China Investor Forum 2015 (Day one)

Highlights and key takeaways from Nomura’s China Investor forum in Shanghai

China Investor Forum 2015
On Wednesday, 9 September, at Pudong Shangri-la, Shanghai, we held the first day of Nomura’s conference China Investor Forum, 2015. Given the recent turmoil in China’s market, which ensued in the backdrop of RMB depreciation and concerns about slowing China, and the repercussions of which reverberated across the world, China has probably never piqued the interest of the investment community more so than it has done now. It was no surprise that the hall was packed for the morning’s presentation by Prof Zhan Wang on “Shanghai preparing for a new playbook – innovation via reform” and by Mr. Yansheng Zhang on the high-profile One Belt One Road (OBOR) project. However, there was much more than the presentation on leadership under President Xi, anti-corruption drive, top down reforms and economic diplomacy to exercise the minds of investors who turned up for the China Investor Forum 2015. An all-star line-up of keynotes and discussions went through everything from the marketisation reform and internet insurance in China’s Insurance space to the structural growth opportunities offered by China semiconductor to opportunities in Big Data and Cloud computing. For those who were unable to attend, the following pages should help you feel some of the vibe! Apart from brainstorming sessions with our very own strategists and economists, the two-day event (9-10 September) will feature panel discussions with a battery of internal and external experts from a vast array of industries and think tanks.

On the money
It was certainly not all about the big picture, with more than 80 of China’s leading companies on the ground. Our analysts and salespeople took copious notes at the public presentations and we have included them for your reference inside this report.

On the way
The conference continues tomorrow – check the agenda inside – and we will bring the action ringside again. As well, keep an eye on your inbox for company and sector notes from our analysts over the next couple of days.

Special thanks to all the analysts and salespeople on the ground who contributed to this report… now on to Day Two!

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.
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Keynote: Shanghai preparing for a new playbook – innovation via reform

Prof Zhan Wang, President, Shanghai Academy of Social Sciences (SASS) kicked off the set-list for the first day of the China Investor Forum 2015 with the key theme of how innovation via reforms is the new mantra for China’s future growth as historical double-digit growth looks elusive.

Forum Takeaways:
1. China has seen strong double-digit growth for the past three decades, led by five reasons:
   a) land and population dividend;
   b) exchange rate adjustments in early 1990s;
   c) tax reforms;
   d) participation in WTO;
   e) urban cluster.

2. He argued that we now have to look at the new normal for China – double-digit growth looks difficult as most benefits from the above measures cannot be repeated. It could be that we are left with tax reforms to still drive the growth.

3. He pointed out that there is no real consensus for the new normal or the speed of new normal, but it looks like 7% GDP growth is enough (6.2 - 7.5% range).

4. He also highlighted that the Central government is more positive than the State government, the government is more positive than corporates, new business/industry is more positive than Mfg. Innovation has to be the key for future.

5. Initiatives such OBOR, internet, EV etc. will be future growth drivers. Looking ahead, he highlighted that there is a need to update new opportunities for future growth and that the regulatory environment has to keep pace with financial reforms as well.
Keynote: One Belt One Road (OBOR) - the start of a multi-decade mega trend

Prof Zhang Yansheng, Secretary-General, NDRC was second in the line-up on the first day of the China Investor Forum 2015 with a comprehensive update on the progress and prospects of the high-profile One Belt One Road (OBOR) project. Its vision of connecting vast regions - Russia, Mongolia, SE Asia - under the umbrella of the new Chinese infrastructure is simply compelling.

Forum Takeaways:
Significant opportunity, high risk and high profitability

1. What is OBOR: An initiative for opening up to the outside world and the opening up of internal China started in 2013, with a detailed plan laid out in 2014 and implemented in 2015. We should see meaningful impact or fruitful results by 2020.

2. Why OBOR/opportunity: To establish new collaborative developments connecting internal China and developing countries, to establish cooperative mentality among different cultures, environments and to share the development but not destroy or exploit resources. For China, exports and imports were growing at 20% and above when GDP was growing at 10% and above, but now with GDP growth having slowed to 7%, exports/imports growth is now ~7%; thus, OBOR is needed to boost the latter, with a need to focus on foreign assets funded by Chinese capital.

3. How to implement OBOR: FTA reforms, phased manner development of OBOR covering various countries, use the entire nation’s resources to go behind this, attract global talent, advocate the opportunity and benefits from OBOR to one and all, adapt to new mix of FDI (post 2012 high value-added services and manufacturing attracting more FDI’s vs low cost labour from 2005-10).

4. Risks: Of course there will be risks, but returns can be profitable too. OBOR has to deal with many EM and developing countries/ economies, so there is political risk, social and cultural integration risk, profitability risk (payback period is long), needs significant investment, policy communication risk. Prof Zhang is fairly confident that this can be successful. He quoted an example of how China managed to succeed in places like Africa and HK (metro line project) with good returns despite the risks.

What should investors focus on?
Moving further into the discussion, Yang Zhao asked Patrick Xu what stocks he thought investors should focus on. Patrick highlighted CRRC (1766 HK, Buy) as a key beneficiary, as well as railway equipment, construction and heavy machinery companies like Sany Heavy (600031CH, Buy). Overseas expansion is likely to become a growth driver as these companies bid on new projects around the One Belt, One Road Infrastructure sphere of influence.

Until these orders are material, though, near-term concerns remain. For CRRC, this could lead to questions like: How will the merger impact margins? What synergies should we expect? Will CRRC sacrifice margins as it pursues global expansion?

During our Industrials Tour yesterday, CRRC stated that there is room to boost margins post-merger. Costs should come down and production efficiency are likely to improve. But when asked about the 170,000 employees, CRCC suggested that there may be some trimming but did not provide details. Management stated that there will be more disclosures after the 13th Five Year Plan. CRRC is Patrick’s top long-term pick, with his only concern being that many investors are already bullish on the name.

Also from the Industrials Tour, after visiting Foton Motor, we learned that Cummins diesel engines will not completely replace those from Weichai. Foton’s management suggested that Weichai still has a solid market position, albeit at the low/mid end of diesel engine market, whereas Cummins is positioned at the higher end.
Presentation: China Macro Outlook & Strategies

China’s macro outlook is probably the single most discussed topic by the international investors, and Nomura’s China Equity and Rate strategists and China Economist led this discussion at our China Investor Forum.

