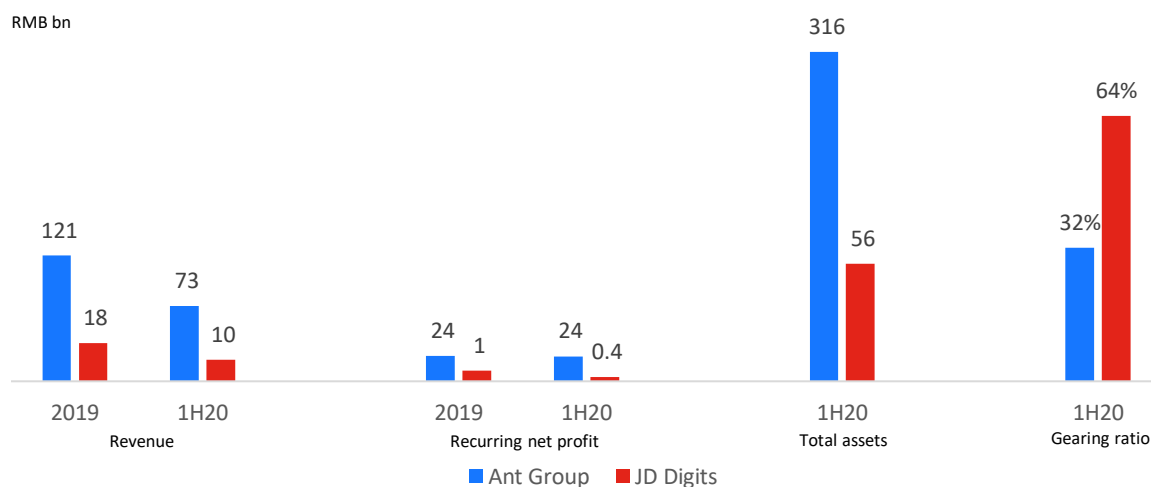




## Highlight of this issue – Ant Group vs. JD Digits: Different strategies

Figure 1: Key financial ratios of Ant Group and JD Digits



Source: Company disclosure, AMTD Research

### Valuation: US\$250bn vs. RMB200bn – Ant is 8x of JD Digits

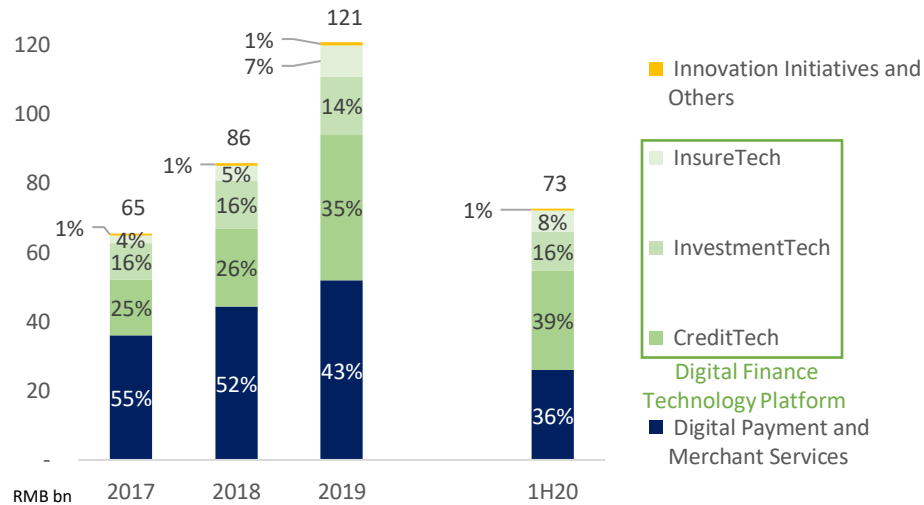
Following Ant Group, JD Digits eyed a STAR market IPO, aiming to raise approximately RMB20bn for a valuation of around RMB200bn, implying 11x 2019 P/S and 195x 2019 P/E. Earlier, Ant Group passed hearing for STAR market and HKEX IPO, to raise US\$35bn at a valuation of US\$250bn, implying 14x 2019 P/S and 70x 2019 P/E.

