

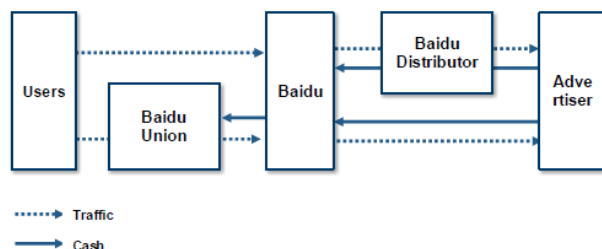
## Stock Pitch - Baidu

Summary	BIDU US			
Share price (US\$)	168.71	Upside	Date	
Target price (US\$)	316	87%	End 2017	
Shares (m)	346			
Market cap (US\$m)	58,424			
USDCNY	6.57			
MI (US\$m)	617			
Debt (US\$m)	5,289			
Less:Cash (US\$m)	(10,859)			
EV (US\$m)	53,470			
	FY03/16			
	LTM	2016E	2017E	2018E
EBIT (US\$m)	1,785	1,604	2,367	3,392
EV/EBIT	30.0	33.3	22.6	15.8
EPS (US\$)	14.38	4.48	6.53	9.18
P/E	11.7	37.6	25.8	18.4
Short interest	1.39%			

### Opening statement

Baidu is a BUY under the Wounded Eagle framework. Due to controversies on its medical advertising practices reported at end April, the stock of this high quality business has fallen 18% in 2 weeks. This market fear is overdone. The valuations are attractive and presents an opportunity to buy the leading Chinese language internet search provider which has a wide economic moat and benefit from positive industry tailwinds.

### Company overview



Baidu (Nasdaq: BIDU) is a leading Chinese language internet search provider. It serves three types of online participants: users, advertisers, and Baidu Union members. It generates most of its revenue from core search business. It was founded by Robin Li in 2000 and listed on Nasdaq in 2005

Baidu diversified its business aggressively in recent years into other attractive eCommerce, mobile and O2O segments. However, several of these segments have not been profitable: 1) Online video – iQiyi (China's no 1 video streaming service on mobile) 2) O2O services e.g. Qunar (China's no 2 travel website after Ctrip), Nuomi (China's No 2 group buying site after Meituan-Dianping a), Baidu Takeout Delivery (market leader in 7 provincial capitals). Investors have criticised Baidu for wasting its cash on these unprofitable initiatives which Baidu do not have strong and sustainable competitive advantages.

### Industry

The China search engine industry is dominated by top 3 search engines (Baidu, Qihoo 360, and Sogou) with a combined search market share of over 90%. Baidu is the top player with >70% market share. Qihoo 360 has been gaining market share and now has nearly 15% as it leveraged on its browser and navigation site's established user base. The number 3 search engine, Sohu's Sogou, has a market share of 7-8%.

**Market consensus/ Variant Perception**

**Trigger Event:** On 2 May 2016, it was announced that Baidu was under investigation by the Chinese government on the death of a university student. The Chinese government was concerned over the way that Baidu vets its paid search customers after a university student suffering from a rare form of cancer died after taking the alternative cancer treatment found on Baidu's search.

**Impact:**

- **Investors panic ....** After reaching a 3 month high on April 29 post 1Q earnings surprise, Baidu's share price fell 18% within 2 weeks. Investors have heightened concerns over reputational and regulatory risks for Baidu.

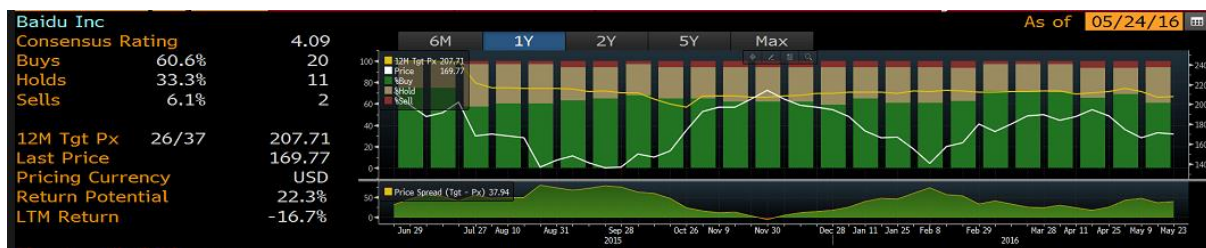


- **Sell side equity analysts downgrade ...** Many of the sell side analysts (e.g. Jefferies, Deutsche) cut their EPS estimates for FY16/FY17/FY18 as they felt that the search revenue will be negatively impacted by the medical issue.
- **Credit analysts follow suit ....** In May 2016, Moody's downgraded Baidu's rating outlook from positive to stable as it expects weaker revenue growth over the next 1-1.5 years post the controversy on Baidu's medical advertisement postings.

