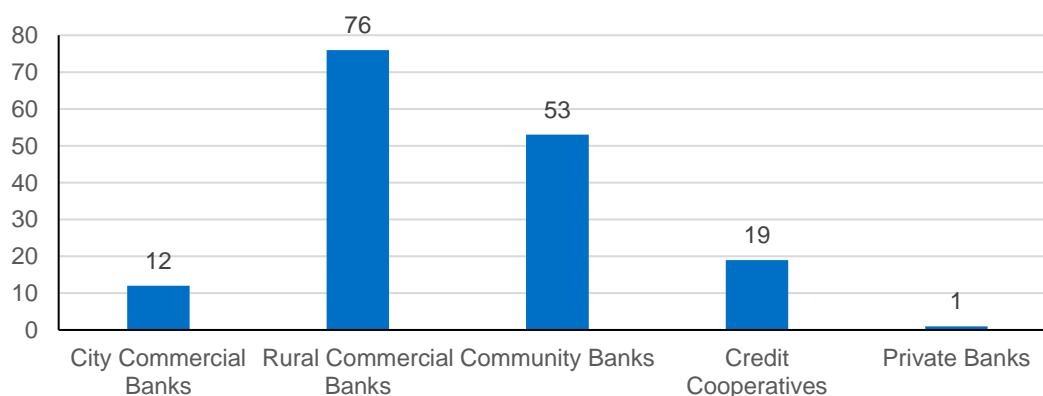
Cities	Permanent Population ('0,000)	2023 GDP (100 Million RMB)	GDP Per Capita (10,000 RMB/Person)
Chengdu	2,127	22,075	10.4
Mianyang	490	4,039	8.2
Yibin	462	3,806	8.2
Deyang	346	3,014	8.7
Nanchong	555	2,735	4.9
Luzhou	426	2,726	6.4
Dazhou	537	2,657	4.9
Leshan	315	2,448	7.8
Liangshan	489	2,261	4.6
Neijiang	399	1,807	4.5

Source: Public Information, uSmart

2.2 Sichuan is home to a significant number of CCBs, marked by considerable variation, with some displaying weaker credit profiles

Sichuan's banks are evenly distributed across various sizes, with business strategies focused on local economies, SMEs, and the "three rural" areas (agriculture, rural areas, and farmers). The province hosts a total of 161 commercial banks, primarily consisting of 76 rural commercial banks and 53 community banks. In terms of bank size, those with registered capital between RMB100 million and RMB500 million are the most numerous, totaling 79 and accounting for approximately half of the total. From an asset perspective, Chengdu Bank and Chengdu Rural Commercial Bank are the only two banks in the region with assets exceeding RMB600 billion. The strategic focus of Sichuan's commercial banks is on supporting the local economy, small and micro enterprises, and the "three rural" areas.

Figure 4: Number of CCBs in Sichuan Province



Source: Wind, uSmart

Sichuan hosts a significant number of CCBs, with some institutions exhibiting weaker credit profiles. Chengdu Bank and Luzhou Bank are listed on the A-share and Hong Kong stock exchanges, respectively. The province has 12 CCBs, ranking among the highest in the nation, all of which have issued bonds in the capital markets. Chengdu Bank leads in the province with the largest total assets, while the total assets of each of the other 11 banks did not exceed RMB250 billion as of the end of 2022. Regarding asset quality, the non-performing loan (NPL) ratios of Sichuan Tianfu Bank, Dazhou Bank, Zigong Bank, and Ya'an Commercial Bank exceeded the national average in 2022. Notably, Ya'an Commercial Bank's NPL ratio has significantly declined since 2019, reaching 2.23% in 2022, yet it remains above the national average. Zigong Bank and Sichuan Tianfu Bank have also maintained NPL ratios above the national average since 2020. In terms of capital adequacy, Leshan Commercial Bank, Sichuan Tianfu Bank, and Dazhou Bank have experienced a downward trend in their capital adequacy ratios (CAR) since 2019. Specifically, Mianyang Commercial Bank's CAR decreased by 1.41 percentage points year-on-year to 11.79% in 2022.

Table 2: 2022 Key Data of Sichuan City Commercial Banks (in 100 million RMB)

Item	Chengdu Bank	Sichuan Bank	Sichuan Tianfu Bank	Mianyang Commercial Bank	Leshan Commercial Bank	Luzhou Bank	Changcheng Huaxi Bank	Dazhou Bank	Zigong Bank	Yibin Commercial Bank	Suining Bank	Ya'an Commercial Bank
City	Chengdu	Chengdu	Nanchong	Mianyang	Leshan	Luzhou	Deyang	Dazhou	Zigong	Yibin	Suining	Ya'an
Total Assets	9,176.50	2,471.81	2,241.61	1,804.01	1,671.13	1,486.30	1,353.19	945.45	905.50	790.32	679.14	402.46
YoY(%)	19.43	33.74	(0.91)	19.94	14.90	10.50	8.79	11.83	1.26	17.49	19.48	19.34
Loan Ratio (%)	53.03	55.08	58.29	54.17	51.14	55.73		52.12	48.38		61.80	56.93
Deposit Ratio (%)	74.92	77.22	78.81	74.61	67.16	77.56	75.35	69.69	94.42	83.34	79.12	78.02
NPL Ratio (%)	0.78	1.57	2.69		1.66	1.53		1.92	2.92		1.55	2.23
Provision Coverage Ratio (%)	501.57	286.69	159.46	393.37	183.94	256.93		152.79	152.34		202.56	186.31
ROE (%)	17.73	2.90	2.42	9.22	5.02	8.12	1.97	6.31	0.47	4.86	11.58	10.06
Net Interest Margin (%)	2.04	2.14	1.30	2.62	2.17	2.46	1.58	2.28	1.30	2.40	2.94	1.07
Capital Adequacy Ratio (%)	13.15	18.60	9.78	11.79	12.42	13.01		12.22	14.24	14.61	13.03	17.01
Core Tier-one Capital Adequacy Ratio (%)	8.47	17.39	8.22	8.16	8.56	8.10		11.46	8.50	13.39	11.91	10.70

Source: Wind, uSmart

3. First-rate boutique regional banks driven by high-quality development, refined management, and innovation

3.1 Located in the "City of Spirits," Luzhou, the bank has Luzhou Laojiao and Luzhou State-owned enterprise as shareholders

Located in the "City of Spirits", Luzhou boasts a prime geographical location and abundant tourism resources. Renowned for its exceptional brewing techniques, Luzhou has been celebrated as China's "City of Spirits" since ancient times, with a rich history and unique baijiu culture. Situated at the confluence of the Yangtze and Tuo Rivers, the city offers numerous tourist attractions, including the Luzhou Laojiao Scenic Area, Baoben Tower, Taiping Ancient Town, Yaoba Ancient Town, Fubao Ancient Town, Fangshan Mountain, and Zhangba Guiyuan Forest. Luzhou is the only city in China home to two nationally recognized liquor brands: Luzhou Laojiao and Langjiu. Luzhou Laojiao, a quintessential representative of Chinese strong-aroma baijiu, is one of the most renowned baijiu brands in China and a cornerstone of Luzhou's economy.

Figure 5: Luzhou Promotional Image and Brewing Cellar



Source: Luzhou Promotional Website, uSmart

First Listed Bank of a Prefecture-Level City in Western China, Luzhou Laojiao as the Largest Shareholder: Headquartered in the "City of Spirits", Luzhou Bank Co., Ltd. was established on September 15, 1997, and became the first listed bank among prefecture-level cities in Western China when it was listed on the main board of the Hong Kong Stock Exchange in December 2018. As of December 31, 2023, its major shareholders include Luzhou Laojiao Group, Sichuan Jiale Enterprise Group, Luzhou Xinfeng Mining Group Co., Ltd., and Luzhou Municipal Finance Bureau. Luzhou Laojiao Group Co., Ltd. is controlled by the Luzhou State-owned Assets Supervision and Administration Commission (SASAC). It directly holds 390,528,000 domestic shares and

indirectly holds 43,392,000 domestic shares through its subsidiary Luzhou Laojiao Co., Ltd., bringing its total shareholding to 15.97%. The company's development history is as follows:

- **September 1997:** Luzhou City Cooperative Bank was established by the merger of 8 urban credit cooperatives and 2 rural credit cooperatives, becoming the third city cooperative bank in Sichuan Province.
- **May 1998:** Luzhou City Cooperative Bank was renamed Luzhou City Commercial Bank, beginning its operations along the Yangtze River under its new identity.
- **February 2017:** Luzhou Bank's Chengdu branch opened, marking the start of Luzhou Bank's cross-regional development. Subsequently, Luzhou Bank established branches in Meishan and Suining, and added 7 sub-branches in Chengdu, gradually transforming into a regional joint-stock bank with a market presence based in Luzhou and serving the entire province.
- **December 2018:** Luzhou City Commercial Bank was officially listed on the Hong Kong Stock Exchange, becoming the second listed bank in Sichuan Province and the first listed bank in a prefecture-level city in Western China.

Table 3: Shareholding of Top 10 Holders of Domestic Shares of Luzhou Bank

Rank	Name of Shareholders	Number of shares	Total (%)
1	Luzhou Laojiao Group Co., Ltd.	390,528,000	14.37%
2	Sichuan Jiale Enterprise Group Co., Ltd.	325,440,000	11.97%
3	Luzhou Xinfu Mining Industry Group Co., Ltd.	325,440,000	11.97%
4	Luzhou Municipal Finance Bureau	193,853,760	7.13%
5	Luzhou State-Owned Assets Operation Co., Ltd.	173,568,000	6.39%
6	Luzhou Xinglu Jutai Construction Engineering Group Co., Ltd.	110,059,035	4.05%
7	Chengdu Modern Agricultural Development Investment Co., Ltd.	97,252,320	3.58%
8	Luzhou Industrial Development Investment Group Co., Ltd.	88,154,722	3.24%
9	Luzhou Xinglu Investment Group Co., Ltd.	48,659,355	1.79%
10	Luzhou Laojiao Co., Ltd.	43,392,000	1.60%

Note: As of December 31, 2023, the company's total share capital was 2,717,752,062 shares, consisting of 1,964,632,062 domestic shares and 753,120,000 H-shares.