Forum Takeaways:
According to Wendy Liu, Nomura’s China Equity Strategist, policy makers’ inexperience with capital markets has led to several mishaps in managing the equity market’s correction raising questions over credibility, resulting in where we are today. That said, the extreme pessimism in the marketplace strongly suggests that we are near the bottom, just as the extreme optimism in April indicated the exact opposite. She thinks that near-term catalyst would be the 5th plenary session of the 18th Communist Party’s Central Committee in October.

On the fixed-income market, Nomura’s China Rate Strategist, Albert Leung expects 2H government bonds to trade in range, but policy and corporate bond spreads to narrow. He opined that stock margin is no longer a constraint on further easing, though total outstanding margin loans are still significantly higher than last year. Albert pointed out that wealth management yields still high relative to interbank rates. He believes that Stock Connect may drain CNH liquidity until A-share premium recovers. He highlighted that Dim Sum bond has weakened post RMB depreciation.

Discussing the China macro, Yang Zhao, Nomura’s China Economist, stated that financial sector accounted for larger contribution to GDP growth in 1H, especially as working capital from small and mid-size companies went into stock market. And after the market correction, this capital was lost. On the property market front, he highlighted that Tier 1 cities land supply / property sales was much lower than Tier 2-4 cities, which was supporting prices in Tier 1. However, in Tier 2-4 cities, oversupply is endemic and the pricing is weak.

In response to a question on RMB depreciation, the speakers concurred that it was not Beijing’s intention to depreciate the currency to stimulate the economy. Beijing was simply moving along with the market-based reforms that have been in the pipeline, but Beijing misread the capital market and misjudged the timing of the announcement, resulting in the sudden capital outflow and the negative impact on the market sentiment.
Keynote: Hong Kong Stock Connect programs

Mr Jin Liyang - Executive Vice President, Shenzhen Stock Exchange, shared updates on the progress of HK-Shenzhen connect, the differences between Shenzhen and Shanghai stock exchanges and the future prospects of Shenzhen stock exchange.

Forum Takeaways:

No real new developments in Shenzhen/ Hong Kong stock connect
Mr Jin highlighted that there were no real new developments in Shenzhen/ Hong Kong stock connect and the technical issues were still being ironed out and waiting for a green light from the respective regulators.

Difference between Shenzhen and Shanghai stock exchanges
He highlighted to investors the main difference between Shenzhen and Shanghai stock exchanges, including valuations - Shenzhen at 28x and Shanghai at 14x - Shenzhen is less known to international investors and is also much more dominated by retail money. The exchange is determined to increase the visibility of the index and wants to be noted for developing a multi-layered market system with many different structures – eg, has a main board, a GEM board, and an SME board. He conceded that the Shanghai Stock Exchange has more of a blue chip bias but that exciting new companies in high growth areas can be found in Shenzhen, eg, Vanke, Gree and Zoomlion, have Shenzhen listings but there is also a focus on digital, automotive technology, ecology, and internet, which can differentiate the exchange. He pointed out that 76% of China’s IT companies are listed in Shanghai.

Increasing cases of more sizeable M&A: He highlighted that more SMEs are now making more acquisitions off-shore while it used to be largely only SOEs that did in this in the past. This is definitely a trend to watch.

Shenzhen more suited for capital raising by SMEs, thanks to its multiple structures: Financing for SMEs is tough in terms of bank’s ability to fund. Looking ahead, Mr. Jin believes that the stock exchange can take a stronger lead on this and with multiple structures in Shenzhen there are more options for SMEs and start-ups. As well, the Shenzhen exchange together with CSRC is looking for more ways to support emerging businesses.

Since June's big sell off in A-shares has been soliciting public opinion and also looking to technology improvements. He concedes that share suspensions make complications for institutions.
Panel discussion: Structural growth opportunities in China semiconductor

Leping has consistently argued that companies like SMIC (981 HK, Buy) and Hua Hong Semiconductor (1347 HK, Buy) are long term beneficiaries of China, moving its technology industry from lagging to leading edge.

Leping moderated a session at Nomura's China Investor Forum (Shanghai) with Ms. Liu Yue, Partner and Executive Vice President of Hua Capital and Daniel Wang, CFO, Hua Hong Semiconductor.

Forum Takeaways:
Capital investment in the semiconductor sector: According to the panellists, there are headwinds across the semiconductor sector currently as growth rate globally has flattened out since 2000, but it is more of an oligopoly structure now than it was previously. This is the new area of mature growth and VC funding for chip start-ups has been on a downturn since 2006, but the percentage of semiconductor products in electronic products is still increasing – eg, in IOT, smart grid, new energy, automotive are all areas driving this. Though it is a mature industry it plays an elementary role across industries. Giant companies in the US and Europe are concentrating on a few areas. M&A is more prevalent to survive or as a counter strategy –ie, diverting older fabs to more specialised emerging sectors. The industry has seen record levels of M&A but Asia is still lagging here. Chinese semiconductor industry is plagued by low self-sufficiency rate as evidenced by the fact that 80% of the industry is lagging behind the industrial leaders in the western world and this does offer up opportunities.

Launch of the big fund can provide numerous opportunities
Design, manufacturing, assembly and packaging are focus with emphasis in particular on growing the design companies.

Moderator:
Leping Huang, PhD - NIHK
China Technology and Telecom Research, Nomura
leping.huang@nomura.com
+852 2252 1598

Panelists:
Daniel Wang
CFO, Hua Hong Semiconductor
Liu Yue
Partner & Executive Vice President, Hua Capital
Presentation: China's Capital account liberalisation and global fund flows

Forum Takeaways:
Dr. Kevin Gaynor, Global Head of Asset Allocation Strategy at Nomura, opened his presentation by contending that while China has a 21st Century trading system, in certain aspects, its financial system has elements of 18th Century. The intent to change this is, however, crystal clear. The capital account has to open up. Timing and objective is unclear though no one in the audience thought there would be a fully liberalised capital account by 2020. It is accepted that liberalisation can cause issues and is not a one-way process. This is now also recognised by the IMF. It is instructive, therefore to bear this in mind, in terms of expectations for China not least also because it is now accepted there is no relationship between capital account openness and growth. We should be braced for liberalisation albeit with Chinese characteristics.