Below are the key market concerns and my variant perceptions:

**1. Lower earnings potential in its core search business**

When asked about the quantitative impact, Baidu refused to comment on the impact on its revenue in 2Q and future quarters. Investors are concerned if the scandal will have a long term significant impact on Baidu's earnings potential. Healthcare advertising accounts for 20-30% of Baidu's search revenue. Baidu has been stopped advertising in all healthcare services until they are verified. In downside



scenario analysis by sell side, the estimated impact of the incident will be 10-30% of total revenue. Other medical related advertising like pharmaceutical, cosmetic surgery, and weight loss advertisers will not be affected. Baidu may also incur more compliance costs in working with government agencies to ensure that advertised treatments/vendors are CFDA approved.

**Variant perceptions:** Despite the medical advertising scandal, I feel that the market has neglected the **presence of strong and sustainable competitive advantages** in Baidu's core search business. I have incorporated these competitive advantages into my valuation and assumed that Baidu will be able to leverage on them to remain profitable in its core search business. Also, I believe that this scandal has limited impact on reducing the strength of Baidu's competitive advantages. I believe that its competitive advantages arise from:

- **Network effects:** >70% of internet search in China is done on Baidu by search engine users. Baidu commands >80% of search revenue share. Baidu also enjoys similar market dominance with >80% of the mobile users using its website. Network effects arise from high search traffic allowing Baidu to better optimise search algorithm and better search results attracts higher search traffic. High search traffic attracts more advertisers. This network effect is difficult for its competitors to replicate as a lot of time is needed to amass a similar size user base.
- **Customer captivity:** Many Chinese users view Baidu as their default to go option for internet search. a. Baidu is also the default search engine on most mobiles. First time users will also use Baidu as their search engine as it has been recommended by other users (their family and friends). It has been recognised as one of the leading brands in China by multiple marketing agencies. There are few comparable search substitutes for Chinese search engine users besides Baidu.

Also the market has neglected some of the most significant profitability drivers in the quarters/ years to come:

- Like Alibaba and Tencent, Baidu have been repositioning its business model to focus on O2O (“online to offline”) services in recent years. These endeavours have been historically a drag on Baidu’s profit margins as huge amount of marketing expenses are incurred to encourage merchants to sign on to these services. However, there are signs that these loss making ventures will be monetised in the coming years. For example, Baidu sold off Qunar to Ctrip in October 2015. Baidu has also received insider interest to take over its iQiyi video streaming business for US\$2bn. In its 1Q2016 earnings call, CEO Robin Li mentioned that Baidu Takeout Delivery recently concluded a financing round that values the restaurant-ordering platform at a cool \$2.5 billion. The cash out of its O2O initiatives is a key trend to take note of.
- Significant cash balance: Cash accounts for 48% of total assets for Baidu. This provides firepower for Baidu to pay down its debt as well as make shareholder accretive acquisitions to expand its footprint in the search ecosystem in China.
- Positive structural tailwinds: China’s internet penetration is 52% compared to 89% in the US. Baidu will be the key beneficiary of the secular growth in search and internet penetration in China given its dominance in internet search.

I have factored in the lower medical advertising revenue into my valuation for conservatism.

## 2. Reputational risk:

Baidu experienced huge public backlash on Mr. Wei’s case. On social media, some users wanted to boycott Baidu while others wanted Google to return to China. Notably, one user even wrote that “Without competition, Baidu is a swindler. This is the evil of monopoly.” Compared to the January incident where criticism of Baidu’s practices was mainly online, Mr. Wei’s case invoked criticisms by China’s largest and most powerful state media companies. On 2 May, Xinhua issued a dire commentary on Baidu entitled “The Baidu disconnect” which criticised how Baidu valued monetary gain on top of its corporate social responsibility. On the same day, People’s Daily also issued a similar critical commentary and mentioned that “overlooking social responsibilities and only pursuing economic revenue can cost companies’ public’s trust. Without consumers’ trust, the firm won’t last long”.

**Variant perceptions:** I would argue that there is a low likelihood that the scandal will result in significant loss in brand equity because of the following reasons.