Source: Company 2023 Annual Report, uSmart

Backed by Luzhou's largest state-owned enterprise and urban comprehensive operator, holding 8.6% stake: Luzhou Xinglu Investment Group is the largest state-owned investment company and a significant urban comprehensive operator in Luzhou. As of December 31, 2022, the company had total assets of RMB102.1 billion, operating income of RMB6.24 billion, and profits of RMB3.07 billion. It directly holds 48,659,355 shares and indirectly holds a total of 184,954,062 shares of the company, bringing its total holdings to 233,613,417 shares, which represents an 8.6% stake. The group indirectly holds shares in Luzhou Bank through its equity interest in Luzhou Xinglu Jutai

Construction Engineering Group Co., Ltd., Luzhou Laojiao Co., Ltd., Luzhou Xinglu Financing Guarantee Group Co., Ltd., and Luzhou Infrastructure Investment Co., Ltd., through which it indirectly holds shares in Luzhou Bank.

Specific Shareholding Structure: Luzhou Xinglu Jutai Constructing Engineering Group Co., Ltd. is jointly held by Luzhou Chengnan Construction Investment Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd., with equity stakes of 45.99% and 51.86%, respectively. Luzhou Chengnan Construction Investment Co., Ltd. is approximately 50.82% owned by Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., which in turn is approximately 55.11% owned by Luzhou Xinglu Investment Group Co., Ltd. Luzhou Laojiao Co., Ltd. indirectly holds 43,392,000 domestic shares, with Luzhou Xinglu Investment Group Co., Ltd. holding approximately 24.99% of its equity. Luzhou Xinglu Investment Group Co., Ltd. has entered into an agreement on action in concert with Luzhou Laojiao Group Co., Ltd. regarding their shares in Luzhou Laojiao Co., Ltd., effective from June 1, 2021, to May 31, 2024. Luzhou Xinglu Financing Guarantee Group Co., Ltd. indirectly holds 13,495,346 domestic shares, with Luzhou Xinglu Investment Group Co., Ltd. holding approximately 37.26% of its equity. Additionally, Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. indirectly holds 18,007,680 domestic shares.

Table 4: Luzhou Xinglu Investment Group's Beneficial Shareholding in Luzhou Bank

Company Name	Direct Shareholding	Indirect Shareholding
Luzhou Xinglu Investment Group Co., Ltd.	• Directly holds 48,659,355 domestic shares	
Luzhou Xinglu Jutai Construction Engineering Group Co., Ltd.	• Luzhou Chengnan Construction Investment Co., Ltd. holds 45.99% • Luzhou Xinglu Investment Group Co., Ltd. holds 51.86%	Indirectly holds 110,059,035 domestic shares
Luzhou Chengnan Construction Investment Co., Ltd.	• Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. holds approximately 50.82%	
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.	• Luzhou Xinglu Investment Group Co., Ltd. holds approximately 55.11%	Indirectly holds 18,007,680 domestic shares
Luzhou Laojiao Co., Ltd.	• Luzhou Xinglu Investment Group Co., Ltd. holds approximately 24.99% of Luzhou Laojiao Co., Ltd. and has entered into an agreement on action in concert with Luzhou Laojiao Group Co., Ltd. • Luzhou Xinglu Investment Group Co., Ltd. indirectly holds 43,392,000 domestic shares.	Indirectly holds 43,392,000 domestic shares
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	• Luzhou Xinglu Investment Group Co., Ltd. holds approximately 37.26% equity interests and indirectly holds 13,495,346 domestic share	Indirectly holds 13,495,346 domestic shares
Total		184,954,062 shares

Source: Company 2023 Annual Report, uSmart

3.2 Enhancing Stability and Sustainability through Improved Management and Talent Development

Stable management structure with extensive experience in banking, finance, and management: Chairman You Jiang has been an executive director since August 2014 and the chairman of the Board of Directors since December 2014. He holds a Bachelor's, Master's, and Doctoral degree in economics from Southwestern University of Finance and Economics in Sichuan Province, China, and is an economist. Executive director and president Liu Shirong has been serving as president since June 2022. He studied finance and accounting at Luzhou Finance and Trade School, accounting at Southwestern University of Finance and Economics, and economic management from the Correspondence Institute of the Central Communist Party School of the CPC (Correspondence Study).

Figure 5: Biographies of Chairman and President

Executive Director and Chairman You Jiang	Executive Director and President Liu Shirong
<ul style="list-style-type: none"> • Sep. 2013 to June 2014: Division director of the First Division of Supervision and Regulation of Small and Medium Rural Financial Institutions of former CBRC Sichuan Office. • May 2011 to Sep. 2013: Director-general of former CBRC Nanchong Branch. • Dec. 2007 to Apr. 2009: Deputy director-general of the former CBRC Ziyang Branch and then serviced as its director-general from April 2009 to May 2011. • Jan. 2007 to Dec. 2007: Deputy division director of the Division of Supervision and Regulation of Cooperative Financial Institutions of former CBRC Sichuan Office; Worked on secondment as a vice general manager of the risk management department of the Sichuan Provincial Branch of Industrial and Commercial Bank of China Limited ("ICBC") and a vice president of the Chunxi sub-branch of ICBC. • Jan. 2005 to Jan. 2007: Vice officer director of the former CBRC Sichuan Office. • Nov. 2003 to Jan. 2005: Member of the planning group and then a deputy director-general of the former CBRC Ya'an Branch. 	<ul style="list-style-type: none"> • Oct. 1997: Joined Luzhou Bank, initially serving as acting vice president at Tongda sub-branch. • Feb. 1998 to Nov. 2002: Promoted to vice president. • Nov. 2002 to Jan. 2004: President of Binjiang sub-branch. • Jan. 2004 to Jan. 2005: President of Jiangyangzhonglu sub-branch. • Jan. 2005 to Oct. 2005: Head of the credit management department. • Oct. 2005 to Feb. 2008: Served as the office head. • Feb. 2008 to Nov. 2011: Head of the administration office. • Nov. 2011 to Mar. 2012: Responsible person of the accounting and finance department. • Mar. 2012 to Oct. 2014: Head of the office of the Board of directors. • Dec. 2012 to Jan. 2022: Secretary of the Board and Joint Company Secretary. • May 2016 to June 2022: Vice President; responsible for the executive work from September 2019, and performing duties on behalf of the president since June 2021.

<ul style="list-style-type: none"> • July 2002 to Nov. 2003: Assistant to President at PBOC Ziyang Central sub-branch. • Dec. 1998 to July 2002: Staff member and then the section chief at the secretarial division of the CPC committee office of PBOC Chengdu Branch. • July 1995 to July 1996: Cadre of the business department at PBOC Sichuan Branch. • July 1996 to Dec. 1998: Staff Member of the secretarial division of the general office at PBOC Sichuan Branch. 	<p>Prior to joining Luzhou Bank:</p> <ul style="list-style-type: none"> • Feb. 1993 to June 1993: Deputy office head and the manager of the credit department of Haikou City Bo'ai Urban Credit Cooperative. • June 1993 to Oct. 1997: Vice head, the manager of treasury department and the manager of the credit department at the same Credit Cooperative. • Aug. 1985 to Jan. 1993: Finance office at Naxi County Government of Luzhou City, successively office clerk, and principal section staff.
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Source: Company Information, uSmart

Table 6: Senior Management of Luzhou Bank

Name	Gender	Age	Position	Joining Date	Appointment Date
Liu Shirong	Male	57	Executive Director, President	October 1997	June 8, 2022
Yuan Shihong	Female	53	Vice President	November 2015	July 19, 2022
Xue Xiaoqin	Female	55	Vice President	October 1997	May 27, 2016
Wu Ji	Male	50	Vice President	April 2016	August 10, 2020
Han Gang	Male	41	Vice President, Chief Information Officer	March 2016	March 28, 2023
Ming Yang	Male	50	Vice President, Board Secretary, Joint Company Secretary	May 2019	March 28, 2023
Hu Jia	Male	44	Vice President	November 2015	March 28, 2023
Yang Bing	Male	48	Vice President	April 2016	April 8, 2016
Ai yong	Male	51	Assistant to President	September 1997	December 28, 2012
Li Yan	Female	42	General Manager of Internal Audit Department	August 2000	November 10, 2022
Yu Lan	Female	48	General Manager of Accounting and Finance Department	August 2002	November 10, 2022

Source: Company 2023 Annual Report, uSmart

Market-oriented and customer-centered, Luzhou Bank foster a corporate culture rooted in "innovation, unity, democracy, transparency, and accountability." The bank emphasizes democratic management and employee care, providing comprehensive training systems and clear career advancement paths, creating a broad platform for employees to showcase their talents. Driven by a robust cultural force and work enthusiasm, the bank delivers high-quality, efficient, convenient, and value-added comprehensive financial services to its clients. As of December 31, 2023, the bank had 1,445 employees (including dispatched workers), with an average age of 34.53. Of them, 460 employees (31.83%) aged between 20 and 30, 666 employees (46.09%) aged between 30 and 40, 211 employees (14.60%) aged between 40 and 50, and 108 employees (7.48%) aged over 50. By education background, 276 employees (19.10%) hold a postgraduate degree and above, including 3 doctoral candidates; 926 employees (64.08%) hold a bachelor's degree; and 243 employees (16.82%) have college/associate degree and below. By gender, the bank had 629 male employees (43.53%) and 816 female employees (56.47%). Additionally, there is a total of 149 sci-tech talents, accounting for 10.31% of the workforce.