China’s foreign assets are around 60% of GDP which lags behind those of US and Japan, whose foreign assets are about 120% of GDP but the latter two have expanded these dramatically in the last 15 years. Even if we assume China does move to close the gap and the GDP growth in China is maintained at 7.5%, meaningful flows are possible but the annual size is unlikely to represent a very large amount of current global market cap. An estimate puts flows at 1.6% of equities market cap or 0.7% of that of bonds. Not exactly a wall of money.

Liberalisation also has implications for inflows to China, but the general expectation is that outflows would dominate. However, in conclusion, the key inference of such a development seems likely to be a dramatic transformation of China's role and influence in global financial markets rather than implications for fund flows per se. A new global monetary regime given China's rising stock in the global financial markets and implication for increased volatility in particular is really what we need to be preparing for.
Panel discussion: Big Data and Cloud Computing's business opportunity in China

Forum Takeaways:
Panelists Mr. Jun Liang, Consultant and Former Vice President, Aliyun and Dr. Tao Lei, CEO, BeagleData discussed the Big Data and Cloud Computing's business opportunity in China.

As per Mr. Liang, the Cloud Computing market is $180bn this year and should reach $240bn by 2017. 2010-15 saw explosive growth, while 2015-20 should see the market mature.

Expounding on the same, Mr. Lei pointed out that Big Data market consists of Big Data Science, Products and Cloud components. IT focus becomes I (Information) - the arranging, ordering and sequencing of bits and pieces of information into knowledge. (Google's original vision was and still is to "organize the world's information"). Baidu (BIDU US, Buy), Weixin/Weibo also operate with this key principle in mind.

As per Mr Lei, bidding for Data is becoming essential to business infrastructure. Big Data also helps traditional industries to upgrade, from banks and insurance to municipal sectors like energy and public transport.

Moderator:
Leping Huang, PhD - NIHK
China Technology and Telecom Research, Nomura
leping.huang@nomura.com
+852 2252 1598

Panelists:
Jun Liang
Consultant and Former Vice President of Aliyun
Dr. Tao Lei
CEO, Beagledata
Panel discussion: China Insurance - Marketisation reform and Internet insurance

Forum Takeaways:

- According to Dr. Chen Wenzhi, Founder and CEO ZuiHuibao (China's first mobile-internet motor insurance aggregator), Internet insurance is expanding and should see double-digit growth in 4-5 years and the company can easily cross CNY4tn in market cap. It is expensive for insurers to obtain customers. There are 3mn agents and it is difficult to obtain compensation. There are difficult routes to market where there is room for expansion. The Insurance sector is highly regulated, companies rely on resources and if they are asset light, they cannot be deeply established.

- Dr Guo Renbin, Chief Actuary, China Continent P&C Insurance discussed the evolution of the sector. 2006 was a milestone year for China insurance where mandated third-party insurance was made mandatory. This created better protection for drivers. The second milestone was June 2015 where the principle of paying high premiums and seeing few services has changed. The new rule is in place and there is a new pricing mechanism. This had been more effective as premiums are closely correlated to risk. Users are more pro-active in buying insurance as it is becoming more fair. Commercial auto reform will continue to change. Different regions have different standards and Dr Renbin expects that it will become more standardised. In the future there is likely to be a divergence in insurance companies where stronger players will continue to be stronger.

- Mr. Delvin Cai, Vice General Manager of China Non-Life Business, Tower Watson (NASDAQ: TW) expects the premium reform to be complete by year-end. 2015 should not see impact. We are likely to see impact in 2016 when it will take effect. Big players will cut premiums; they can give subsidies and increase volumes. Small players are cutting prices to survive. Normally after a premium reform, market competition increases. The market should eventually move to a more mature state.

Moderator:
Shengbo Tang - NIHK
Head of HK/China Non-Bank Financials Research, Nomura
shengbo.tang@nomura.com
+852 2252 6210

Panelists:
Dr. Chen Wenzhi
Founder & CEO, ZuiHuibao
(China's first mobile-internet motor insurance aggregator)
Guo Renbin
Chief Actuary, China Continent P&C Insurance
Delvin Cai
Vice General Manager of China Non-Life Business, Tower Watson
Presentation: Leadership Under President Xi Jinping - Anti-corruption, Reforms and Economic Diplomacy

Forum Takeaways:

- Mr. Kato views the anti-corruption campaign as a means for Xi Jinping to consolidate political power, which has been quite effective: since the CCP’s 18th congress, 85 high-level officials (vice minister/vice governor-level and above) have been suspended. As well, notable is Xi’s power consolidation in the military. In the SOE space, 70 high-level SOE officials were suspended last year, which Kato believes is connected to SOE reform. For instance, the 17 officials out of the 70 that were from the energy sector may be a necessary prelude to an effective push in the ‘green economy’ initiatives. However, the party’s concern about the outflow of state asset poses a great challenge to any meaningful progress in SOE reform. Mr. Kato does not see an end to the anti-graft campaign yet – at least not until 2017 when Wang Qishan retires. Stakes are high for President Xi Jinping to push forward reform measure with the level of power consolidation that has been achieved thus far.

- On economic policy, Li Keqiang’s hands are tied as he needs to strike a balance between his economic reform agenda and a structural slowdown in China’s economy. With this, Li Keqiang is limited to more realistic reform measures such as deregulation (eg, easing business registration) and encouraging innovation and start-ups. Noticeably, after the recent volatility in the financial markets, Xi Jinping has stepped back in commenting on the economy while the Prime Minister and Minister of Finance have become more visible (eg, as evident during the G20 meeting).

- On economic diplomacy, Xi Jinping conveys a more ambitious characteristic, with an intention to extend China’s influence in the international realm. This is evident in the AIIB and One Belt One Road initiatives, for example. On the former, with far more founding members than previously expected (57 founding members), Kato thinks the task to operating a China-led investment bank has become more cumbersome.

- On the economy, Kato identified urbanization as a true growth potential. Risks to a sustained economic growth lie in the unfavourable demographic trends and the absence of political reform.
Company updates

China Life Insurance: 39% y-y growth in 1H15; targets double-digit for full year

(2628 HK, Buy, Target price: CNY41.39)

We hosted China Life Insurance, at Nomura's China Investment Forum. Below we highlight the takeaways from the presentations by Lan Yuxi (Securities Affairs Representative, Secretary-General of Board Secretariat), Zeng Tian (Manager, Board Secretariat, Investor Relations Division) and Zhang Linfu FSA, FCAA (Senior Manager, GAAP Valuation Division, Actuarial Dept.)