- While the public has become increasingly critical of Baidu’s revenue based model, they are unlikely to give up the massive network and information source by switching away from Baidu. The lack of availability of close substitutes and ingrained habit of using Baidu are the key reasons which makes switching away from Baidu difficult for users.
- This is also not the first time that Baidu has experienced advertising scandals like this. In previous cases, Baidu has been able to regain public confidence although there is no promises that the current incident will be the same as the previous.
  - In January 2016, it was revealed that Baidu outsourced the management of a chat room for haemophilia patients to a group claiming to represent doctors in Xi’an and Shaanxi province. The Cyberspace Administration of China (China’s internet regulator) criticized Baidu and Baidu promised to stop trying to make money from patient forums.

- In late 2008, China Central Television ran an expose television show revealing that Baidu takes ads from unlicensed pharmaceutical providers. Baidu's share price plunged by 25% in 1 day.
- CEO and Founder Robin Li is cognizant of the detrimental impact of the incident on Baidu. He wrote an inspirational letter to his employees which emphasized on how short term KPIs resulted in the organisation shifting away from user experience and reliability towards business and growth. He warned of the need for a cultural change in Baidu or the organisation will risk bankruptcy.
- This incident is a wake up call to Baidu to improve on their search quality which will be a positive in the long run for user experience. Baidu has removed 126mn paid ads involving 2,518 medical institutions post the scandal. CEO Robin Li also said that Baidu will set aside a new CNY1bn security fund for damages claims and a new watchdog to veto any potential negative user experiences.

### **3. Regulatory risk**

On 9 May 2016, the three regulatory authorities (three PRC regulatory authorities, including the Cyberspace Administration of China, the State Administration of Industry and Commerce and the National Health and Family Planning Commission) publicly announced the results of their investigation of Baidu. The key finding was that the bidding price by Baidu's online marketing customers is heavily weighted in search results ranking. CAC requested Baidu to take several measures: 1) removal of unqualified medical advertising; 2) assigning a higher weighting of advertiser "credibility" in its search ranking algorithm; 3) limit paid search to no more than 30% per page

**Variant perceptions:** I would argue that there is a low likelihood that the Chinese government will impose draconian measures on the Chinese Internet Search industry because of the following reasons:

- The Chinese government remains supportive of internet companies given their desire for China to have home grown internet powerhouses like the US. The Chinese government is reluctant to allow foreign companies to dominate and control the Chinese internet sector given the government's strong emphasis on internet sovereignty in China. Google's unwillingness to obey China's stringent censorship requirements in 2010 was a vivid reminder for the government of foreign companies' potential non compliance. Supporting the internet sector is in line with their goal of rebalancing the economy from capital intensive and low value added industries to knowledge intensive and high value added industries. The booming internet sector in China fits into the government's "new economy" definition and promises significant potential employment opportunity.
- Greater scrutiny in internet search companies' advertising content is more probable than punitive measures. The public has been criticising the government for the lack of control of internet companies. Increased regulations and monitoring could be a positive in the long run as it encourages the internet search companies to improve on their search quality. This might translate to higher barriers to entry into the internet search sector in China.

### **Operating margins and returns on tangible capital assessment**

Baidu has maintained superior and ROTC of 887%, ROE of 33%, operating margin of 32% and core search operating margin of 43% over the past 10 years. All the metrics have been steadily growing from 2006 to 2011 due to the operating leverage inherent in its core search business. However, operating margin and ROE started to decline in 2012 as 1) Baidu ventured into O2O businesses and losses for these businesses became a drag for the bottom line 2) there were higher SG&A and R&D costs (headcount addition as well as higher compensation packages such as share-based options to retain key talent) 3) mobile search reduced gross profit margin. A similar decline was seen for ROE but it increased in 2015 due to Baidu's US\$1bn share buyback programme. ROTC has been c880% over the past 10 years due to negative cash conversion cycle and low PPE (7% of total assets).

Baidu

Metrics	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROTC	1825%	150%	433%	835%	1567%	1260%	1063%	3523%	1046%	-2837%
ROE	22%	31%	34%	31%	42%	41%	38%	26%	23%	39%
Operating Margin	19%	27%	36%	34%	47%	50%	42%	29%	25%	15%
Core Search Operating Margin	31%	31%	34%	36%	50%	52%	50%	48%	47%	51%

Baidu is often compared with Alibaba (China's No 1 e-commerce platform) and Tencent (China's No 1 social media platform) as part of the China "BAT" ecommerce comparison. However, I feel that it is more appropriate to cover Baidu with its search engine peers Sohu (owner of No 3 search engine Sogou.com) and Qihoo (owner of No 2 search engine 360 search). It is apparent that Baidu's ROTC, ROE, operating margin and core search operating margin are superior to that of its peers. This perhaps is evidence of Baidu's strong competitive advantage in its core search business.