Figure 6: Employee Composition (by Age)

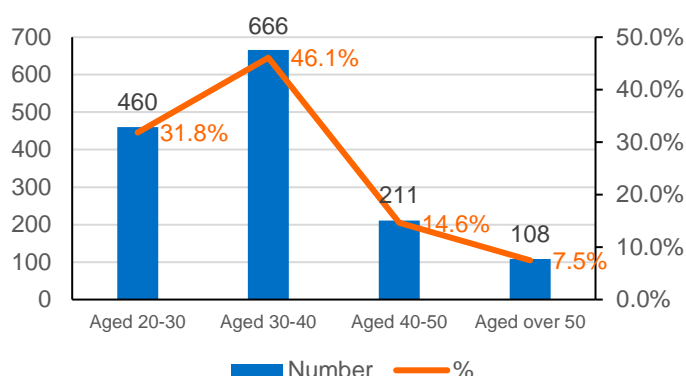
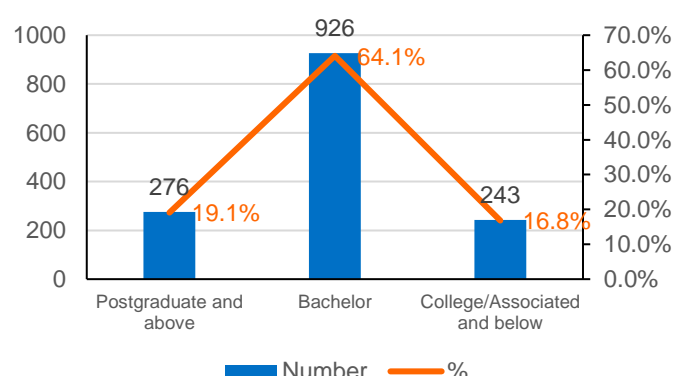


Figure 7: Employee Composition (by Education)



Source: Company Data, uSmart

Under the "Talent Excellence" strategy, Luzhou Bank has developed a comprehensive and advanced training system: Employee training is aligned with the company's strategic goals and individual competencies. The bank continuously expands training platforms, enriches resources, optimizes programs, and strengthens talent development mechanisms. By employing a combination of online and offline methods, internal and external training, business and management courses, regular and specialized sessions, and complementary programs between headquarters and branches, Luzhou Bank promotes various training initiatives. These include onboarding for new employees, leadership development for mid-level managers, international and domestic high-end financial qualification certifications, and educational advancement, while comprehensively upgrading the development program for young reserve cadres to build a foundation for high-quality financial talent. On

February 23, 2022, Luzhou Bank was recognized as an "Advanced Talent Work Unit" at the Luzhou Municipal Party Committee Talent Work Conference. In 2023, the bank conducted 407 internal and external training sessions, with approximately 18,200 participants. Luzhou Bank's four mechanisms for talent growth and successful implementation are summarized as follows:

① "Super Talent Squad" Development Program:

- Five-Year Progressive Training: The program identifies and cultivates top talent across the entire bank through a structured five-year progressive training regimen. Based on the company's business segments, participants are organized into five specialized squads: Wolf (Marketing), Dragon (Technology), Eagle (Operations), Lion (Risk Control), and Tiger (Precision Management).

- Comprehensive Development Measures: A set of ten development initiatives has been established, encompassing course learning, mentorship, practical experience enhancement, and team-building activities.

② Partnership with Prestigious Universities:

- Collaborative Programs: Luzhou Bank has established partnerships with several renowned domestic universities to offer a variety of development programs.

- Diverse Training Initiatives: These include graduate programs, high-end international and domestic financial certification training, leadership development for mid-level managers, and specialized business enhancement courses.

- Comprehensive Development: The programs are designed to holistically and comprehensively meet the growth and development needs of employees.

③ Dual-Track Career Development Mechanism:

- Management and Professional Tracks: Establishment of dual career advancement pathways, allowing employees to progress either through management or specialized professional roles.

- Competency Models: Development of competency models to provide a platform for talent at all levels to realize their personal value.

④ Youthful Leadership Mechanism:

- Age-Based Role Transition: Implementation of a system for transitioning managers to different roles upon reaching a certain age.

- Talent Selection: Identification and promotion of young, high-potential, and high-performing individuals to key management positions.

3.3 Accurately understanding customer needs and actively driving product innovation

As of the end of 2023, the company operates 39 branches, covering three districts and four counties in Luzhou, as well as branches in Chengdu, Meishan, and Suining. Its main business include corporate banking, retail banking, financial markets, and other services.

Figure 8: Main Business Segments of Luzhou Bank

Corporate Banking	Retail Banking	Financial Markets
<ul style="list-style-type: none"> • Corporate Deposits • Corporate Loans • Bill Discounting 	<ul style="list-style-type: none"> • Retail Deposits • Retail Loans • Bank Cards • Wealth Management • Precious Metals Services 	<p>Money Market Transactions</p> <ul style="list-style-type: none"> • Interbank Deposits • Interbank Lending • Bond Repos • Bill Rediscount • Issuance of Interbank Certificates of Deposit <p>Investment Business</p> <ul style="list-style-type: none"> • Bond Investments • SPV Investments

Source: Company Information, uSmart

Corporate banking forms the foundation of the company's business development, focusing on meeting the financing needs of SMEs by offering a diverse range of financial products and services: This includes corporate deposits, loans, and bill discounting, providing comprehensive solutions that constitute a primary revenue source. The company has established long-term partnerships with government departments, such as being one of the eight local fiscal deposit partner banks within Luzhou's jurisdiction, co-developing the "Green Sprout Points" initiative with the Luzhou Ecological Environment Bureau, and collaborating on Luzhou's "Smart City" construction, deeply engaging in urban and livelihood projects. As of December 31, 2023, corporate banking revenue reached RMB2.53 billion, accounting for 52.99% of total revenue. The company holds the largest market share in Luzhou for corporate loans and deposits, with corporate loans comprising 84.71% and corporate deposits 40.23% of the respective markets. The total number of corporate clients grew by 31.75% year-over-year to 49,203, underscoring a robust client base. To better serve specific customer segments, the company has launched a series of specialized products and services and has implemented an efficient customer relationship management system to closely monitor client transactions and provide tailored financial services.

Tailoring products and services to meet the financing needs of SMEs according to the company's development stage: Luzhou Bank has established the "Huirongtong" Small and Micro Loan Center. Additionally, 17 sub-branches and 35 branches across the bank handle small and micro business transactions. In 2023, the bank provided loans totaling RMB 89.424 billion to 8,361 small and micro enterprises, with a loan balance of RMB 53.554 billion, and the number of customers increased to 9,312. Inclusive finance small and micro loan balances reached RMB 11.551 billion, serving 9,054 customers with a weighted average interest rate of 6.19%. Targeted products include

"Tian Tian Loan," offering a credit line with revolving use and interest-free repayment within seven days; "Tax Loan" and "Tax e-Loan," based on tax payments; "Invoice e-Loan," based on VAT invoice amounts; "Le Ye Loan," "Ticket Guarantee," and "E-Luzhou Loan," providing supply chain financial services for upstream and downstream enterprises of core businesses; "Business Circle Loan," offering unsecured, on-demand loans; "Good House Loan" and "Full House Loan," providing online mortgage registration through the "Internet + Real Estate Registration" model; "Government Procurement Loan," based on government procurement orders; "Profit Business Loan," based on acquiring business transaction flows; and "Tech Finance Loan," secured by future receivables from IT system integration projects. Leveraging the short decision-making chain of local corporate institutions, Luzhou Bank offers efficient and convenient financing services to its clients.

Figure 9: Corporate Banking Innovative Products



Source: Company Website, uSmart

Retail Banking: utilizing customer segmentation strategy to enhance service experience and meet high-end client needs. Leveraging its vast customer base, the company offers a comprehensive range of financial products and services to retail clients, including deposits, loans, bank card services, wealth management, and intermediary services such as bill payments. As of December 31, 2023, retail banking revenue reached RMB480 million, with the total number of clients increasing to 1,402,400, a growth of 116,400 clients or 9.05% from the end of 2022. Retail deposits totaled RMB67,751 million, while retail loans amounted to RMB13,870 million. The company classifies its retail customers into basic customers (financial assets below RMB500,000), value customers clients (RMB500,000 to RMB1 million), high-

end customers (RMB1 million to RMB3 million), and high-net-worth customers (RMB3 million and above). As of December 31, 2023, the number of high-end customers reached 9,132, an increase of 515 clients or 5.98% from 2022, while the number of high-net-worth customers totaled 1,628, an increase of 8 clients or 0.49% from 2022.

Figure 10: Number of Retail Banking Customers from 2021 to 2023 ('0,000)

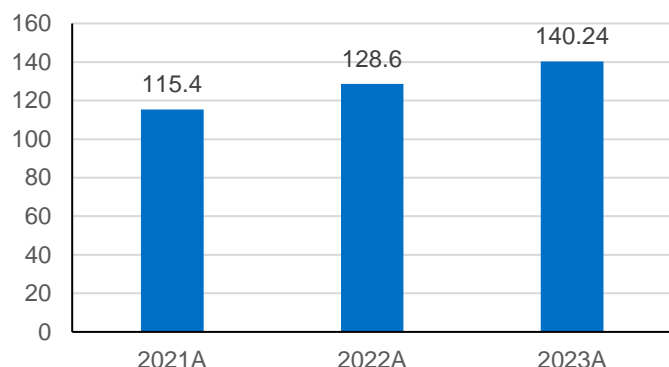
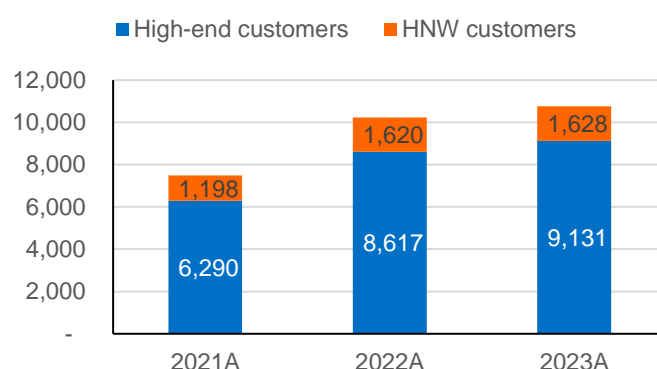
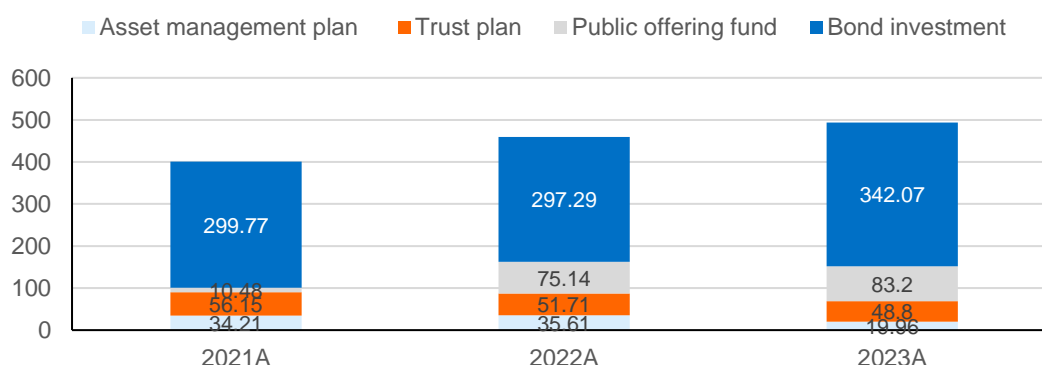