In 1H20, Ant's revenue reached RMB72.5bn, up 38% YoY; JD Digits' revenue was RMB10.3bn, up 27% YoY. Ant is supported by the wide range of scenarios in Alibaba's ecosystem, owning more than 1 billion active Alipay users, and has established a diversified financial product portfolio. In 1H20, Ant's non-IFRS attributable net profit was RMB23.9bn, close to RMB24.2bn for 2019 vs. JD Digits' 1H20 recurring net profit at RMB390mn.

### Consumer credit businesses were the primary revenue driver for both Ant and JD Digits

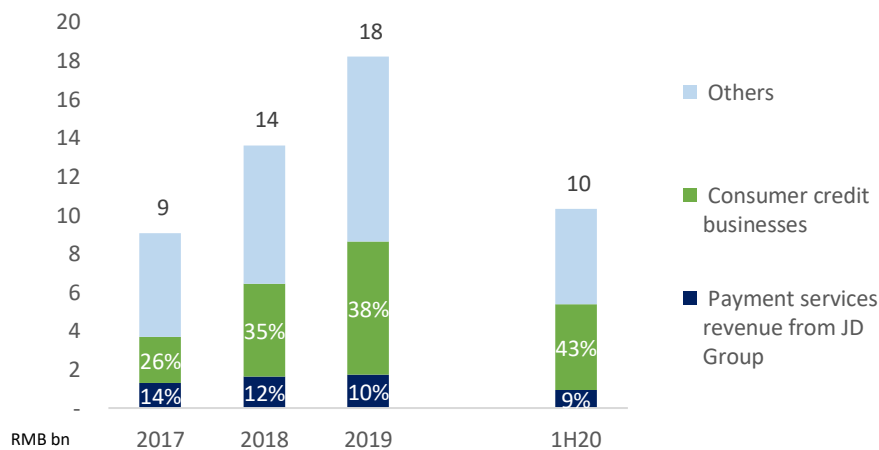
For both companies, consumer credit businesses have been the most important source of revenue, and consumer loan revenues of both companies reached a historic high in terms of the percentage of total revenue in 1H20. Credit businesses, including Huabei (花呗) and Jiebei (借呗), grew by 57% YoY and contributed 39% of Ant's revenue. The revenue from JD Digits' two core consumer lending products, JD Baitiao (京东白条) and JD Jintiao (京东金条), reached RMB6.9bn, accounting for 43% of revenue.

**Figure 2: Ant Group revenue breakdown: Credit businesses became the largest revenue source, while digital payment and merchant services' proportion in total revenues shrank**



Source: Company data, AMTD Research

**Figure 3: JD Digits revenue breakdown: Consumer credit businesses are taking a higher proportion**



Source: Company data, AMTD Research

As the parent company of Alipay – China's largest mobile wallet, Ant derived 36% of its revenue from digital payment and merchant services in 1H20 – though contribution in revenue has been declining due to fast growth in credit and wealth management businesses in the past three years. Different from Alipay which has gone beyond Alibaba, JD Digits' payment services mainly relied on JD Group's e-commerce business. In 1H20, revenues from payment took up only 9% of JD Digits' revenue. Ant has a stronger presence in wealth management, insurance and other financial services, with its Yu'e bao (余额宝) and Xianghubao (相互宝) winning great popularity. JD Digits started late and focused more on cloud solutions for financial institutions.

Compared to financial services-centric Ant, JD Digits offers non-financial tech services, providing smart marketing, smart city digital solutions and the like for government agencies and merchants. From 2017 to 1H20, JD Digits' revenue from digital solutions for governments and other customers increased from 1% to 6% of total revenue.