#### Sohu (NASDAQ: SOHU)

Metrics	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROTC	167%	114%	4216%	558%	2212%	-1526%	-311%	132%	-101%	147%
ROE	17%	16%	41%	29%	25%	23%	15%	6%	-17%	8%
Operating Margin	18%	17%	38%	40%	38%	33%	23%	13%	-9%	6%
Sogou Operating Margin	NA	NA	-223%	-238%	-141%	-17%	-14%	-9%	-8%	17%

#### Qihoo 360 (NASDAQ: QIHOO)

Metrics	2009	2010	2011	2012	2013	2014	2015
ROTC	75%	862%	410%	60%	202%	245%	324%
ROE	-49%	383%	4%	10%	13%	21%	21%
Operating Margin	14%	16%	11%	15%	24%	19%	14%
Internet Services Operating Margin	14%	16%	11%	NA	NA	NA	NA

#### Valuation

I used SOTP for my valuation and arrived at a share price of \$186 in end FY16, \$262, \$319 in FY18. 12M target price consensus share price is \$208 at the moment.

Key assumptions include:

- Core search: Valued using the target P/E multiple approach of 20x in end FY18. To be conservative, I expect that the target P/E of 20x to be reached only in FY18 given that investors will need time to fully appreciate Baidu's highly profitable and cash generative search business which is masked by its loss making O2O businesses.
  - Sales growth is expected to decline by 10% (sell side range: 10-30%) in FY16 due to a sharp reduction in online marketing customers post the healthcare controversy. I chose the lower of sell side range because I feel that the sell side has been overly pessimistic about the negative impact (as mentioned under Variant Perception section). I expect the customers' number to recover in FY17 due to Baidu's customer captivity in the search business. Growth in customers will slow down to 15% in FY18, which remains a relatively high speed of growth given China's low penetration in internet search. ARPU will decline gradually due to continued competition amongst search engine providers from FY16 to FY18 despite Baidu's strong competitive advantages in search engine.
  - Operating margins will remain stable at 50% as the growth of the lower margin mobile search business is offset by greater economies of scale enjoyed by its high operating leverage nature of its search business.
- iQiyi: In Feb 2016, Baidu revealed that insiders (Baidu CEO Robin Li and iQiyi CEO Yu Gong) made a bid of \$2.8bn for iQiyi. This is used as the market valuation for iQiyi.
- Ctrip: I applied the lower of Ctrip's market capitalisation (\$22,470m) and consensus estimates (\$24,200m) for conservatism. In October 2015, Baidu conducted a share swap between 22% stake in Ctrip for 45% stake in Qunar.
- Nuomi: Nuomi has been valued at 10% discount to China's group buying market leader Meituan-Dianping. Nuomi's market share is c20% compared to Meituan-Dianping's c80%. In

January 2016, it was announced that private company Meituan Dianping closed its financing round valuing it at \$18bn

- Baidu Takeout: In Apr 2016, it was announced that Baidu closed a funding round for Baidu Takout valuing it at \$2.5bn

<b>Sum of The Parts Valuation (US\$m)</b>	<b>Total Value (FY18)</b>	<b>Stake</b>	<b>Pro Rata Value (FY18)</b>	<b>Value/ share (FY18)</b>
Core Search	94,169	100%	94,169	272
iQiyi	2,800	100%	2,800	8
Ctrip	19,946	22%	4,308	12
O2O: Nuomi	1,800	100%	1,800	5
O2O: Baidu Takeout	2,500	55%	1,375	4
<b>Enterprise value</b>			<b>104,452</b>	<b>302</b>
Minority Interest			617	2
Net Cash			(5,571)	(16)
<b>Equity value - End 2017</b>			<b>109,406</b>	<b>316</b>
Number of shares				346
Current share price				168.71
<b>Upside</b>				<b>87%</b>