Figure 11: Number of High-end and HNW Customers from 2021 to 2023



Source: Company Data, uSmart

Stable money market transaction business and flexible investment strategies: In 2023, the company actively participated in money market transactions, including interbank deposits, lending, bond repurchase, bill rediscount, and issuance of interbank certificate of deposit, effectively enhancing activity in the interbank market. The bank also focused on managing interbank client relationships, maintaining the sustainability of credit facilities to strengthen client loyalty and ensuring diversification and risk dispersion among counterparties. In its investment business, Luzhou Bank closely monitored macroeconomic trends and monetary policy developments to flexibly adjust its investment strategy, optimizing both the total volume and structure of its bond investments. In 2023, the scale of bond investments reached RMB34,207 million, a year-over-year increase of 15.06%. Specifically, the balance of government bonds held was RMB3,080 million, down 4.94% year-over-year; policy financial bonds stood at RMB 9,920 million, up 28.33%; local government bonds were RMB1,717 million, up 80.36%; credit bonds were RMB12,280 million, down 3.21%; and commercial bank bonds were RMB7,210 million, up 40.82%. Additionally, the bank proactively reduced its investments in special purpose vehicles, which, as of year-end, totaled RMB15,196 million, including public funds, trust plans, and asset management plans, representing a 6.46% decrease from the beginning of the year.

Figure 12: Changes in Investment Business Structure from 2021 to 2023 (100 million RMB)

Source: Company Information, uSmart

Digital-driven and technology-enabled business: Luzhou Bank is committed to driving business growth through technological innovation, achieving significant milestones in the field of information technology. In 2018, the bank established Luzhou's first smart banking branch, deploying 15 intelligent robots as lobby manager assistants. In 2019, Luzhou Bank signed a strategic cooperation agreement with Huawei Technologies Co., Ltd. to co-create the "Future Bank" laboratory, exploring cutting-edge fintech domains. In September 2020, the bank co-hosted the Huawei National Summit on Financial Technology for Small and Medium Banks. To enhance its capacity for technological innovation and output, Luzhou Bank has developed over 20 systems for various government departments and enterprises in Luzhou, providing clients with comprehensive financial services including fund collection, settlement, inquiries, and wealth management. In 2021, Luzhou Bank participated in the digital RMB pilot project, becoming one of the first pilot banks nationwide and the first CCB in Sichuan to successfully conduct digital RMB business. Furthermore, the bank launched 23 online credit products and became the first in Sichuan to link with the real estate registration center system, offering customers an online one-stop mortgage registration service.

Figure 13: Luzhou Bank Intelligent Robot "Lulu"**Figure 14: Luzhou Bank Lobby**

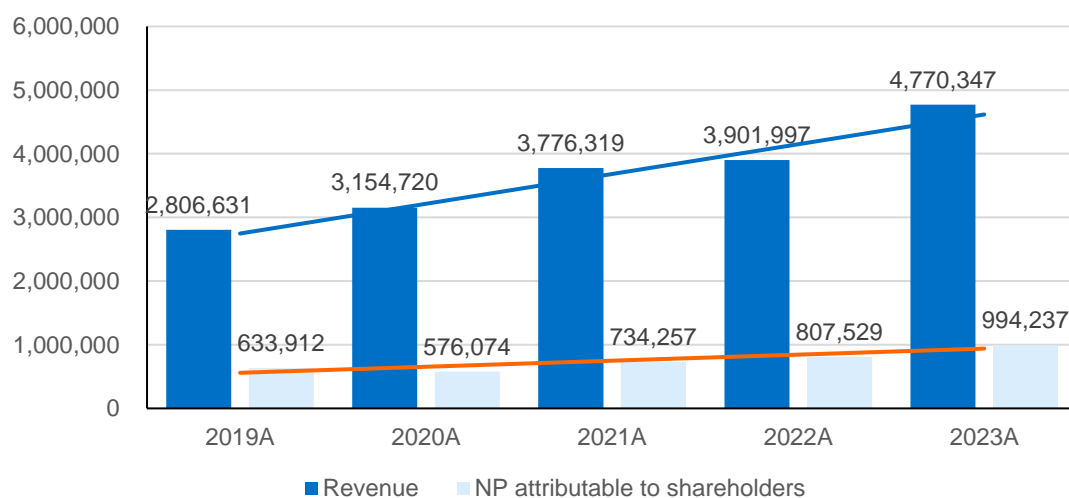
Source: Public Information, uSmart

4. Financial Analysis

4.1 Profitability Analysis

From 2019 to 2023, Luzhou Bank experienced consistent growth in revenue and net profit, with CAGRs of approximately 14.2% and 11.9%, respectively. Revenue for these years was RMB2,807 million, RMB3,155 million, RMB3,776 million, RMB3,902 million, and RMB4,770 million, showing annual growth rates of 45.11%, 12.40%, 19.70%, 3.33%, and 22.25%, respectively. The 2023 revenue spike of 22.25% was driven by structural adjustments, with a RMB170 million decrease in net interest income (-5.21% YoY) and a RMB1,038 million increase in non-interest net income (+161.26% YoY). Net profit attributable to shareholders for the same period was RMB634 million, RMB576 million, RMB734 million, RMB808 million, and RMB994 million, with annual growth rates of -3.71%, -9.12%, 27.46%, 9.98%, and 23.12%, respectively. The largest net profit growth was in 2021, at 27.46%.

Figure 15: Revenue and Attributable Net Profit (2019-2023, '000 RMB)



Source: Company Data, uSmart

From 2019 to 2022, net interest income grew steadily, while 2023 saw a slight decline. During 2019-2022, interest income exhibited a stable upward trend, amounting to RMB5,412 million, RMB6,062 million, RMB6,950 million, and RMB7,495 million, respectively. Correspondingly, net interest income was RMB2,718 million, RMB2,756 million, RMB2,938 million, and RMB3,258 million, with year-over-year growth rates of 53.36%, 1.41%, 6.59%, and 10.89%. In 2023, interest income and net interest income decreased to RMB7,224 million and RMB3,088 million, reflecting year-over-year declines of 3.62% and 5.21%, respectively.

Between 2019 and 2023, the proportion of non-interest net income in the company's main revenue showed an overall increasing trend, peaking in 2023 with a 32 pct rise compared to 2019. During 2019-2022, net interest income generally increased, with a slight decrease in 2023. Non-interest net income, apart from a decline in 2022, displayed an overall upward trend, amounting to RMB89 million, RMB398 million, RMB838 million, RMB644 million, and RMB1,682 million, accounting for 3.15%, 12.62%, 22.19%, 16.50%, and 35.26% of total revenue, respectively. The company's non-interest net income includes trading gains, financial investments, and other sources.

Figure 16: Revenue Composition (2019-2023, '000 RMB)

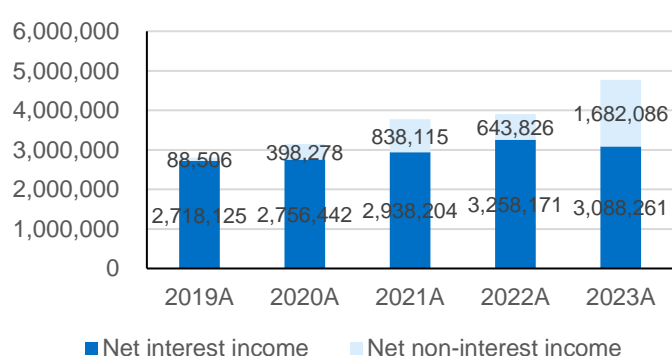
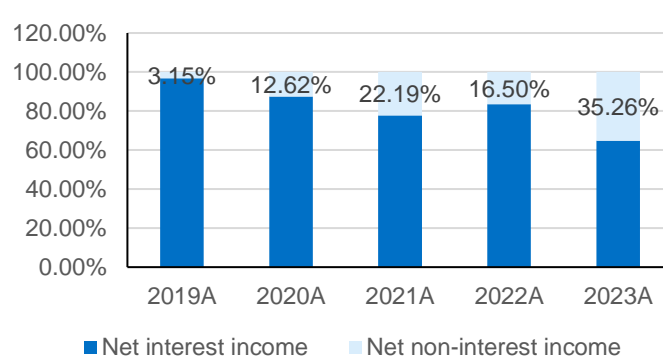


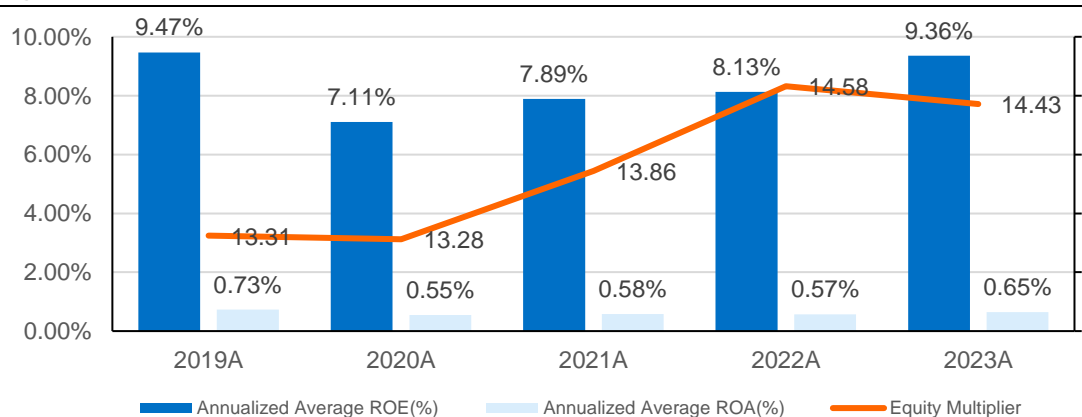
Figure 17: Proportion of Non-Interest Net Income (2019-2023, %)



Source: Company Data, uSmart

In terms of profitability: During 2019-2023, the highest ROA and ROE were recorded in 2019 at 9.47% and 0.73%, respectively. In 2020, both metrics declined significantly to 7.11% and 0.55%. As of December 31, 2023, ROA and ROE showed considerable recovery compared to 2022, reaching 9.36% and 0.65%, respectively, reflecting YoY increases of 1.23 pct and 0.08 pct. The equity multiplier decreased from 14.58 to 14.43.