### Different core tech layouts: Ant focuses on FinTech, JD Digits develops non-financial tech

A comparison of the two giants' core technology direction can reveal very different strategies. JD Digits covers a wide range of non-financial technology from smart robotics, IoT to self-driving, while Ant focuses on FinTech, especially security and risk management. Ant inherits Alibaba's technical strength, and its financial-grade distributed database OceanBase challenges the dominating role of Oracle. Besides Alipay and MYbank, OceanBase has been adopted by financial institutions such as ICBC and PICC Health Insurance. The database localization trend in China's financial industry will present huge opportunities for OceanBase. This year, Ant upgraded the Ant Chain brand to promote commercial application of blockchain and unveiled Trusple at the Bund Summit recently. Trusple is a cross-border trade and financial services platform based on Ant Chain, to solve the trust issue in international trade financing.

**Figure 4: Ant Group and JD Digits core technologies overview: JD Digits' tech portfolio is more diversified**

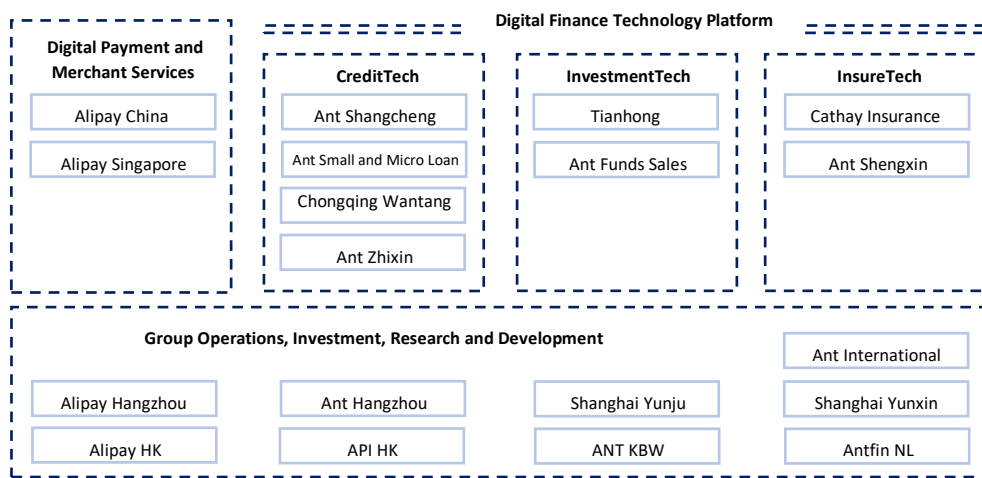
Technology	Ant Group	JD Digits
AI	Credit risk management platform, robo-advisory platform, intelligent claims platform, intelligent sharing platform, intelligent time-sequence diagram technology, machine learning on factors and strategies	Face recognition and life detection, digital human technology, chat bot tech, knowledge graph, federated learning, spatio-temporal AI algorithm, smart robotics technology platform
Blockchain	Ant Chain BaaS (Blockchain as a Service) platform, supply chain collaboration network Duo Chain, general smart contract platform, hardware-based onchain privacy protection platform, cross-chain communication infrastructure, Ant Chain all-in-one machine, IoT credible onchain technology, multiple-party computation Ant MORSE	Blockchain technology (Blockchain underlying engine system JD Chain, blockchain services platform JD BaaS)
Computing and technology infrastructure/Data technology/Cloud computing	Financial-grade distributed architecture SOFAShield, distributed relational database management system OceanBase, new-gen real-time bid data R&D platform, distributed real-time graph database GeaBase	Big data platform, graphics computing platform, spatio-temporal big data, cloud computing
Risk management	AI-powered risk engine AlphaRisk, online identification, terminal risk control engine Edge, anti-money-laundering engine WISE	Credit scorecard master model, optimal decision model, intelligent anti-fraud risk control superbrain
Security	Security micro-isolation technology, general security computing system, aspect-oriented security framework, next-gen intelligent authority system based on application identity and environmental protection	
WealthTech		Database desensitization technology based on multi-version control, asset routing technical scheme
Smart marketing		Human-computer interaction technology, IoT connection and precision management technology, traffic supervision and control technology
Smart city		Personnel trajectory and graph analysis technology, Monet visualization technology, data accessing technology
Smart robots		Smart robotics technology
Self-driving		Vehicle collision warning system