**Forum Takeaways:**

- **Agency:** China Life newly recruited 200k new agents in 1H15 vs. target of 50k for the whole year. The total agent number is over 949k now. The number of agents should continue to grow in 2H15, but at a lower speed. The high agency growth is also driven by pressure from Ping An, which has a very aggressive agency expansion plan.

- **Bancassurance:** The strategy is to focus on regular premium product in this channel.

- **Investment:** The overall strategy is to increase non-standard investments. The target for equity allocation is 15%. China Life intends to lower the high quality bond allocation and reinvest into lower quality bond (ie, from AAA to AA) to increase the investment yield. Currently, 16% of investment is in equity (99% A share), which includes 3% non-listed equity and some preferred shares (very limited).

- **NBV:** Achieved 39% y-y growth in 1H15; target for full year is double-digit. 2H15 growth will likely be lower, as most of the target has been achieved in 1H15, which is the pattern of the life industry (if still aggressive in sales in 2H15, a very high base is likely to be created for next year as well as high KPI ratios, resulting in a great penalty if the target is not achieved)

For more details, please refer to the note below:

[Anchor Report: China insurance - Sunnier times ahead for life insurers](#)

L'Occitane: Stronger momentum for FY3Q likely with new product launches

(973 HK, Buy, Target price: HKD25)

We hosted L’Occitane, a global, natural and organic ingredient-based cosmetics and well-being products retailer, at Nomura's China Investment Forum. Below we highlight takeaways from presentations by Ms. Olivia Wang, director of investor relations:

**Forum Takeaways:**

- **Increased momentum:** Management expects increased sales momentum in the run-up to Christmas with new product launches and higher ASPs. The company is also focusing on increasing brand awareness, as Asian consumers do not regard it as a face care product and European consumers see it as for older people.

- **Acquisitions:** The company will focus on bigger acquisitions particularly companies focusing on colour cosmetics and products using natural ingredients.

- **Financials:** Nearly 10% of all sales are made on online and management aims to increase this to 20%. Sales in local currency terms in China grew 26%, Hong Kong fell 8%, Japan grew 8%, Brazil 15%, Russia 13% and US was flat. Some 35% of currencies were hedged against the EUR.

For more details, please refer to the note below:

[Quick Note - L’Occitane (973 HK, Buy) - 2H outlook still bright; product la](#)
Samsonite: A new focus
(1910 HK, Buy, Target price: HKD30)

We hosted Samsonite, which is principally engaged in the design, manufacture, sourcing and distribution of luggage, business and computer bags, outdoor and casual bags, and travel accessories, at Nomura's China Investment Forum. Below we highlight takeaways from presentations by William Yue, director of investor relations:

Forum Takeaways:
• **1H15 results in line with the expectation**: Results were in line on a constant (local) currency basis (ie, LC sales +17% y-y). In Asia, China sales are continuing to recover from 2H14, with +30% y-y in 1H. The company adjusted product line-ups to meet the changing taste of Chinese consumers, which has apparently shifted towards more value rather than luxury after the anti-corruption campaign. Korea has begun to see recovery in the recent months after a slowdown during MERS. The reported numbers do not reflect this properly as the company reports in USD while the sales occur in multiple currencies.

• **Integration of new brands new focus**: Management will focus more on the integration of the recently acquired brands for the next 6-12 months, rather than actively look for M&A targets. There are still some openings in its portfolio that it would like to fill via M&As, but in the near term, it is more concerned with the integration.

• **2H15 sales to normalise**: The launch of the new brands implies 2H15 sales should normalise to around 10-12% y-y level as the one-off lift in sales from acquired brands has passed. Given the company is still in investment mode on the newly acquired brands and new channels, EBITDA margin may not improve much (flat to down). From 2016 onwards, however, the margin should resume upward trajectory as the benefits from the integration start to kick-in. Management stated that this has been a proven strategy for Samsonite in the last few years – it has turned around many newly acquired brands using its expertise in logistics, supply chain management, etc.

For more details, please refer to the note below:
Samsonite (1910 HK, Buy) - Looking beyond FX, growth is key

Sunny Optical Technology Co Ltd: Overseas expansion and better product mix lead to high growth
(2382 HK, Buy, Target price: HKD17.6)

Forum Takeaways:
We hosted Sunny Optical, a leading company in integrated optical device manufacturer and optical imaging system solution provider, at Nomura's China Investment Forum. Below we highlight takeaways from the presentation by Yang Sun CEO:

• **Higher growth**: Chinese OEM expansion overseas and product mix upgrade are driving higher growth.

• **Dual camera module**: Average selling prices are more than double one camera module. Sunny has 30% of the China domestic module market. Last year 13MP revenue contribution was only 2.2%, and management expects this to be 5-10% this year. The product quality is quite similar to that of Largan and able to launch 13MP ultra-thin product. OPEX target is 8-8.5%.

• **China**: Sunny expects the next two years’ growth rate will be stable with 400mn smartphone. 2H is usually better than 1H in terms of margins.

For more details, please refer to the note below:
Sunny Optical (2382 HK, Buy) - Lens to weather storm of handset slowdown
**TCL Communication Tech: Leading China brand but facing headwinds**

(2618 HK, Buy, Target price: HKD10)

We hosted TCL, one of the fastest-growing mobile vendors with a broad range of mobile and internet products available in over 100 countries worldwide, at Nomura's China Investment Forum. Below we highlight takeaways from presentations by Louis So, Director Investor Relations:

**Forum Takeaways:**
- **TCL is a leading brand but facing headwinds**: TCL is number eight brand in global smartphone market. It is the number one Chinese brand in overseas market. However it is facing much headwind from the slowdown in smart devices sales globally. Particularly for TCL as over 60% of sales are from emerging markets. Economic slowdown and weakening currencies in EMs are hurting demand for smartphones. ASPs are also under pressure.
- **Financials**: Forex fluctuations are hurting TCL in terms of higher hedging and insurance costs for its sales from emerging markets. TCL tends to hedge sales proceeds from these countries. Margins have been affected as a result. In 1H15, revenue rose 8% but PAT rose only 3%. GPM fell slightly to 19.3%.
- **Strategy**: Its currents strategy is to try to maintain sales and profit levels. It is TCL able to gain some market share from tier one names like Samsung, etc. Its customers, notably operators (78% of sales), are starting to trade down in terms of now procuring smartphones from lower tier suppliers like TCL vs previously sourcing from Tier 1 suppliers like Samsung only. But this is coming from a low base.