Figure 18: ROA, ROE, and Equity Multiplier (2019-2023)



Source: Company Data, uSmart

In terms of provision for loan/impairment losses: Loan/impairment loss provisions have increased annually. Since 2016, Luzhou Bank has intensified its efforts in disposing of non-performing assets and adjusted the parameters of its expected credit loss (ECL) model, resulting in annual increases in provisions. During the period from 2019 to 2023, expected credit losses/other asset impairment losses amounted to RMB945 million, RMB1,242 million, RMB1,338 million, RMB1,316 million, and RMB1,799 million, respectively, accounting for 33.66%, 39.38%, 35.43%, 33.72%, and 37.72% of revenue.

Table 7: Income Statement and Profitability Indicators Overview (2019-2023, '000 RMB)

'000' RMB	2019A	2020A	2021A	2022A	2023A
Revenue	2,806,631	3,154,720	3,776,319	3,901,997	4,770,347
YoY (%)	45.11%	12.40%	19.70%	3.33%	22.25%
Net interest income	2,718,125	2,756,442	2,938,204	3,258,171	3,088,261
YoY (%)	53.36%	1.41%	6.59%	10.89%	-5.21%
% of revenue	96.85%	87.38%	77.81%	83.50%	64.74%
Net non-interest income	88,506	398,278	838,115	643,826	1,682,086
YoY (%)	-45.26%	350.00%	110.43%	-23.18%	161.26%
% of revenue	3.15%	12.62%	22.19%	16.50%	35.26%
Net fee and commission income	5,085	5,085	57,420	94,051	102,948
YoY (%)	172.2%	0.0%	1029.2%	63.8%	9.5%
% of revenue	0.18%	0.16%	1.52%	2.41%	2.16%
Net gains on trading activities, financial investment, and others	83,421	393,193	780,695	549,775	1,579,138
% of revenue	2.97%	12.46%	20.67%	14.09%	33.10%
Operating profit before allowance	1,774,387	1,982,491	2,272,278	2,330,364	3,050,164
YoY(%)	41.86%	11.73%	14.62%	2.56%	30.89%
ECL and impairment losses	944,739	1,242,241.0	1,337,972	1,315,882	1,799,374
Expected credit losses (ECL)	871,307	1,239,879	1,332,180	1,309,946	1,792,976
Other asset impairment losses	73,432	2,362	5,792	5,936	6,398
Provision as % of revenue	33.66%	39.38%	35.43%	33.72%	37.72%
Net Profit before tax	829,648	740,250	934,306	1,014,482	1,250,790
YoY (%)	-2.85%	-10.78%	26.21%	8.58%	23.29%
Net profit after tax	633,912	576,074	734,257	807,529	994,237
YoY (%)	-3.71%	-9.12%	27.46%	9.98%	23.12%
Net profit attributable to Shareholders	633,912	576,074	734,257	807,529	994,237
YoY (%)	-3.71%	-9.12%	27.46%	9.98%	23.12%
Return on avg. total asset (%)	9.47%	7.11%	7.89%	8.13%	9.36%
Return on avg. equity (%)	0.73%	0.55%	0.58%	0.57%	0.65%
Net interest spread (%)	2.85%	2.75%	2.59%	2.51%	2.69%
Net interest margin (%)	3.08%	2.78%	2.49%	2.46%	2.39%
Avg. yield on interest-earning assets (%)	6.14%	6.11%	5.90%	5.66%	5.59%
Avg. cost of interest-bearing liabilities (%)	3.29%	3.35%	3.31%	3.15%	2.90%
Cost-to-income ratio (%)	35.95%	36.09%	38.59%	38.87%	34.86%

Source: Company Data, uSmart

4.2 Structural and Quality Analysis

Asset scale growth remained stable, with current total assets exceeding RMB150 billion: From 2019 to 2023, total assets grew consistently, reaching RMB91,681 million, RMB118,886 million, RMB134,510 million, RMB148,630 million, and RMB157,636 million, respectively, with a CAGR of 14.51%. As of December 31, 2023, loans accounted for 58.65% of total assets, up 2.92 pct from 2022. Deposits represented 78.43% of total liabilities, up 0.87 pct from 2022.

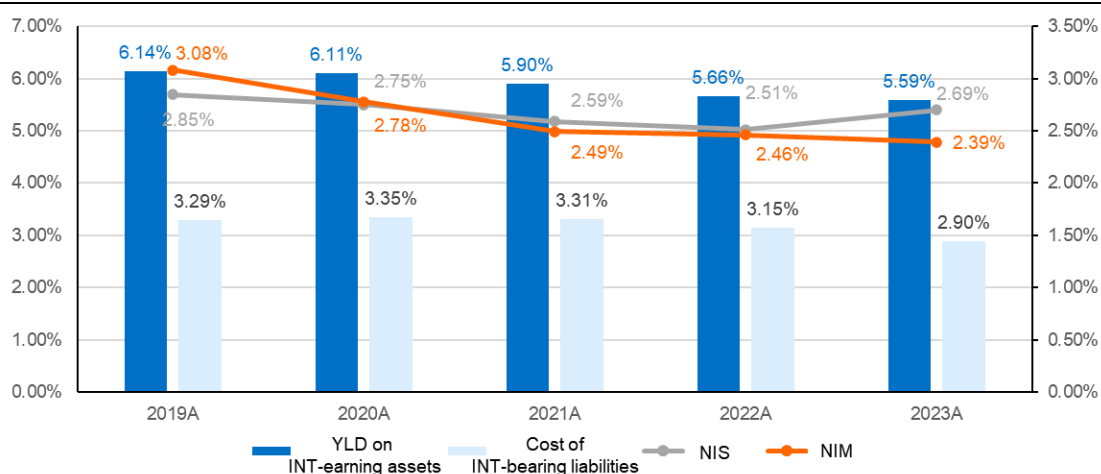
Table 8: Overview of Financial Scale (2019-2023, '000 RMB)

'000' RMB	2019A	2020A	2021A	2022A	2023A
Asset	91,680,621	118,886,259	134,510,128	148,629,827	157,636,383
YoY (%)	11.06	29.67	13.14	10.50	6.06
Loan ratio (%)	48.62	49.92	55.50	55.73	58.65
Total loans (excl. INT)	44,577,824	59,352,877	74,652,740	82,825,912	92,456,593
YoY (%)	43.04	33.14	25.78	10.95	11.63
Total liabilities	84,791,112	109,937,310	124,807,971	138,434,211	146,709,384
YoY (%)	11.30	29.66	13.53	10.92	5.98
Deposit Ratio (%)	71.50	76.50	74.70	77.56	78.43
Total Deposits (excl. INT)	60,624,440	84,104,646	93,226,421	107,365,562	115,069,479
YoY (%)	15.73	38.73	10.85	15.17	7.18
Net assets	6,889,509	8,948,949	9,702,157	10,195,616	10,926,999
Net assets attributable to S/H	6,889,509	8,948,949	9,702,157	10,195,616	10,926,999
Avg. interest-earning assets	88,203,850	99,260,150	117,856,846	132,343,244	129,124,972
Loan ratio (%)	51.79	52.43	57.77	58.03	90.21
Interbank assets	3,284,840	4,961,948	745,2012	5,738,581	5,050,528
Avg. interest-bearing liabilities	81,885,223	98,540,587	121,340,866	134,439,235	142,791,466
Deposit ratio (%)	72.04	77.14	75.35	78.28	79.35
Interbank liabilities	3,949,580	4,830,366	5,254,141	9,283,318	7,153,622
Interbank assets/total assets	3.58	4.17	5.54	3.86	3.20
Interbank liabilities/total liabilities	4.66	4.39	4.21	6.71	4.88

Source: Company Data, Wind, uSmart

Net interest margin (NIM) and net interest spread (NIS) remain at industry-leading levels, focusing on reducing liability costs, optimizing asset structure, and maintaining strong interest margin management capabilities: net interest spread (NIS) have remained above 2.50% from 2019 to 2023, consistently at industry-leading levels. This achievement is primarily due to the company's stringent control over the scale of high-cost liabilities and increased marketing of low-cost deposits. In 2023, the cost of liabilities decreased by 25 basis points (BP) compared to 2022, with a cumulative decline of 41BP over two years.

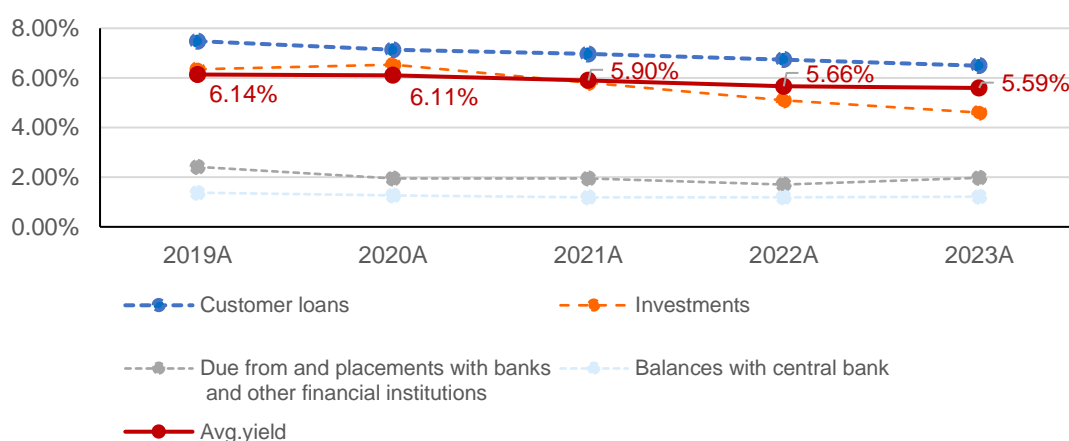
Figure 19: Overview of Yield on Interest-Earning Assets, Cost of Interest-Bearing Liabilities, Net Interest Spread, and Net Interest Margin (2019-2023, %)



Source: Company Data, uSmart

Interest-earning assets: From 2019 to 2023, the primary interest-earning assets were customer loans and investments. The average yield on customer loans decreased annually, recorded at 7.48%, 7.13%, 6.96%, 6.74%, and 6.49%, respectively, reflecting year-over-year declines of 35, 17, 22, and 25 basis points (BP). The average yield on financial investments, except for an increase in 2020, also decreased annually, recorded at 6.35%, 6.53%, 5.81%, 5.10%, and 4.60%.