Source: Company data, AMTD Research

## Tightening regulations posing new challenges to both companies

According to China's newly announced regulations on financial holding companies, companies with actual controls in two or more types of financial institutions and financial assets exceeding RMB500bn should be regulated by PBOC as a financial holding company with capital and shareholder requirements. Ant Group holds a more comprehensive series of financial licenses, including payments, banking, insurance, funds, small loans, consumer finance and so on, while JD Digits owns licenses of small loans, payments, funds, insurance, consumer finance, commercial factoring, etc. Ant Group has announced that it will apply to set up a financial holding company with its wholly-owned subsidiary Zhejiang Finance Credit. JD Digits has not disclosed its plan yet. In addition, in 2020, the PBOC started to tighten the rules on loan facilitation businesses by FinTech companies for banks, focusing on loan size, delinquency rate and other metrics.

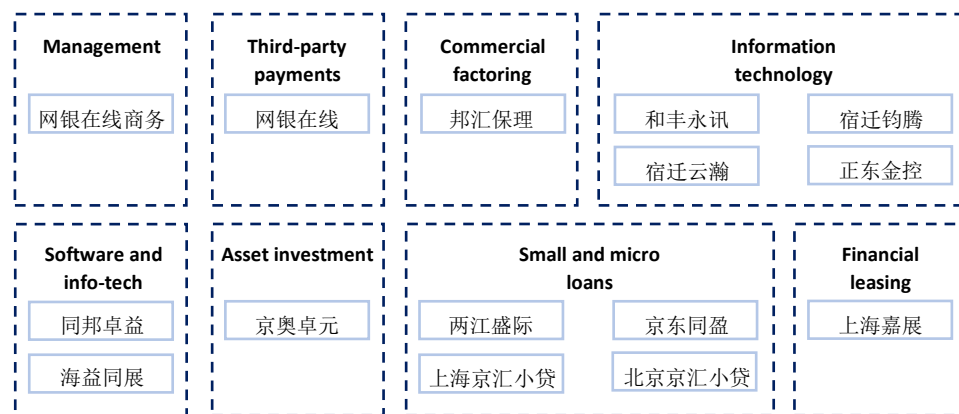
Figure 5: Ant Group key subsidiaries overview



Source: Company data, AMTD Research

Note: Zhejiang Finance Credit, the wholly-owned subsidiary for financial holding company license, is not included in the chart.

Figure 6: JD Digits subsidiaries overview



Source: Company data, AMTD Research

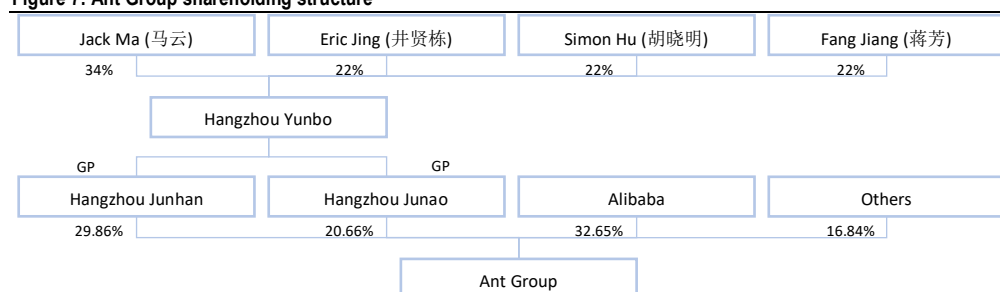
## JD Digits has a higher R&D expense percentage over revenue, but with lower average salary