<b>Core Search Valuation</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Search Services (CNY m)</b>						
<b>Revenues</b>	29,590	43,727	55,667	49,600	63,835	72,676
% growth		48%	27%	-11%	29%	14%
Online Marketing Customers	753,000	813,000	1,049,000	944,100	1,227,330	1,411,430
% growth		8%	29%	-10%	30%	15%
ARPU (RMB)	39,297	53,785	53,067	52,537	52,011	51,491
% growth		37%	-1%	-1%	-1%	-1%
<b>Operating PBT</b>	14,179	20,548	28,118	24,800	31,917	36,338
% margin	48%	47%	51%	50%	50%	50%
% growth		45%	37%	-12%	29%	14%
Effective Tax rate	15.4%	14.4%	14.8%	15%	15%	15%
<b>Net Income</b>	<b>11,995</b>	<b>17,580</b>	<b>23,963</b>	<b>21,080</b>	<b>27,130</b>	<b>30,887</b>
			Target multiple			20.00
			USDCNY			6.56
			Equity value (US\$m)			94,169

<b>O2O: Nuomi</b>	<b>Total Val</b>
Meituan Dianping (US\$m)	18,000
Discount	90%
Nuomi	1800

### **Sensitivity Analysis**

Sensitivity analysis shows that even with significant decline of the online marketing customers growth (up to -30%) in FY16, the end 2017 target price remains attractive, offering investors with huge margin of safety.

<b>End 2017 Target Price</b>						
<b>Online marketing customers growth (FY16E)</b>						
<b>ARPU (FY16E)</b>		<b>-30%</b>	<b>-20%</b>	<b>-10%</b>	<b>0%</b>	<b>5%</b>
	<b>-2%</b>	253	283	313	343	358
	<b>-1%</b>	255	286	316	346	361
	<b>0%</b>	258	288	319	349	364
	<b>1%</b>	260	291	321	352	368
	<b>2%</b>	262	293	324	355	371
<b>End 2017 Upside</b>						
<b>Online marketing customers growth (FY16E)</b>						
<b>ARPU (FY16E)</b>		<b>-30%</b>	<b>-20%</b>	<b>-10%</b>	<b>0%</b>	<b>5%</b>
	<b>-2%</b>	50%	68%	86%	103%	112%
	<b>-1%</b>	51%	69%	87%	105%	114%
	<b>0%</b>	53%	71%	89%	107%	116%
	<b>1%</b>	54%	72%	91%	109%	118%
	<b>2%</b>	55%	74%	92%	111%	120%

### **Management shares**

Founder and CEO Robin Li owns 20.7% of total shares. There have been minimal changes in his share holdings over the past 2 years.

<b>Effective Date</b>	<b>Common Stock Equivalent Held</b>	<b>Market Value (USD in mm)</b>	<b>% Of CSO</b>	<b>Change in Shares</b>	<b>% Change</b>	<b>Share Price (USD)</b>	<b>Position Date</b>
Latest	71,705,730	12,613.8	20.706	202,544	0.28	176.71	Feb-29-2016
Mar-31-2016	71,705,730	13,687.2	20.720	202,544	0.28	190.88	Feb-29-2016
Dec-31-2015	71,503,186	13,517.0	20.688	(369,394)	(0.51)	189.04	Dec-31-2015
Sep-30-2015	71,872,580	9,876.0	20.473	0	0.00	137.41	Feb-28-2015
Jun-30-2015	71,872,580	14,308.4	20.463	0	0.00	199.08	Feb-28-2015
Mar-31-2015	71,872,580	14,978.2	20.473	(70,000)	(0.10)	208.40	Feb-28-2015
Dec-31-2014	71,942,580	16,400.7	20.512	672,220	0.94	227.97	Dec-31-2014
Sep-30-2014	71,270,360	15,553.3	20.328	0	0.00	218.23	Feb-28-2014
Jun-30-2014	71,270,360	13,314.0	20.339	0	0.00	186.81	Feb-28-2014
Mar-31-2014	71,270,360	10,852.3	20.342	(148,430)	(0.21)	152.27	Feb-28-2014

**Capital allocation**

Baidu demonstrated prudent cash management over the past 10 years. Its operating cash flow has grown >40x from 2006 to 2015. The operating cash flow has been primarily used for capital expenditures, acquisitions and purchase of intangible assets. Baidu has demonstrated the ability to deploy capital to purchase strategic assets. It has prioritised innovation and long-term investments over short-term profits, dividends or share buybacks. For example, in 2013, it spent a hefty CNY13bn (partially funded by USD debt issued) on complementary mobile acquisitions such as 91 Wireless. These acquisitions have enabled Baidu to enforce its mobile market position and increase its mobile revenue search stream. Baidu might have had similar foresight with its unprofitable O2O initiatives which are currently seeing signs of monetisation.