For more details, please refer to the note below:

Quick Note - TCL Communication Tech (2618 HK, Buy) - 2Q15: revenues miss due to FX fluctuations

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**Tianneng Power: Stronger second-half expected**

(819 HK, Buy, Target price: HKD5.80)

We hosted Tianneng, a company engaged in R&D, production, and sale of motive, wind, and solar power storage batteries, at Nomura's China Investment Forum. Below we highlight takeaways from presentations by Steve Shan Vice Manager, Securities & Investment Department and Wang Zhikun VP:

**Forum Takeaways:**
- **Company guidance**: Management guided for a higher profits in 2H than 1H as there is more room for average selling prices to rise, as they moved slightly higher in August but there is still uncertainty over the extent of any 4Q weakness. Management believes ASP could reach a peak of RMB480 over the next few years.
- **A period of consolidation and company strategy**: The company stated that 2015 is the last year for consolidation as next year all ‘unqualified’ supply would be eliminated. The company wants to reduce reliance on lead acid battery business and grow its three new businesses mini electric car battery, lithium battery and used battery recycling. Together they contributed 13.5% of total revenues in 1H, but the company targets this to be 80% in the long run. This would reduce the sensitivity of its margins and profits to lead acid battery ASP changes.
- **Segments**: The mini electric car battery is the most promising segment, growing 88% y-y in 1H thanks to strong demand for mini electric cars (+40% CAGR 2009-2020F. The government support for the sector should help maintain demand. This segment produces the highest GPM for the company at 23% and it has the highest market share at 55%. Lithium batteries not used equally between cars and batteries although demand from cars is expected to increase. The company’s GPM for this sector is stable at 16%.

For more details, please refer to the note below:

Quick Note - Tianneng Power (819 HK, Buy) - Takeaways: positive on ASP hike
Wanda Cinema Line Co: 1,000 cinemas in five years’ time
(002739 CH, Buy, Target price: HKD170)

We hosted Wanda Cinema Line Co, a company primarily engaged in the investment, construction, operation and management of cinemas, at Nomura's China Investment Forum. Below we highlight takeaways from presentations by Ms. Joanna Mao (Securities manager):

Forum Takeaways:
• **Biggest cinema operator in China**: Wanda operates 202 cinemas in China, with more than 1,800 screens and 131 iMAX screens. It has 13-15% market share. In 2015 it plans to open 43 new cinemas, 70 in 2016, 80 in 2017 and 100 in 2018 with a target of 1,000 cinemas in five years.

• **Average cinema economics**: A new cinema requires RMB25mn in capex, 11-12 months to breakeven and will return the investment in six to seven years. Current seat occupancy is 24% and average screen revenue is RMB2.2 to 2.4mn per year. Some 70% of tickets are sold via the internet, 30% from the company website and 40% as group purchases. It has 40mn members and these members watch seven to eight movies a year.

• **Financials**: Wanda Cinema Line is in a net cash position and the parent provides strong financial support. The company has seen a lot of overseas interest since listing as one investor mentioned it is difficult to find companies like Wanda with 50% growth each year.

For more details, please refer to the note below:
Anchor Report: China movie - Record-breaking growth

**Analyst:**
Richard Huang - NIHK
richard.huang@nomura.com
+852 2252 6197
Cosmo Lady: The largest branded intimate wear enterprise in China
(2298 HK, Not rated)
We hosted Cosmo Lady, a company that designs, researches, develops and sells female intimate wear, at Nomura's China Investment Forum. Below we highlight takeaways from presentations by Wanhua Zhang, Investment Manager and Charles Shen, Assistant Manager, Corporate Finance:

Forum Takeaways:
• A leading brand: Cosmo Lady after the acquisition of Ordifen is the largest branded intimate wear enterprise in China with 3.2% market share. The price points of its products are RMB30 to RMB150 and its direct competitors are Victoria’s Secret, Marks & Spencer and Wacoal.
• E-commerce encouraging: Its e-commerce business recorded revenue growth of 1,062% in 1H FY15 which the company said was encouraging although it still only accounts for 2% of revenues. Major platforms are Tmall.com, VIP.com and JD.com.
• Financials: 1HFY15 total revenues grew 27.2% while gross profit margin grew to 44.7% from 40.1%. Net profit was RMB270.4mn, 40.7% y-y growth.

Haitong Securities: Structural reforms to take time
(600837 CH, Not rated)
We hosted Haitong Securities, a major securities firm in China providing services in stocks and futures brokerage, as well as investment banking, corporate finance, M&A, asset management, mutual fund and private equity, at Nomura’s China Investment Forum. Below we highlight takeaways from the presentation by Board Secretary, Huang Zhenghong:

Forum Takeaways:
• Structural reforms to take time: The company acknowledged that it did not fully agree with the government’s market intervention but conceded that structural reforms take time. Several measures are having a positive impact on risk, such as the push to make margin settlement T+1 which results in investors becoming more rational and has reduced day trading. The company contributed 20% of its funds to CSF but it did not disclose what assets it bought but the company indicated it would breakeven at SHCOMP 3500 but result in losses below 3000.
• Not bearish going forward: The company is not particularly bearish going forward, as it believes daily trading volume can return to RMB500-800b by 4Q as account openings remain robust and see continued commitment to market participation. The company has lowered its net margin financing exposure from a peak of RMB110-120bn to RMB60-80bn balance with no substantial losses. The regulator also loosened forced liquidation line from 150% to 130% which helped and clients usually proactively top up or reallocate capital before getting to that point.
• Business overview: The company maintained 6-7% market share of account openings over July and August. The numbers were lower than 1H but up year-on-year, commissions were down m-m but slightly positive y-y. Rates for margin financing now 8% from 8.6%. The company is now focusing on less cyclical and lower risk business of stock pledges or collateralised lending. IPO should pick up and asset management business improved, and overseas Hong Kong may see 1H>2H but still up y-y.
Huadian Fuxin: Expanding capacity
(816 HK, Not rated)
We hosted Huadian Fuxin, China’s leading clean energy company with diversified power generation combinations, at Nomura’s China Investment Forum. Below we highlight the takeaways from the presentations by Dongsheng Lin (Securities Dept Associate Director) and Jessie Lee (Securities):

Forum Takeaways:
• **Wind Power**: Operating capacity grew 37.5% in 1H15 and the pace should be sustained in 2H15 as newly approved projects and projects under construction remain robust. In July, utilisation improved slightly too. Operating income grew at 33% in 1H15 and management is confident that >30% growth for the full year is achievable.
• **Hydropower**: 1H15 was weak with low water volume and hydropower output dropped 24% y-y. However, there was a strong recovery in August.
• **Thermal power**: Operating capacity should remain stable. While power output dropped single digit, input cost of coal is also dropping. Thermal power provides good cash flow for company.
• **Financials**: Capex increased 30% this year as the company installs more wind capacity ahead of tariff cuts. Capex should be lower next year. Although gearing is high at >200%, the company will rely on internal cash flow to fund capex. Financing cost is reasonable at 5.72% and the dividend will remain at 25%.