JD Digits' R&D expense as a share of revenue has been higher than that of Ant, but Ant has a higher average salary for engineers. As of June 30, 2020, Ant Group had 10,646 employees in technology function, and JD Digits had 6,969 R&D and professional personnel, accounting for 64% and 70% of total employees, respectively. In 1H20, R&D expenses excluding share-based compensation accounted for 5.7% and 14.8% of total revenues of Ant and JD Digits, respectively. But during the same period, the average monthly salaries of Ant's engineers (excluding share-based compensation) reached RMB52,000, compared with RMB31,000 of JD Digits. In addition, in 1H20, JD Digits' sales & marketing expenses (excluding share-based compensation) accounted for 28% of total revenue, much higher than that of Ant Group (8%), mainly because Ant Group made significant investments (over 50% of revenue) for user and merchant acquisition in 2018. The 2018 investment drove user engagement, and the competitive landscape of payments has stabilized thus a lower spending since then.

## Jack Ma and Richard Liu remain to be the ultimate controllers

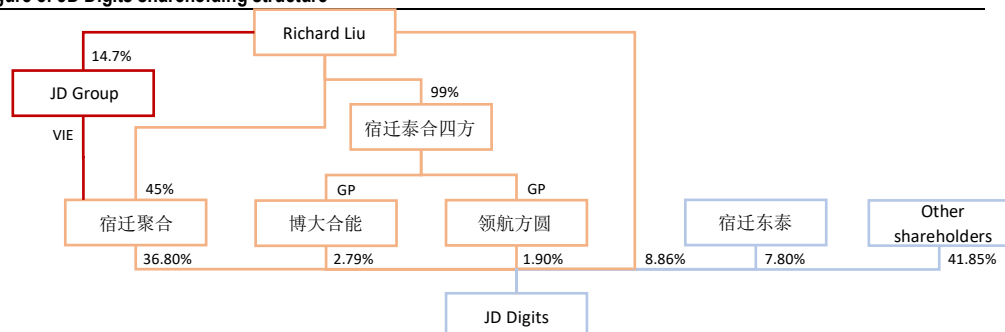
Jack Ma Yun and Richard Liu Qiangdong remained their strong controls of both companies. Jack Ma is absent from Ant's board, while Richard Liu remains Chairman of JD Digits. While Jack Ma only owns 11.3% of Ant's interests indirectly before listing, he effectively controls 50.52% of Ant's voting rights through Hangzhou Junhan and Hangzhou Junao. Richard Liu directly holds 8.86% of shares in JD Digits, and indirectly owns 41.49% of JD Digits' shares through Suqian Juhe, Boda Heneng and Linghang Fangyuan – totaling 50.35% of the overall shares before IPO. JD Digits started to adopt the dual class voting structure in June, with Liu actually holding 74.77% of its voting rights. Ant does not have special voting rights, but Ma has a veto right in essence over some significant matters.

Figure 7: Ant Group shareholding structure



Source: Company data, AMTD Research

Figure 8: JD Digits shareholding structure



Source: Company data, AMTD Research

## Talents: Many Alibaba/Ant veterans in Ant while more new blood in JD Digits

Most of Ant's board/senior management have been working in Alibaba/Ant for a long time and hold more shares. The Chairman of Ant is Eric Xiandong Jing, former President of Ant Financial and Chairman of MYbank. The President of Ant is Simon Xiaoming Hu, former President of Alibaba Cloud. Xingjun Ni, the core founding member of Alipay, is the CTO of Ant. They have been working for Alibaba/Ant for an average of about 15 years. For JD Digits, apart from Chen Shengqiang, the General Manager of JD Digits and former CFO of JD Group, who has been with JD for 13 years, all the Deputy General Managers (Fu Tong, Zheng Yu) and Vice Presidents (Wu Xuejun, Xu Yerun and Bo Liefeng) have been in JD for less than three years, and Wang Song, CFO, just joined the company this year. Excluding Jack Ma, Ant's board and executives enjoy a combined economic interest of over 14% of Ant after listing, while for JD Digits, except Richard Liu, the shares attributed to other board members and senior executives were less than 6%.