Figure 20: Average Yield on Interest-Earning Assets (2019-2023)

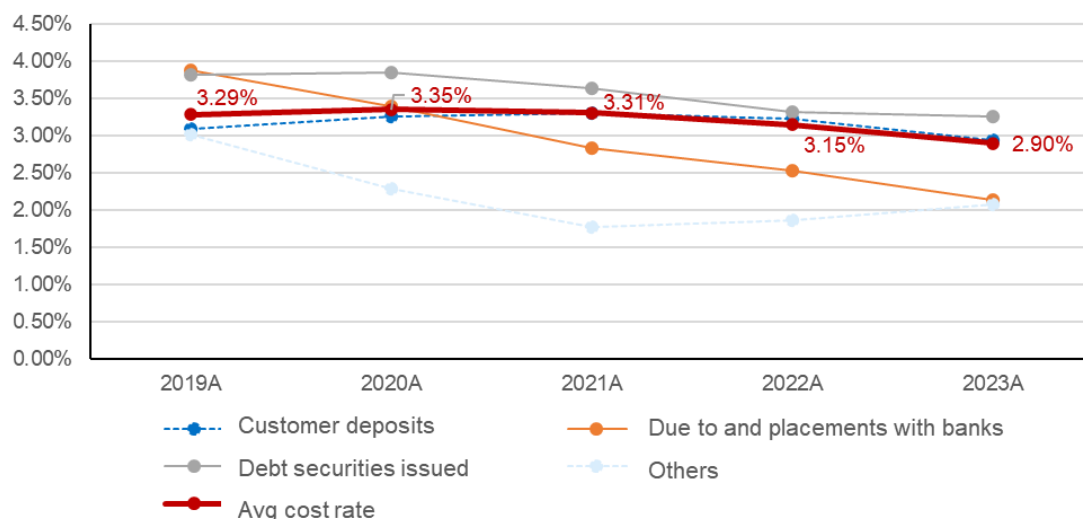


Source: Company Data, uSmart

Interest-bearing liabilities: From 2019 to 2023, the primary interest-bearing liabilities were customer deposits and debt securities issued. The average cost rate of customer deposits decreased to its lowest level in 2023, recorded at 3.09%, 3.25%, 3.31%, 3.22%, and 2.94%, respectively. Similarly, the average cost rate of debt securities issued also reached its lowest level in 2023, recorded at 3.81%, 3.85%, 3.65%, 3.32%, and 3.26%. During this period, both the overall yield on interest-earning assets and the cost rate of interest-

bearing liabilities showed a downward trend, with the cost rate of interest-bearing liabilities decreasing significantly more than the yield on interest-earning assets in 2023. The net interest spread (NIS) for these years was 2.85%, 2.75%, 2.59%, 2.51%, and 2.69%, respectively. The net interest margin (NIM) was 3.08%, 2.78%, 2.49%, 2.46%, and 2.39%, respectively.

Figure 21: Average Cost Rate of Interest-Bearing Liabilities (2019-2023)



Source: Company Data, uSmart

Figure 22: Structure of Interest-Earning Assets and Interest-Bearing Liabilities (2019-2023)

000' RMB	2023A			2022A			2021A			2020A			2019A		
INT-earning assets	Avg balance	INT income	Avg YLD	Avg balance	INT income	Avg YLD	Avg balance	INT income	Avg YLD	Avg balance	INT income	Avg YLD	Avg balance	INT income	Avg YLD
Customer loans	89,336,658	5,798,101	6.49%	80,868,197	5,449,656	6.74%	69,329,722	4,826,397	6.96%	53,699,227	3,829,135	7.13%	40,065,316	2,997,655	7.48%
Investments	26,921,724	1,239,347	4.60%	35,776,465	1,825,495	5.10%	32,354,457	1,880,679	5.81%	30,476,285	1,991,383	6.53%	33,908,836	2,152,470	6.35%
Due from and placement with banks	3,916,139	77,241	1.97%	6,492,735	110,599	1.70%	6,667,779	130,175	1.95%	7,232,679	141,449	1.96%	6,355,532	153,622	2.42%
Balances with central bank	8,950,451	108,894	1.22%	9,205,847	109,384	1.19%	9,504,888	112,748	1.19%	7,851,959	99,973	1.27%	7,874,166	108,310	1.38%
Total	129,124,972	7,223,583	5.59%	132,343,244	7,495,134	5.66%	117,856,846	6,949,999	5.90%	99,260,150	6,061,940	6.11%	88,203,850	5,412,057	6.14%
10.00%															
INT-bearing liabilities	Avg balance	INT expense	Avg cost	Avg balance	INT expense	Avg cost	Avg balance	INT expense	Avg cost	Avg balance	INT expense	Avg cost	Avg balance	INT expense	Avg cost
Customer deposits	119,810,615	3,522,977	2.94%	107,979,323	3,479,006	3.22%	93,599,939	3,095,875	3.31%	74,690,218	2,429,874	3.25%	58,683,373	1,812,834	3.09%
Due to and placement with banks	6,771,571	145,122	2.14%	5,233,859	132,647	2.53%	5,978,036	169,516	2.84%	5,350,406	181,743	3.40%	5,654,144	219,108	3.88%
Debt securities issued	11,054,889	360,377	3.26%	15,788,436	524,347	3.32%	19,244,612	701,643	3.65%	17,352,344	667,554	3.85%	16,625,808	634,203	3.81%
Other	5,154,391	106,846	2.07%	5,437,617	100,963	1.86%	2,518,279	44,761	1.78%	1,147,619	26,327	2.29%	921,898	27,787	3.01%
Total	142,791,466	4,135,322	2.90%	134,439,235	4,236,963	3.15%	121,340,866	4,011,795	3.31%	98,540,587	3,305,498	3.35%	81,885,223	2,693,932	3.29%
Net interest income	3,088,261			3,258,171			2,938,204			2,756,442			2,718,125		
Net interest spread	2.69%			2.51%			2.59%			2.75%			2.85%		
Net interest margin	2.39%			2.46%			2.49%			2.78%			3.08%		

Note:

1. credit related financial assets, financial assets at fair value through other comprehensive income and measured at amortized cost.
2. include financial assets held under resale agreements.
3. include financial assets sold under repurchase agreements.

Source: Company Data, uSmart

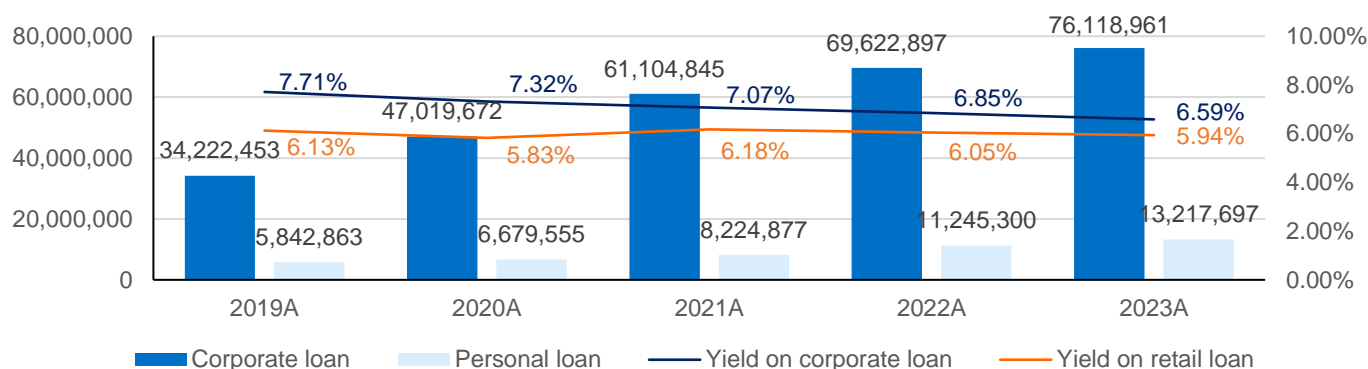
In terms of the loan structure, the loan portfolio primarily consists of corporate loans, personal loans, and discounted bills. As of 2023, corporate loans accounted for 84.70% of the total loan portfolio, personal loans for 15.00%, and discounted bills for 0.30%. Among these, corporate loans had the lowest non-performing loan (NPL) ratio at 1.06%, while discounted bills had the highest NPL ratio at 22.87%. The NPL ratio for personal loans was 2.55%.

Table 9: Loan Structure (2019-2023, '000 RMB)

'000' RMB	2019A	2020A	2021A	2022A	2023A
Corporate loans	36,902,397	46,850,100	60,873,007	69,545,571	78,308,970
Discounted bills	1,499,648	4,778,348	3,612,243	822,790	277,686
Personal loans	6,175,779	7,724,429	10,167,490	12,457,551	13,869,937
Total (excl. INT)	44,577,824	59,352,877	74,652,740	82,825,912	92,456,593
yoy		33.1%	25.8%	10.9%	11.6%
Loan ratio (%)					
Corporate loans	82.8%	78.9%	81.5%	84.0%	84.7%
Discounted bills	3.4%	8.1%	4.8%	1.0%	0.3%
Personal loans	13.9%	13.0%	13.6%	15.0%	15.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Non-performing loans					
Corporate loans	373,746	1,013,350	899,070	917,351	827,210
Discounted bills	0	0	0	89,830	63,500
Personal loans	43,658	74,216	159,629	260,315	353,830
Total Non-performing loans	417,404	1,087,566	1,058,699	1,267,496	1,244,540
NPL Ratio – by type (%)					
Customer loans	1.01%	2.16%	1.48%	1.32%	1.06%
Discounted bills				10.92%	22.87%
Personal loans	0.71%	0.96%		2.09%	2.55%