Jumei International: Number one beauty product retailer
(JMEI US, Not rated)
We hosted Jumei International, is China’s No. 1 online retailer of beauty products as measured by gross merchandise volume, at Nomura’s China Investment Forum. Below we highlight takeaways from presentations by Mr. Sterling Song, IR manager:

Forum Takeaways:
• **Jumei Global to become major contributor**: Jumei Global will eventually become a major contributor to the top-line and direct merchandise will be left with international brands not sourced directly from overseas, private labels and local brands. Currently the company carries 12k-13k SKU's for Jumei Global, higher 2Q inventory was due to new baby products procurement and inventory accumulation ahead of sales events, 3Q/4Q level should be lower. The company expects 2H16 operating leverage fall as new customer acquisition costs.
• **CFDA approval loophole to remain**: Products bought through Jumei Global do not need CFDA approval, the company does not think the government will close this loophole as it supports cross-border e-commerce, the company says there has been talk that the 50% passenger parcel tax rate for beauty products may be cut or waived to encourage growth in the sector.
• **Financials**: FY15’s bottom line was flat compared to the previous year as the company concentrated on the top line. The company’s margins narrowed as lower-margin baby products sales increased, higher fulfillment cost for Jumei Global GMV (gross merchandise value) increased to 9.85% in 2Q15 from 6.7% in 2Q14 as products procured overseas.
Kingsoft: Leading internet software developer, distributor and service provider

(3888 HK, Not rated)

Forum Takeaways:
We hosted Kingsoft, a leading internet based software developer, distributor and service provider in China, at Nomura's China Investment Forum. Below we highlight takeaways from the presentation by Francis Ng, CFO:

• **Cheetah Mobile largest revenue contribution**: 2Q15 revenue contribution from Cheetah Mobile was 66% with its user base 1.5bn installation with mobile MAU 494mn and 23% contribution was from online games.

• **Cloud division** does not disclose revenue growth but it made an USD1bn investment in cloud storage and computing. IT outsourcing is a major trend. Infra anchor customer is Xiaomi (more than 50% revenues). The company focusses on 2B and doesn’t do 2C. The company charges Xiaomi on a cost plus basis and Xiaomi offers it free to its retail clients. Focus here is not to get break-even. Recall that Amazon was loss-making for a few years. Aliyun was started five years ago. And Apple cloud is actually supported by multiple companies. IT staff salary probably was raised 100-300pct per person as they upgraded staff quality.

• **WPS**: This segment remained stagnant.

Midea Group Co Ltd: Concentrate on quality not price, despite high inventory and poor air conditioner sales

(000333 CH, Not rated)

We hosted Midea, a leading consumer appliances and heating, ventilation and air-conditioning (HVAC) systems manufacturer, at Nomura's China Investment Forum. Below we highlight takeaways from the presentation by Chengsi Liu, manager of investor relations:

Forum Takeaways:

• **High inventory and poor air conditioner sales**: The company has high inventory of air-conditioners, which it attributed to the cool summer in 2014 rather than a slow property market. The company expects sales to decline further this year before picking up next year.

• **Concentrate on quality not price**: Midea is keen to avoid a price war even though competitors are becoming increasingly aggressive. Management focuses on quality rather than price. Two major names in the China air-conditioner market are Gree and Midea.

• **Distribution**: Online revenue the company expects to be RMB16bn this year.

• **O2O**: Midea will build 4,000 flagship stores and traditional distributors will concentrate more on after-care services and logistics than sales.

• **Advertising**: Midea is going to use more new media such as internet for its advertising.

• **Financials**: The company stated that 50% of net profits was returned to shareholders by means of dividends and share buy backs.
Phoenix Healthcare: Eying better growth in 2016

(1515 HK, Not Rated)

We hosted Phoenix Healthcare, the biggest private hospital operating group in China, at Nomura’s China Investment Forum. Below we highlight the takeaways from the presentation by Mr. Tian Xia, Secretary of the Board Investor Relations:

Forum Takeaways:
• 60% free float: 40% of the shares are controlled by company/management while 60% of shares are free float.
• 15 hospitals under management, of which 8 are Tier 1: Currently, the company manages 15 hospitals, which are all public hospitals, in which, there are 8 Tier 1 hospitals, 5 Tier 2 and 2 Tier 3. 95% of the patients are covered by national healthcare insurance. The company plans to build more IOT (Internet of Interests) hospitals going forward.
• Lower doctor turnover ratio: Phoenix pays double the salary to its doctors vs. the average. As a result, doctor turnover ratio stands at 7% vs. an average of 12-15% in Beijing.
• Competitors: City Group, China Resources, Beijing University, etc. are the noteworthy competitors. But as per Phoenix, the market is big enough and it believes “Competitors are actually a help in educating the market”.
• Better Growth next year: The company expects the organic growth in 2H2015 to be in-line with the growth witnessed in 1H but expects better growth in next year due to the contribution from the new hospital in Baoding city. The company doesn’t give any official guidance number though.
• New hospital in Baoding to be profitable from next year: The New hospital in Baoding will sign contract next month and is supposed to start generating profits from 2016.
• Government policy is the biggest concern: The biggest concern remains government policy. Currently, local governments have become very conservative due to anti-corruption campaign, and that has become a major bottleneck for further expansion of the company at the moment.