**Figure 9: Ant Group's board/senior management generally have a longer time in Ant/Alibaba than JD Digits'**

Name	Position	Year joining Ant/Alibaba	Name	Position	Year joining Ant/Alibaba
Eric Xiandong Jing	Executive Chairman	2007	Guofei Jiang	President of Advanced Technology Business Group	2017
Simon Xiaoming Hu	Executive Director, CEO	2005	Leiming Chen	Senior Vice President	2016
Xingjun Ni	Executive Director, CTO	2004	Douglas Feagin	Senior Vice President	2016
Joseph C. Tsai	Non-executive Director	1999	Liang Chen	Vice President	2008
Li Cheng	Non-executive Director	2005	Xiongwen Rui	Vice President	2017
Fang Jiang	Non-executive Director	1999	Ming Yin	Vice President	2015
Songbai Zeng	Chief People Officer	2012	Gang Ji	Vice President	2008
Cyril Xinyi Han	CFO	2011	Yijie Peng	Vice President	2000
Zhifeng Zhou	General Counsel and Board Secretary	2020	Yu Zhang	Vice President	2015
Hao Huang	President of Digital Finance Business Group	2015	Wenlan Shao	Vice President	2002
Ying Zhao	President of International Business Group	2013	Yi Ding	General Manager of Customer Rights Protection Department	2015

Name	Position	Year joining JD Digits/JD Group	Name	Position	Year joining JD Digits/JD Group
Richard Liu	Chairman	1998	Yu Zheng	Deputy General Manager, Vice President	2018
Shengqiang Chen	Director, General Manager	2007	Yalei Su	Secretary of Board of Directors	2017
Ran Xu	Director	2018	Xuejun Wu	Vice President, Data Scientist	2019
Pang Zhang	Director	2011	Yerun Xu	Vice President	2019
Song Wang	In Charge of Finance	2020	Liefeng Bo	Vice President, Data Scientist	2017
Tong Fu	Deputy General Manager	2018			

Source: Company data, AMTD Research

### **JD Digits is more dependent on JD Group**

Ant Group and JD Digits are still in close relationship with Alibaba and JD Digits, respectively. Alibaba holds 32.65% of the shares of Ant and is the largest shareholder of Ant Group. JD Group is indirectly in charge of 36.8% of JD Digits shares through agreements. Ant and JD Digits have agreed to certain non-competition undertakings with Alibaba and JD Group respectively. Both of their credit businesses are highly dependent on Alibaba and JD Group's e-commerce platform, and are unlikely to change in the next couple of years.

In the past three years, Alibaba and MYbank were Ant's top two customers, contributing to 12.32% of revenues in 1H20. Alibaba is also Ant's biggest supplier, accounting for 8.17% of Ant's external purchases in 1H20. JD Group has been the largest customer and supplier of JD Digits. Since 2017, JD Group has contributed to around 29% of JD Digits' revenue every year, mainly in payment services, comprehensive risk management services for Baitiao business, and marketing services. The risk management services for Baitiao provided by JD Digits include user risk assessment, credit review, etc., and JD Digits acquires delinquent loans from JD Group from time to time. 1H20, JD Digital acquired delinquent loans of RMB345mn from JD Group at face value on a non-recourse basis (Baitiao risk management services brought in RMB937mn of revenue to JD Digits in the same period).