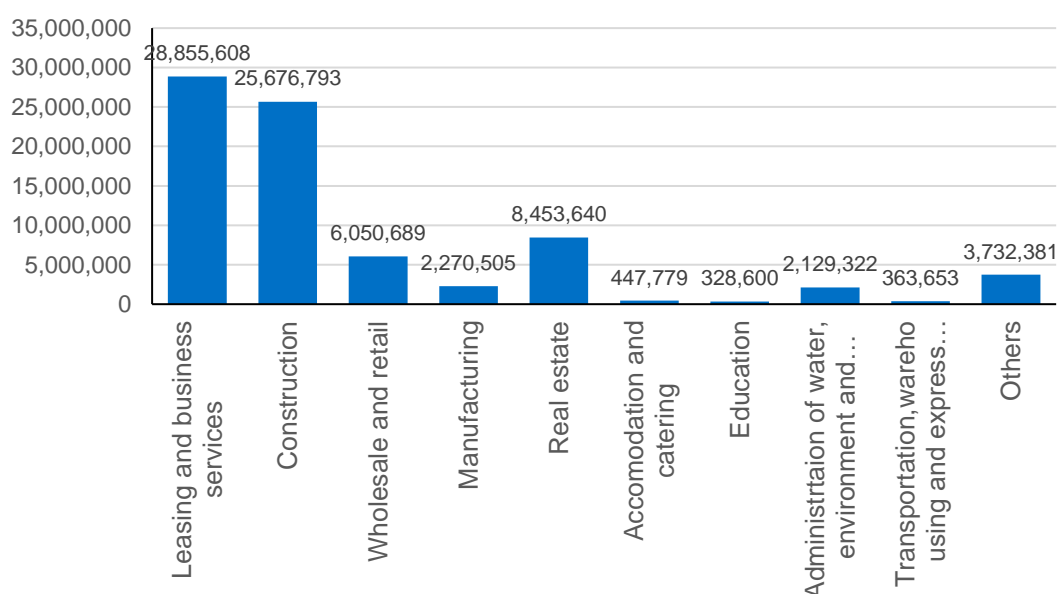
Source: Company Data, Wind, uSmart

In terms of customer loan, the yield on customer loans exceeded the industry average, with a focus on corporate business, which accounted for over 85% of the loan portfolio. From 2019 to 2023, the average amounts of corporate loans were RMB34,222 million, RMB47,020 million, RMB61,105 million, RMB69,623 million, and RMB76,119 million, respectively. The average amounts of retail loans during the same period were RMB5,843 million, RMB6,680 million, RMB8,225 million, RMB11,245 million, and RMB13,218 million, respectively. The ratios of corporate loans were 85.42%, 87.56%, 88.14%, 86.09%, and 85.20%, respectively. Both corporate and retail loan yields were at relatively high industry levels, with corporate loan yields surpassing those of retail loans. From 2019 to 2023, the yield on corporate loans gradually declined, recorded at 7.71%, 7.32%, 7.07%, 6.85%, and 6.59%, respectively. The yield on retail loans, after reaching a low in 2020, showed some recovery, recorded at 6.13%, 5.83%, 6.18%, 6.05%, and 5.94%, respectively.

Figure 23: Loan Structure and Yield (2019-2023, '000 RMB, %)

Source: Company Data, uSmart

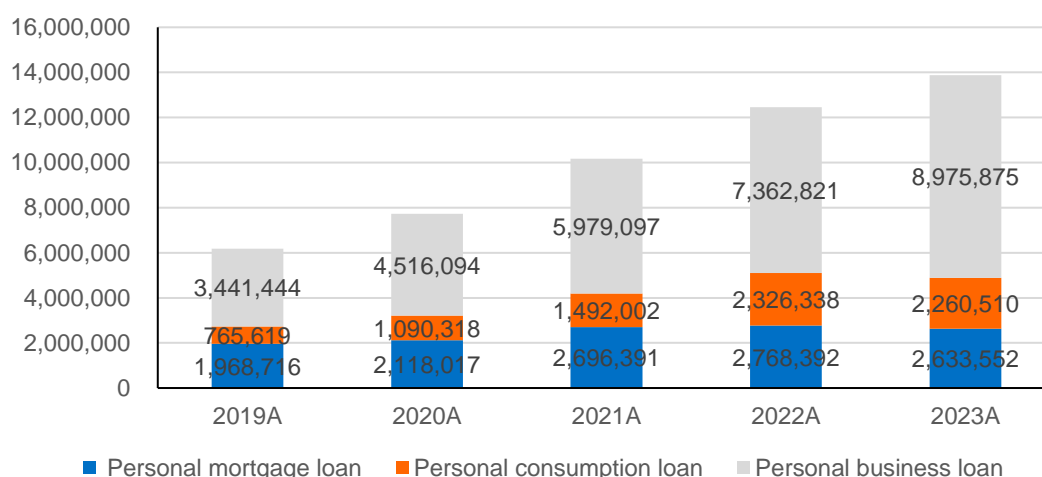
The yield on corporate loans is in the upper-middle range of the industry, with a significant portion allocated to leasing, business services, and the construction sector. As of December 31, 2023, Luzhou Bank's total corporate loans amounted to RMB78.31 billion, with a yield of 6.59%, surpassing the industry average. Corporate loans accounted for 84.7% of the total loan portfolio, 16pct higher than the average level of other listed city commercial banks. Leasing and business services represented the highest proportion, totaling RMB28,856 million, which is 31.21% of the total. Besides leasing and business services, the construction industry was the largest sector for Luzhou Bank's corporate loans, with construction loans comprising 27.77% of the total loan portfolio in 2023. The five industries with the largest loan balances as of 2023 were leasing and business services, construction, real estate, wholesale and retail, manufacturing, and others.

Figure 24: Corporate Loan Structure in 2023 ('000 RMB)

Source: Company Data, uSmart

The yield on retail loans is in the upper-middle range of the industry, primarily consisting of business loans, with a decreasing proportion of mortgage loans over the years. From 2019 to 2023, the total amount of retail loans increased annually, reaching RMB6,176 million, RMB7,724 million, RMB10,167 million, RMB12,458 million, and RMB13,870 million, respectively. Business loans were the dominant component, with their proportion increasing each year to 55.72%, 58.47%, 58.81%, 59.10%, and 64.71%, respectively. Conversely, the proportion of mortgage loans decreased annually, recorded at 31.88%, 27.42%, 26.52%, 22.22%, and 18.99%, respectively, indicating an increasing proportion of non-mortgage loans. Since mortgage loans typically have lower yields compared to other loan types, their decreasing proportion contributes to an overall improvement in yield.

Figure 25: Retail Loan Structure (2019-2023, '000 RMB)



Source: Company Data, uSmart

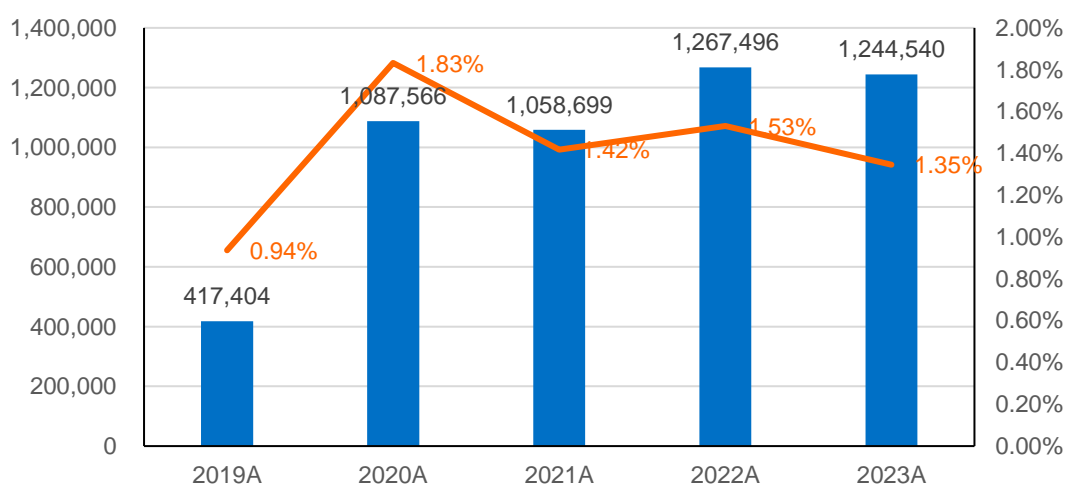
In terms of capital adequacy, in 2023, Luzhou Bank's core Tier 1 capital adequacy ratio was 8.12%, and the overall capital adequacy ratio was 12.74%, exceeding the regulatory requirement by 2.24%. The company conducts regular internal capital adequacy assessment processes, using stress tests to evaluate capital sufficiency and risk resilience. Based on the assessment results and the current risk profile, the company promptly adjusts its capital planning, optimizes resource allocation, and encourages branches and management departments to transition towards less capital-intensive businesses to ensure the achievement of the established capital adequacy ratio targets.

Table 10: Overview of Liquidity and Capital Adequacy Indictaorss (2019-2023, '000, %)

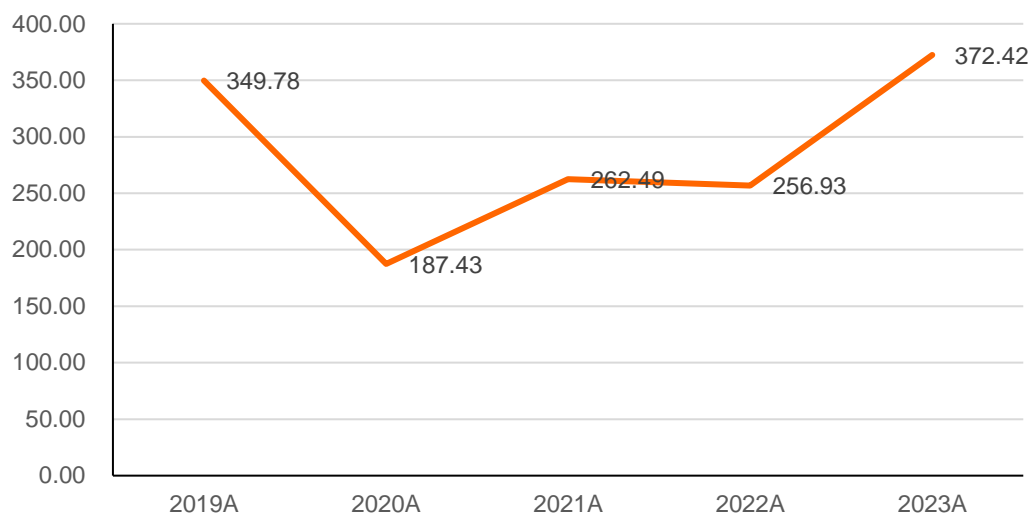
	2019A	2020A	2021A	2022A	2023A
Liquidity indicator					
Liquidity ratio (%)	83.72	83.02	87.79	73.47	80.14
Loan-to-deposit ratio (%)	73.53	70.57	80.08	77.14	80.35
Capital adequacy indicator					
Core tier-one capital adequacy ratio (CAR)	9.31	8.11	8.05	8.10	8.12
Tier-one CAR	9.31	10.01	9.75	9.72	9.61
CAR (%)	12.09	13.87	13.36	13.01	12.74
Leverage ratio (%)	6.81	6.77	7.08	6.69	6.88
Net core tier-one capital	6,848,771	7,252,125	8,005,333	8,481,934	9,211,130
Net tier-one capital	6,848,771	8,948,949	9,702,157	10,178,758	10,907,954
Net capital	8,891,351	12,399,788	13,297,005	13,623,503	14,453,601
Risk-weighted assets	73,539,932	89,382,809	99,502,890	104,753,548	113,482,896
RWA/Total assets (%)	80.2	75.2	74.0	70.5	72.0
RWA/Total loans (%)	165.0	150.6	133.3	126.5	122.7