Sinopharm: Above industry growth: maintain above industry revenue growth guidance of 3-5% this year and higher bottom-line growth

(1099 HK, Not rated)

We hosted Sinopharm, the largest pharmaceutical and healthcare group under State-Owned Assets Supervision and Administration Commission of the State Council, at Nomura’s China Investment Forum. Below we highlight takeaways from presentations by Chuan Li, vice director:

Forum Takeaways:
• Revenue and sector growth: Sinopharm maintained revenue guidance of 3-5% above industry growth this year and higher bottom line growth. Overall, pharmaceutical industry growth has been sluggish as GDP growth slows, new government policies such as provincial drug tendering particularly in 2H. However, volumes continue to improve as the population ages and health awareness increases. Although drug prices are falling and hurting revenues, management believes it can get compensation a few months later to maintain GPM.
• Imports: Imported MNC product ratio was lowered to 44-45% of total sales (vs 47-48% previously); the company has stronger bargaining power with domestic product manufacturers, so the higher domestic product ratio translates to higher margins.
• Distribution channel undergoing consolidation: The pharmaceutical distribution business is in the process of consolidation, and the company stated that it can remain a leader in the sector thanks to its strong national network. Management stated that is also looking for acquisitions and is expanding into new areas. Hospitals comprise 70% of sales. The retail market is much more fragmented with 40,000 stores, of which the company has 3,000 but only 2-3% market share.
## Agenda: Wednesday, 9 Sep, 2015

### Agenda Day 1  (All speakers confirmed unless indicated)

**Wednesday, September 9**

<table>
<thead>
<tr>
<th>Time</th>
<th>Location</th>
<th>Session/Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:00 AM</td>
<td>Pudong Shangri-La, The River Wing, Shanghai</td>
<td>Breakfast and Registration</td>
</tr>
<tr>
<td></td>
<td>Grand Ballroom, River Wing, Level 3</td>
<td>Opening Remarks</td>
</tr>
<tr>
<td>8:55-9:00 AM</td>
<td>Mr. IWASAKI Toshihiro, Senior Managing Director of Nomura Holdings, Asia Strategy (China) and Deputy President, Nomura Securities</td>
<td>Welcome Address: Mr. Guangsheng TUI, Executive Vice Mayor of Shanghai*</td>
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<tr>
<td>9:00-9:15 AM</td>
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<td>Keynote Address: Shanghai preparing for a new playbook - innovation via reform</td>
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<td>9:00-9:15 AM</td>
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<td>*Keynote: Professor WANG Zhan, President, Shanghai Academy of Social Sciences (SASS)</td>
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<tr>
<td>9:15-9:50 AM</td>
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<td>Parallel: Mr. Jeffrey GAO, Head of China Property Research, Nomura</td>
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<tr>
<td>9:15-9:50 AM</td>
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<td>Mr. ZHAO Yang, China Economist, Nomura</td>
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<tr>
<td>9:15-9:50 AM</td>
<td></td>
<td>Moderator: Ms. Wendy LU, Head of China Equity Research, Nomura</td>
</tr>
<tr>
<td>10:00-1:00 PM</td>
<td></td>
<td>Morning Refreshments</td>
</tr>
<tr>
<td>10:30-11:00 AM</td>
<td>Changan Room, River Wing, Level 3</td>
<td>Panel Discussion: China property - sales and financing go online</td>
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<tr>
<td></td>
<td></td>
<td>Moderator: Mr. Jeffrey GAO, Head of China Property Research, Nomura</td>
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<td></td>
<td>Mr. Jack YANG, President, Greenland Financial Services</td>
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<td>Dr. Hua LEI, Deputy CFO, SOfin</td>
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<tr>
<td>11:00-11:50 AM</td>
<td>Grand Ballroom, River Wing, Level 3</td>
<td>Lunch Keynote Address: Hong Kong Stock Connect programs</td>
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<tr>
<td>11:00-11:50 AM</td>
<td></td>
<td>Keynote: Mr. JIN Liyong, Executive Vice President, Shanghai Stock Exchange</td>
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<tr>
<td>12:00-1:20 PM</td>
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<td>Ms. Sophie JIANG, Head of HKChina Banks Research, Nomura</td>
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<tr>
<td>12:00-1:20 PM</td>
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<td>Mr. Shengbo TANG, Head of HKChina Non-Bank Financials Research, Nomura</td>
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<tr>
<td>12:00-1:20 PM</td>
<td></td>
<td>Moderator: Ms. Wendy LU, Head of China Equity Research, Nomura</td>
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<tr>
<td>1:30-2:20 PM</td>
<td>Changan Room, River Wing, Level 3</td>
<td>Panel Discussion: Structural growth opportunities in China semiconductor</td>
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<tr>
<td>1:30-2:20 PM</td>
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<td>Moderator: Mr. Leping HUANG, China Technology and Telecom Research, Nomura</td>
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<td>1:30-2:20 PM</td>
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<td>Ms. UU Yui, Partner &amp; Executive Vice President, Hua Capital</td>
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<tr>
<td>2:30-3:20 PM</td>
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<td>Panel Discussion: Smart drive technologies and its commercialization</td>
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<tr>
<td>2:30-3:20 PM</td>
<td></td>
<td>Moderator: Mr. Leping HUANG, China Technology and Telecom Research, Nomura</td>
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<tr>
<td>2:30-3:20 PM</td>
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<td>Dr. James HU, Founder &amp; CEO, Wissenstar (leading smart drive algorithm developer)</td>
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<tr>
<td>3:20-3:30 PM</td>
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<td>Afternoon Refreshments</td>
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<tr>
<td>3:30-4:20 PM</td>
<td></td>
<td>Panel Discussion: Big Data and Cloud computing’s business opportunity in China</td>
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<tr>
<td>3:30-4:20 PM</td>
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<td>Moderator: Mr. Leping HUANG, China Technology and Telecom Research, Nomura</td>
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<tr>
<td>3:30-4:20 PM</td>
<td></td>
<td>Mr. Jin LIANG, Consultant and Former Vice President of Aiyun</td>
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<td>3:30-4:20 PM</td>
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<td>Dr. Tao LEI, CEO, Beigledata</td>
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<tr>
<td>4:30-5:20 PM</td>
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<td>Presentation and Demonstration: Human robotics and AI</td>
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<td>4:30-5:20 PM</td>
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<td>Dr. Puhan SUN, Al Professor, Tsinghua University</td>
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<td>4:30-5:20 PM</td>
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<td>Mr. Scott Qi, China Sales Director, Adebaran Robotics (a subsidiary of SoftBank)</td>
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<tr>
<td>4:30-5:20 PM</td>
<td></td>
<td>Mr. Leping HUANG, China Technology and Telecom Research, Nomura</td>
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<tr>
<td>4:30-5:20 PM</td>
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<td>Ms. Caren HUANG, Taiwan Machinery Research, Nomura</td>
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</table>
## Agenda: Thursday, 10 Sep, 2015

