

## **SHKF expects record China stimulus measures to fundamentally rebalance economy in long-term**

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### **“Hong Kong and PRC Market Outlook for 2010”**

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#### **Highlights:**

- **HSI forecast to reach 28,000**
  - **HSCEI forecast to reach 17,500**
  - **China GDP to grow 9%**
  - **Huge policy stimulus to spark consumption surge**
  - **Sustained asset inflation**
  - **Consumer discretionary stocks to outperform**
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**Hong Kong, 19 January 2010** – Sun Hung Kai Financial (“SHKF”), Hong Kong’s leading non-bank financial institution, expects China’s record stimulus measures over the last 12 months to sustain asset inflation in 2010, with a multi-year consumption boom to drive a fundamental rebalancing of the domestic economy in the long-term.

Over the last year, economic conditions in key countries, particularly the U.S., appear to have stabilised, fuelling a sharp recovery in equity indices across the globe. After reaching significant lows in March 2009, many indices have since rebounded by approximately 70%. Notably, Hong Kong has eclipsed these gains, with the Hang Seng Index soaring 93% and the Hang Seng China Enterprises Index surging 94%. For 2010, the forecasts for these two indices are 28,000 and 17,500 respectively.

This reversion to normality on the mainland is a direct result of the China government’s moves to implement a range of stimulus measures, which included improved market liquidity, low interest rates and policy stimulus spending on an unprecedented scale.

Mr. Alvin Chong, Head of Research, Sun Hung Kai Financial, said: “Given the huge gaps that exist between the coastal region and the massive inland provinces in terms of economic development, income levels and basic infrastructure, China will pursue the biggest build-out of physical economic assets in its history to facilitate inland growth and reduce income inequality. This will lift household incomes and economic growth expectations, sustain asset inflation, trigger significant new consumption demand and help rebalance China from an investment and export-driven economy into a consumer-driven one, with GDP growth of 9% in 2010.”

“In Hong Kong, stocks are currently generally neither cheap nor expensive. There are opportunities for the diligent and nimble. We expect discretionary consumer stocks to outperform in 2010, and we also recommend buying asset inflation hedges and stocks of companies that will benefit from growth-oriented government policies. In addition, it is important to buy companies that can deploy capital efficiently to lift returns, including those that can maintain high dividends and expand their market share post crisis,” he said.

The global economy is expected to continue its recovery, although as noted by Sun Hung Kai Financial in its “Hong Kong and PRC Market Outlook for 2H 2009” conference in July last year, this recovery “will be neither smooth nor synchronised”. Nations are expected to maintain loose monetary policies to improve their medium- and long-term prospects. In particular, the forecast for a U.S. recovery is tepid when contrasted with China’s expected 9% GDP growth. The Federal Reserve is expected to begin a gradual fadeout of emergency support measures, limiting USD liquidity and the downward scope for the dollar. However, structural weaknesses for the USD will continue as a result of the deteriorating budget deficit in the U.S., capping the USD’s upside potential. As a result, the dollar is expected to range trade during the year.

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#### **About Sun Hung Kai & Co. Limited and Sun Hung Kai Financial**

Sun Hung Kai & Co. Limited (HKEx stock code: 86), which operates as Sun Hung Kai Financial (“SHKF”, the “Group”), is the leading non-bank financial institution in Hong Kong. Founded in 1969, the Group offers tailored financial solutions to retail and institutional clients. The Group’s core areas of focus consist of wealth management and brokerage, asset management, corporate finance, consumer finance and principal investments. Operating an extensive branch and office network across more than 60 locations in Hong Kong, China, Macau and Singapore, the Group currently has more than HK\$50 billion in assets under management, custody and/or advice and over HK\$12 billion in shareholders’ equity (as of 30 June 2009).

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