Source: Company Data, Wind, uSmart

In terms of non-performing loan ratio and allowance coverage ratio, from 2019 to 2023, increased efforts in handling NPLs and loan growth led to a decline in Luzhou Bank's NPL ratio and an increase in its allowance coverage ratio. The NPL ratios were 0.94%, 1.83%, 1.42%, 1.53%, and 1.35%, respectively. In 2023, the NPL ratio decreased by 0.18pct from 2022 to 1.35%, which is 40BP lower than the national average for CCBs. The provision coverage ratio in 2023 was 372.42%, an increase of 115.49pct from 2022, marking the highest level in five years.

Figure 26: NPL Balance and NPL Ratio (2019-2023, '000 RMB, %)

Source: Company Data, uSmart

Figure 27. Non-Performing Loan Provision Coverage Ratio (2019-2023) (%)

Source: Company Data, uSmart

5. Profit Forecast and Valuation

5.1 Key Assumptions and Profit Forecast

Leveraging the Chengdu-Chongqing Double City Economic Circle and the development of Luzhou's "One Body with Two Wings" strategy, the company is actively contributing to urban and livelihood development in Luzhou. With its crucial role in financing key projects, the company's asset growth is expected to accelerate significantly. Projected growth rates for interest-earning assets are 17.50%, 16.20%, and 15.60% for 2024-2026. The company's refined management and interest margin control are expected to maintain a high net interest margin (NIM), projected at 2.55%, 2.62%, and 2.68% for 2024-2026. Asset quality is forecasted to remain stable, with non-performing loan (NPL) ratios at 1.31%, 1.25%, and 1.10%. Revenue growth rates for 2024-2026 are expected to be 33.16%, 23.21%, and 22.40%, while net profit attributable to shareholders is forecasted to grow by 47.60%, 31.65%, and 26.31%, respectively.

Table 11: Profit Forecast

'000 RMB	2021A	2022A	2023A	2024A	2025A	2026A
Revenue	3,776,319	3,901,997	4,770,347	6,352,401	7,826,961	9,580,564
YoY (%)	19.70%	3.33%	22.25%	33.16%	23.21%	22.40%
Net interest income	2,938,204	3,258,171	3,088,261	3,868,907	4,619,080	5,461,939
YoY (%)	6.59%	10.89%	-5.21%	25.28%	19.39%	18.25%
As % of revenue	77.81%	83.50%	64.74%	60.90%	59.01%	57.01%
INT-earning assets (Avg. Bal.)	117,856,846	132,343,244	129,124,972	151,721,842	176,300,781	203,803,702
YoY (%)	18.74%	12.29%	-2.43%	17.50%	16.20%	15.60%
Net interest margin	2.49%	2.46%	2.39%	2.55%	2.62%	2.68%
Net non-interest income	838,115	643,826	1,682,086	2,483,494	3,207,881	4,118,625
YoY (%)	110.43%	-23.18%	161.26%	47.64%	29.17%	28.39%
As % of revenue	22.19%	16.50%	35.26%	39.10%	40.99%	42.99%
Net fee and commission income	57,420	94,051	102,948	114,787	128,561	146,303
YoY (%)	1029.20%	63.79%	9.46%	11.50%	12.00%	13.80%
As % of revenue	1.52%	2.41%	2.16%	1.81%	1.64%	1.53%
Net gains on trading activities, financial investment, and others	780,695	549,775	1,579,138	2,368,707	3,079,319	3,972,322
YoY (%)	98.55%	-29.58%	187.23%	50.00%	30.00%	29.00%
As % of revenue	20.67%	14.09%	33.10%	37.29%	39.34%	41.46%
Operating expenses	1,507,790	1,575,183	1,722,652	2,197,931	2,622,032	3,161,586
As % of revenue	39.93%	40.37%	36.11%	34.60%	33.50%	33.00%
Operating profit before allowance	2,272,278	2,330,364	3,050,164	4,158,129	5,208,587	6,422,636
YoY (%)	14.62%	2.56%	30.89%	36.32%	25.26%	23.31%
Provision for ECL/impairment losses	1,337,972	1,315,882	1,799,374	2,312,274	2,778,571	3,353,197
Provision as % of revenue	35.43%	33.72%	37.72%	36.40%	35.50%	35.00%
Profit before tax	934,306	1,014,482	1,250,790	1,845,855	2,430,016	3,069,439
YoY (%)	26.21%	8.58%	23.29%	47.58%	31.65%	26.31%
Income tax expense	200,049	206,953	256,553	378,400	498,153	629,235
Tax rate (%)	21.41%	20.40%	20.51%	20.50%	20.50%	20.50%
Net profit	734,257	807,529	994,237	1,467,454	1,931,863	2,440,204
YoY (%)	27.46%	9.98%	23.12%	47.60%	31.65%	26.31%
NP attributable to S/H	734,257	807,529	994,237	1,467,454	1,931,863	2,440,204
YoY (%)	27.46%	9.98%	23.12%	47.60%	31.65%	26.31%

Source: Company Data, uSmart estimates

5.2 Comparable Companies and Valuation

We believe that the valuation of HKEX-listed city commercial banks provides a pertinent benchmark for the company's valuation. Given the pronounced cyclical fluctuations in bank net earnings, we incorporate the price-to-book (P/B) ratio as a valuation metric. Considering the company's robust growth strategy, precision in management, and operational efficiencies — with net interest margin consistently leading among HKEX-listed city commercial banks for the past two years — and the anticipated asset expansion driven by the Chengdu-Chongqing Double City Economic Circle development, the growth potential is substantial. We apply a 6.5x 2024E P/E (forward 1-year price-to-earnings ratio), translating to a 0.88x P/B ratio, resulting in a target price of HKD3.55 per share. We initiate coverage with a "Buy" rating.

Table 12: Multiples of HKEX-Listed City Commercial Banks

Ticker	Name	Price HKD	NIM		PE (X)			PB (X)	
			2022A	2023A	2023A	2024E	2025E	MRQ	+/-%
SEHK:2139	Gansu Bank	0.32	1.45	1.48	7.90	7.60	7.60	0.14	-46%
SEHK:6196	Zhengzhou Bank	0.77	2.27	2.08	10.30			0.15	-42%
SEHK:2066	Shengjing Bank	0.75	1.34	0.96	8.20	8.20		0.08	-69%
SEHK:9677	Weihai Bank	2.65	2.07	1.89	9.10	8.60	7.60	0.66	155%
SEHK:6190	Jiujiang Bank	6.24	1.91	1.76	11.80	10.75	10.38	0.50	93%
SEHK:6199	Guizhou Bank	1.54	2.22	1.77	5.60	5.60	5.00	0.44	70%
SEHK:3866	Qingdao Bank	2.2	1.76	1.83	3.70	3.70	2.78	0.37	43%
SEHK:1578	Tianjin Bank	1.71	1.70	1.65	2.70	2.50		0.14	-46%
SEHK:1916	Jiangxi Bank	0.79	1.98	1.75	3.10	6.30		0.11	-58%
SEHK:1963	Chongqing Bank	5.23	1.74	1.52	3.50	4.30		0.27	4%
SEHK:6138	Harbin Bank	0.34	1.55	1.43	20.90			0.06	-77%
SEHK:1216	Zhongyuan Bank	0.325	2.06	1.73	4.10	4.70		0.14	-46%
SEHK:2558	Jinshang Bank	1.38	1.32	1.36	4.00	4.00		0.32	23%
SEHK:3698	Huishang Bank	2.36	2.11	1.88	2.20	2.20	1.90	0.25	-4%
Average			1.82	1.65	6.94	5.70	5.88	0.26	
Median			1.84	1.74	4.85	5.15	6.30	0.20	
SEHK:1983	Luzhou Bank	2.15	2.46	2.39	6.09			0.57	120%

Source : As of May 10, 2024 , Capital IQ , uSMART

Ratings and related definitions

Company short-term ratings

Stock ratings of Buy, Hold and Sell have a time horizon of 6 months from the publishing date of the initiation or subsequent rating/price target change report issued for the subject company's stock.

Buy - The subject company's stock price should outperform the typical benchmark market index (eg. HSI) by 20% or above.

Hold - The subject company's stock price should outperform the typical benchmark market index by 5-20%.

Neutral - The subject company's stock price change is within $\pm 5\%$ compared to the benchmark index.

Rating Suspended - No judgment is made on the company's stock performance in the next 12 months.

Company long-term ratings

A - The company's long-term growth potential is above the industry comparable average level.

B - The company's long-term growth potential is in line with the industry comparable average level.

C - The company's long-term growth potential is below the industry comparable average level.

Sector ratings and definitions

Over the 6-month period from the publishing date of the initiation or subsequent rating/price target change, the performance of the industry index relative to the concurrent market benchmark (HSI) is used as the standard:

Overweight - The industry fundamentals are favorable, and the industry index outperforms the benchmark by more than 10%.

Neutral - The industry fundamentals are stable, and the industry index moves within $\pm 5\%$ of the benchmark.

Underweight - The industry fundamentals are weak, and the industry index is expected to underperform the benchmark by more than -10%.

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