Baidu does not have a history of consistent stock repurchases. It is only in 2015 that it conducted a significant stock repurchase of CNY6.4bn as part of its US\$1bn share repurchase program. No dividends have been paid for the past 10 years.

It was only after 2010 that Baidu started to rely on external debt financing. Its leverage increased significantly in 2012 with gearing ratio increasing from 15% in 2011 to 44% in 2012 as it issued its debut USD bonds.

<b>Cash Flow</b>										
For the Fiscal Period Ending	Restated		Restated		Restated		Reclassified	Restated		Restated
	12 months	12 months	12 months	12 months	12 months	12 months		12 months	12 months	
Currency	Dec-31-2006	Dec-31-2007	Dec-31-2008	Dec-31-2009	Dec-31-2010	Dec-31-2011	Dec-31-2012	Dec-31-2013	Dec-31-2014	Dec-31-2015
	CNY	CNY	CNY	CNY	CNY	CNY	CNY	CNY	CNY	CNY
<b>Operating cash flow</b>	<b>440.8</b>	<b>935.2</b>	<b>1,741.6</b>	<b>2,264.5</b>	<b>4,700.5</b>	<b>8,178.8</b>	<b>11,996.0</b>	<b>13,793.0</b>	<b>17,937.2</b>	<b>19,422.4</b>
Capital Expenditure	(127.5)	(569.1)	(459.1)	(438.7)	(963.5)	(1,866.2)	(2,339.8)	(2,768.8)	(4,831.5)	(5,250.3)
Cash Acquisitions	(43.3)	(14.1)	-	(12.0)	-	(1,945.9)	(820.5)	(13,201.1)	(328.9)	(332.7)
Sale (Purchase) of Intangible assets	(38.1)	(13.3)	(17.7)	(11.4)	(12.6)	(476.3)	(226.6)	(912.2)	(1,563.7)	(2,524.2)
<b>Unlevered free cash flow</b>	<b>231.9</b>	<b>338.7</b>	<b>1,264.8</b>	<b>1,802.4</b>	<b>3,724.4</b>	<b>3,890.4</b>	<b>8,609.1</b>	<b>(3,089.1)</b>	<b>11,213.1</b>	<b>11,315.2</b>
Debt repaid	0	0	0	0	0	0	(291.7)	(2,228.3)	(420.5)	(2,316.7)
<b>Levered free cash flow</b>	<b>231.9</b>	<b>338.7</b>	<b>1,264.8</b>	<b>1,802.4</b>	<b>3,724.4</b>	<b>3,890.4</b>	<b>8,317.4</b>	<b>(5,317.4)</b>	<b>10,792.6</b>	<b>8,998.5</b>
Issuance of Common Stock	32.8	40.7	32.9	40.4	38.8	23.2	57.0	156.3	192.8	225.2
Repurchase of Common Stock	-	-	(68.5)	(24.4)	-	-	-	-	-	(6,377.0)
Debt raised	-	-	-	-	86.0	2,358.7	9,690.3	8,255.7	8,088.3	12,667.8