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
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</thead>
<tbody>
<tr>
<td>8:00 AM</td>
<td>Breakfast and Registration</td>
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</table>
| 09:00-09:50 AM | Keynote Address: Innovation & Made in China  
**Keynote:** Professor ZHANG Jingan  
*Academician of the China Science Centre at International Eurasian Academy of Sciences (IEAS), President of China Science and Technology System Reform Association, and President of China Association of Science and Technology Industry Parks*  
**Panelists:**  
Mr. Patrick YU, China Industrials Research, Nomura  
Moderator: Ms. Wendy LIU, Head of China Equity Research, Nomura  
*Changan Room, River Wing, Level 3*  
*Suzhou Room, River Wing, Level 3* |
| 10:00-10:50 AM | Keynote: End of Copycat China - consumer and underlying economic changes in China  
Mr. Shaun REIN, Managing Director, China Market Research Group  
Moderator: Mr. Michael KURTZ, Global Head of Equity Strategy, Nomura  
*Changan Room, River Wing, Level 3*  
*Suzhou Room, River Wing, Level 3* |
| 10:50-11:00 AM | Panel Discussion: How can the China semiconductor industry benefit from "Made-in-China 2025" plan?  
Moderator: Mr. Lepling HUANG, China Technology and Telecom Research, Nomura  
*Panelists:*  
Dr. Yonggang GAO, CFO, SMIC  
Mr. Weimin GU, Founder, iCwise (largest semiconductor consulting firm in China)* |
| 11:00-11:50 AM | Presentation: Shifting trends and destinations of Chinese outbound tourism  
Mr. NITTSU Kenichi, President, USP Japan (Japan inbound tourism consultancy)  
Ms. Li Ran, China Representative, China Outbound Research Institute  
Moderator: Mr. SHODA Masafumi, Head of APAC Consumer Research, Nomura  
Mr. Richard HUANG, China Gaming, Lodging & Leisure Research, Nomura  
*Changan Room, River Wing, Level 3*  
*Suzhou Room, River Wing, Level 3* |
| 12:00-1:20 PM | Lunch Keynote Address: SDE reform  
**Keynote:** Mr. SHAO Ning, Vice Chairman of NPC Economic Committee and former Vice Chairman of SASAC  
Moderator: Mr. ZHAO Yang, China Economist, Nomura  
*Changan Room, River Wing, Level 3*  
*Suzhou Room, River Wing, Level 3* |
| 1:30-2:20 PM | Presentation: Future tense - Business and Asia’s balance of power  
Mr. Alastair NEWTON, Co-founder & Director, Alavan Business Advisory  
*Panel Discussion: Evolving business models to survive in a slowing China Auto market  
Moderator: Mr. Benjamin LO, Head of China Autos & Auto Parts Research, Nomura  
Mr. Joseph WONG, China Autos & Auto Parts Research, Nomura  
*Panelists:*  
Ms. LANG Xuehong, Deputy Secretary-General, China Auto Dealer Association  
Mr. John ZENG, Managing Director, LMC Automotive  
*Changan Room, River Wing, Level 3*  
*Suzhou Room, River Wing, Level 3* |
| 3:20-3:30 PM | Afternoon Refreshments                                                 |
| 3:30-4:20 PM | Presentation: Can China be the next Korea or Japan in cosmetics market?  
Moderator: Ms. Katherine CHAN, China Consumer Discretionary Research, Nomura  
*Panelists:*  
Mr. WILLIAM WU, Founder and CEO, Wujiangang Brand Consulting  
*Panel Discussion: Alternative Education - Bridging the gap between Chinese and Western Cultures  
Moderator: Mr. Andrew Orchard, China Internet and Media Research, Nomura  
*Panelists:*  
Ms. SARA HO, Founder & Principal, Institute Santa  
Mr. John HUEN, Founder & CEO, Kodung Kingdom* |
Appendix A-1

Analyst Certification

I, Asia Ex-Japan Research Team, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Materially mentioned issuers

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<th>Ticker</th>
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<th>Price date</th>
<th>Stock rating</th>
<th>Previous rating</th>
<th>Date of change</th>
<th>Sector rating</th>
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<td>002739 CH</td>
<td>CNY 158.51</td>
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<td>Buy</td>
<td>Not Rated</td>
<td>05-Mar-2014</td>
<td>N/A</td>
</tr>
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Important Disclosures

Online availability of research and conflict-of-interest disclosures
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47% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 42% of companies with this rating are investment banking clients of the Nomura Group*. 42% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 55% of companies with this rating are investment banking clients of the Nomura Group*.
11% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 21% of companies with this rating are investment banking clients of the Nomura Group*.
As at 30 June 2015. "The Nomura Group as defined in the Disclaimer section at the end of this report.

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The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS
A rating of "Buy", indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of "Neutral", indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of "Reduce", indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of "Suspended", indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as "Not rated" or shown as "No rating" are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: United States: S&P 500; Europe: Dow Jones Stoxx 600; Global Emerging Markets (ex-Asia): MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; Japan: Russell/Nomura Large Cap.

SECTORS
A "Bullish" stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A "Neutral" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A "Bearish" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as "Not rated" or shown as 'N/A' are not assigned ratings. Benchmarks are as follows: United States: S&P 500; Europe: Dow Jones Stoxx 600; Global Emerging Markets (ex-Asia): MSCI Emerging Markets ex-Asia, Japan/Asia ex-Japan: Sector ratings are not assigned.

Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013
STOCKS
Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst’s 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc. A "Buy" recommendation indicates that potential upside is 15% or more. A "Neutral" recommendation indicates that potential upside is less than 15% or downside is less than 5%. A "Reduce" recommendation indicates that potential downside is 5% or more. A rating of "Suspended" indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company. Securities and/or companies that are labelled as 'Not rated' or shown as 'No rating' are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS
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Target Price
A Target Price, if discussed, reflects in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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