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## News of the week

25 Sept 2020

Blockchain

Ant Group

### Ant launched blockchain-based cross-border trade platform Trusple

Ant Group launched Trusple, a blockchain-based platform for cross-border trade and financial services. Buyers and sellers can upload trading orders to the platform, which automatically generates a smart contract with information such as logistics. Banks of both buyers and sellers then process payments using Ant Chain. Successful transactions on Trusple enable SMEs to build their creditworthiness on Ant Chain to obtain financing services. Ant has lined up several global banks, including BNP Paribas, Citi, DBS, Deutsche Bank and Standard Chartered, as partners for the platform. (Source: [Reuters](#))

23 Sept 2020

Trading

Robinhood

### Robinhood raised US\$460mn in an extension of series G funding round

Robinhood raised US\$460mn in an extension of the earlier series G round at a US\$11.7bn valuation. The company initially announced in August that D1 Capital invested US\$200mn, in the same series G. Investors this round also included Andreessen Horowitz, Sequoia, DST Global, Ribbit Capital and 9Yards Capital. The new funds will support its core product and new offerings such as recurring investments and cash management. In 2020, Robinhood has already raised around US\$1.25bn and seen record revenue growth due to the pandemic. (Source: [Reuters](#))

22 Sept 2020

Digital bank

Yandex/Tinkoff

### Yandex to acquire Russian digital bank Tinkoff at US\$5.5bn

Russian tech giant Yandex has agreed to acquire Tinkoff, the country's top digital bank, at US\$5.5bn. Yandex said it was preparing a cash-and-share offer for all of London-listed Tinkoff's share capital at a premium of 8% over its closing price on 21 Sept. Yandex recently bought back 45% shares of the joint venture with state-owned Sberbank and ended their decade-long partnership. (Source: [FT](#))

18 Sept 2020

Digital bank

Chime

### Chime hit US\$14.5bn valuation, raising US\$485mn in series F

Chime raised US\$485mn in its series F funding round, hitting a valuation at US\$14.5bn, more than doubling since its last funding round in Dec 2019. Founded in 2013, Chime offers a fee-free, user-friendly banking app, which provides an accompanying debit card and an auto-savings account. The round was joined by Coatue, Iconiq, Tiger Global, Whale Rock Capital, General Atlantic, Access Technology Ventures, Dragoneer and DST Global. Chime will become "IPO-ready" within the next 12 months, according to CEO Chris Britt. (Source: [CNBC](#))

17 Sept 2020

Payment

Affirm

### Affirm raised US\$500mn in series G

Affirm has raised US\$500mn in a Series G funding round led by GIC and Durable Capital Partners, bringing its total funding raised to more than US\$1.3bn. Affirm was founded in 2012 as an installment loan provider for shoppers to finance a purchase. Affirm said in the release that it provides more than 5.6 million U.S. and Canadian consumers an alternative to traditional credit cards. The company is also introducing an interest-free biweekly payment product for transactions as low as \$50. In July, Affirm announced that it was preparing for an IPO. (Source: [Affirm](#))



17 Sept 2020

Funding

### Lack of mega deals drove down FinTech investment in 1H20

In 1H20, despite the absence of mega deals, FinTech investments recorded 1,221 deals at US\$25.6bn, down from US\$39.4bn in 1H19. US\$20bn of the investments were VC-backed. Europe, Middle East and Africa (EMEA) have seen nearly 400 deals cumulatively worth nearly US\$5bn. The big value deals were concentrated in Europe. Growth-stage firms were preferred worldwide, including Airwallex, Judo Bank, Paidy, Klarna, Nubank, etc. (Source: [KPMG](#))

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17 Sept 2020

Banking

Allica Bank

### Allica Bank bids for £100mn in new funding

UK SME-focused bank Allica has closed on a £26mn funding round led by Warwick Capital Partners, and plans to raise a further £100mn to pursue its vision of becoming a top business bank as well as to acquire non-bank lenders. Allica Bank received full UK banking authorization in late 2019, claiming to have had over £1bn of enquiries from businesses since Covid-19. Allica Bank's CEO Richard Davies is a former Revolut executive who joined the bank last month with great exposure to digital banking. (Source: [Crowdfund Insider](#))