**Balance sheet**

<b>Balance Sheet</b>		
<b>Balance Sheet as of:</b>		
<b>Currency</b>	<b>Dec-31-2015 CNY</b>	<b>Mar-31-2016 CNY</b>
<b>ASSETS</b>		
Cash And Equivalents	9,959.9	12,593.2
Short Term Investments	58,349.4	58,752.9
Trading Asset Securities	-	-
<b>Total Cash &amp; ST Investments</b>	<b>68,309.3</b>	<b>71,346.1</b>
Accounts Receivable	3,998.4	3,605.8
Other Receivables	413.9	-
Notes Receivable	2,000.8	-
<b>Total Receivables</b>	<b>6,413.2</b>	<b>3,605.8</b>
Prepaid Exp.	342.3	-
Deferred Tax Assets, Curr.	-	-
Restricted Cash	96.0	229.9
Other Current Assets	3,072.8	4,416.2
<b>Total Current Assets</b>	<b>78,233.7</b>	<b>79,598.1</b>
Gross Property, Plant & Equipment	18,657.8	-
Accumulated Depreciation	(8,030.7)	-
<b>Net Property, Plant &amp; Equipment</b>	<b>10,627.1</b>	<b>10,489.5</b>
Long-term Investments	37,958.6	38,299.5
Goodwill	15,395.6	15,395.6
Other Intangibles	3,334.6	3,421.2
Deferred Tax Assets, LT	1,008.2	1,269.0
Other Long-Term Assets	1,295.6	1,678.8
<b>Total Assets</b>	<b>147,853.3</b>	<b>150,151.6</b>
<b>LIABILITIES</b>		
Accounts Payable	1,054.9	18,815.2
Accrued Exp.	7,951.2	-
Short-term Borrowings	100.0	174.2
Curr. Port. of LT Debt	974.8	969.8
Curr. Port. of Cap. Leases	46.1	39.0
Curr. Income Taxes Payable	334.1	-
Unearned Revenue, Current	6,355.8	6,346.2
Other Current Liabilities	9,285.9	137.8
<b>Total Current Liabilities</b>	<b>26,102.8</b>	<b>26,482.1</b>
Long-Term Debt	33,941.8	33,777.5
Capital Leases	8.4	0.6
Unearned Revenue, Non-Current	17.4	18.0
Def. Tax Liability, Non-Curr.	3,441.3	3,409.5
Other Non-Current Liabilities	125.9	108.8
<b>Total Liabilities</b>	<b>63,637.6</b>	<b>63,796.4</b>
Pref. Stock, Convertible	-	-
<b>Total Pref. Equity</b>	<b>-</b>	<b>-</b>
Common Stock	0.0	0.0
Additional Paid In Capital	6,402.3	6,744.6
Retained Earnings	74,659.4	76,525.8
Treasury Stock	-	-
Comprehensive Inc. and Other	(806.1)	(967.1)
<b>Total Common Equity</b>	<b>80,255.7</b>	<b>82,303.4</b>
Minority Interest	3,960.1	4,051.8
<b>Total Equity</b>	<b>84,215.7</b>	<b>86,355.1</b>
<b>Total Liabilities And Equity</b>	<b>147,853.3</b>	<b>150,151.6</b>