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16 Sept 2020

Risk

Alloy

### Alloy raised US\$40mn for identity operating system

Alloy, an identity operating system for the financial services industry that helps make better identity and risk decisions, has raised US\$40mn in a Series B funding round led by Canapi Ventures. Canapi partner Walker Forehand will join Alloy's board. Alloy has seen its recurring revenue grow substantially in the last year, while its customer base nearly doubled. The new funding will be primarily used to increase an already fast-growing team, especially sales and marketing. (Source: [Crunchbase](#))

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15 Sept 2020

Payment

Klarna

### Klarna raised US\$650mn at a valuation of US\$10.65bn

Swedish online payments company Klarna raised US\$650mn in an equity funding round, at a post money valuation of US\$10.65bn, ranking the firm as the highest valued private FinTech company in Europe, and the fourth highest worldwide. The funding round is led by Silver Lake, alongside GIC, BlackRock and HMI Capital. Current investors include Sequoia Capital, Dragoneer, Permira, Commonwealth Bank of Australia, Bestseller Group and Ant Group. Klarna's app has more than 12 million monthly active users worldwide, with 55,000 daily downloads. (Source: [CNBC](#))

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15 Sept 2020

Payment

Square

### Square unveiled On-Demand Pay and Instant Payments

Square launched two new features, On-Demand Pay for employees, and Instant Payments for employers. Eligible employees using On-Demand Pay can transfer up to US\$200 of their earned wages whenever they need them, for free to Cash App. Instant Payments allows Square Payroll customers to fund their payroll using the money in their Square Balance, where sales they process via Square are stored. (Source: [Pymnts](#))

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15 Sept 2020

Lending

360 Finance

### 360 Finance changed name to 360 DigiTech

360 Finance changed company name to 360 DigiTech with effect immediately. The ticker symbol remained unchanged as QFIN. It followed Ant Financial's name change to Ant Group, showing the tightening of China's financial regulatory environment. 360 Finance enables financial institutions to provide better and targeted products and services to a broader consumer base. (Source: [Seeking Alpha](#))

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15 Sept 2020

Payment

Square

### Square saw a stabilized share of cashless transactions

The cashless sellers in Square's ecosystem increased from 5.4% in February, to 23% in April, and stabilized at 13.4% in August with the pandemic going under control. The company also reported that its share of cash transactions has fallen to 1/3 since early August, down from nearly 41% a year ago. Business owners have been adopting more contactless and online payments with consumers utilizing those alternatives. (Source: [Pymnts](#))

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14 Sept 2020

Lending

Monedo

### German FinTech Monedo filed for bankruptcy

German online lender Monedo filed for bankruptcy after failing to recover from the economic effects of the pandemic. It was one of the most highly valued FinTech startups in Germany with high profile backers like Peter Thiel, JC Flowers and the global media firm Naspers. Hamburg law firm Brinkmann & Partner had been appointed to manage the proceedings. The startup was valued at over €230m in 2017 but its valuation plunged by December 2018 due to some major defaulters in Russia and India. (Source: [Finextra](#))

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13 Sept 2020

Payment

Ant Group

### Ant Group needs to register as financial holding company with RMB5bn

New financial regulations in China impose capital demands on companies, including Ant Group, to back up any payments, lending or other finances to curb risks. According to PBOC, firms operating two or more financial businesses in China will be classified as financial holding companies since Nov 1, and should apply for a license if their financial assets or loans comprise 85% or more of their total assets. The companies need to pay up capital totaling at least RMB5bn. (Source: [Bloomberg](#))

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8 Sept 2020

Credit

Ant Group

### Ant Group launched corporate credit rating service Ant Corporate Credit

Ant Group has released a credit scoring service for SMEs, Ant Corporate Credit. It helps connect SMEs and financial institutions through cloud computing, blockchain, AI and other advanced technologies, to help SMEs get funding and establish collaborations. In the future, small, medium and micro enterprises can apply for Ant Enterprise Code through Alipay App to enjoy credit rating and other services. In the 12 months ended June 30, 2020, Ant Group served more than 20 million small and micro operators, nearly 80% of whom received operational loans for the first time. (Source: [Sina](#))

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