**Income statement**

<b>Income Statement</b>											
<b>For the Fiscal Period Ending</b>	<b>Reclassified 12 months Dec-31-2006</b>	<b>12 months Dec-31-2007</b>	<b>Reclassified 12 months Dec-31-2008</b>	<b>Reclassified 12 months Dec-31-2009</b>	<b>Reclassified 12 months Dec-31-2010</b>	<b>Reclassified 12 months Dec-31-2011</b>	<b>Restated 12 months Dec-31-2012</b>	<b>Restated 12 months Dec-31-2013</b>	<b>Restated 12 months Dec-31-2014</b>	<b>12 months Dec-31-2015</b>	<b>LTM 12 months Mar-31-2016</b>
<b>Currency</b>	<b>CNY</b>	<b>CNY</b>	<b>CNY</b>	<b>CNY</b>	<b>CNY</b>	<b>CNY</b>	<b>CNY</b>	<b>CNY</b>	<b>CNY</b>	<b>CNY</b>	<b>CNY</b>
Revenue	837.8	1,744.4	3,198.3	4,447.8	7,915.1	14,500.8	22,245.6	31,802.2	48,495.2	64,037.0	67,133.0
Other Revenue	-	-	-	-	-	-	60.4	141.7	557.1	2,344.7	2,344.7
<b>Total Revenue</b>	<b>837.8</b>	<b>1,744.4</b>	<b>3,198.3</b>	<b>4,447.8</b>	<b>7,915.1</b>	<b>14,500.8</b>	<b>22,306.0</b>	<b>31,943.9</b>	<b>49,052.3</b>	<b>66,381.7</b>	<b>69,477.7</b>
Cost Of Goods Sold	193.7	536.6	955.4	1,616.2	2,149.3	3,896.9	4,876.1	9,142.3	15,287.7	22,813.7	24,951.4
<b>Gross Profit</b>	<b>644.2</b>	<b>1,207.8</b>	<b>2,242.9</b>	<b>2,831.5</b>	<b>5,765.8</b>	<b>10,603.9</b>	<b>17,429.9</b>	<b>22,801.6</b>	<b>33,764.6</b>	<b>43,568.1</b>	<b>44,526.3</b>
Selling General & Admin Exp.	250.2	411.2	659.8	804.0	1,089.0	1,692.8	2,501.3	5,173.5	10,382.1	17,076.4	18,065.5
R & D Exp.	79.2	140.7	286.3	422.6	718.0	1,334.4	2,304.8	4,106.8	6,981.0	10,175.8	9,990.1
Depreciation & Amort.	-	-	-	-	-	-	-	-	-	-	-
Other Operating Expense/(Income)	51.8	108.8	200.1	-	-	-	1,572.4	2,329.6	3,597.8	4,644.4	4,743.7
<b>Other Operating Exp., Total</b>	<b>381.3</b>	<b>660.6</b>	<b>1,146.2</b>	<b>1,226.6</b>	<b>1,807.0</b>	<b>3,027.2</b>	<b>6,378.6</b>	<b>11,609.9</b>	<b>20,960.9</b>	<b>31,896.5</b>	<b>32,799.3</b>
<b>Operating Income</b>	<b>262.9</b>	<b>547.2</b>	<b>1,096.7</b>	<b>1,604.9</b>	<b>3,958.8</b>	<b>7,576.7</b>	<b>11,051.3</b>	<b>11,191.7</b>	<b>12,803.8</b>	<b>11,671.6</b>	<b>11,727.0</b>
Interest Expense	-	-	-	(12.2)	(36.0)	(82.6)	(107.9)	(447.1)	(628.6)	(1,041.4)	(1,110.7)
Interest and Invest. Income	42.4	49.0	47.7	44.8	103.1	418.2	866.5	1,308.5	1,992.8	2,362.6	2,397.5
<b>Net Interest Exp.</b>	<b>42.4</b>	<b>49.0</b>	<b>47.7</b>	<b>32.7</b>	<b>67.1</b>	<b>335.7</b>	<b>758.6</b>	<b>861.5</b>	<b>1,364.2</b>	<b>1,321.2</b>	<b>1,286.9</b>
Income/(Loss) from Affiliates	-	-	-	(0.2)	(9.0)	(179.4)	(294.2)	22.6	(19.9)	3.9	(105.2)
Currency Exchange Gains (Loss)	(0.1)	(2.4)	(1.9)	-	-	-	(4.5)	(48.4)	75.8	181.8	106.6
Other Non-Operating Inc. (Exp.)	4.2	22.5	21.7	45.8	44.2	76.3	454.3	189.3	260.6	292.6	499.9
<b>EBT Excl. Unusual Items</b>	<b>309.4</b>	<b>616.2</b>	<b>1,164.2</b>	<b>1,683.1</b>	<b>4,061.2</b>	<b>7,809.2</b>	<b>11,965.4</b>	<b>12,216.7</b>	<b>14,484.4</b>	<b>13,471.1</b>	<b>13,515.1</b>
Impairment of Goodwill	-	-	-	-	-	-	-	-	-	-	-
Gain (Loss) On Sale Of Assets	-	-	-	-	-	-	-	-	-	24,435.6	24,435.6
Other Unusual Items	-	-	-	-	-	-	-	-	-	-	-
<b>EBT Incl. Unusual Items</b>	<b>309.4</b>	<b>616.2</b>	<b>1,164.2</b>	<b>1,683.1</b>	<b>4,061.2</b>	<b>7,809.2</b>	<b>11,965.4</b>	<b>12,216.7</b>	<b>14,484.4</b>	<b>37,906.6</b>	<b>37,950.7</b>
Income Tax Expense	12.3	(12.8)	116.1	198.0	536.0	1,188.9	1,574.2	1,828.9	2,231.2	5,474.4	5,608.1
<b>Earnings from Cont. Ops.</b>	<b>297.2</b>	<b>629.0</b>	<b>1,048.1</b>	<b>1,485.1</b>	<b>3,525.2</b>	<b>6,620.3</b>	<b>10,391.3</b>	<b>10,387.8</b>	<b>12,253.2</b>	<b>32,432.2</b>	<b>32,342.5</b>
Earnings of Discontinued Ops.	-	-	-	-	-	-	-	-	-	-	-
Extraord. Item & Account. Change	4.6	-	-	-	-	-	-	-	-	-	-
<b>Net Income to Company</b>	<b>301.8</b>	<b>629.0</b>	<b>1,048.1</b>	<b>1,485.1</b>	<b>3,525.2</b>	<b>6,620.3</b>	<b>10,391.3</b>	<b>10,387.8</b>	<b>12,253.2</b>	<b>32,432.2</b>	<b>32,342.5</b>
Minority Int. in Earnings	-	-	-	-	-	18.3	64.8	162.9	943.7	1,231.9	859.2
<b>Net Income</b>	<b>301.8</b>	<b>629.0</b>	<b>1,048.1</b>	<b>1,485.1</b>	<b>3,525.2</b>	<b>6,638.6</b>	<b>10,456.0</b>	<b>10,550.7</b>	<b>13,196.9</b>	<b>33,664.2</b>	<b>33,201.7</b>