

## SHKF expects global recovery concerns to present strong buying opportunity in Hong Kong & China equities

\* \* \*

### “Hong Kong and PRC Market Outlook for 2H 2010” #

---

#### Highlights:

- HSI fair value at 23,500
- HSCEI fair value at 13,500
- China GDP growth expected to slow to 8-10% p.a.
- Concerns about hard landing to weigh on market performance in second half
- Strong but healthily slower China GDP growth, receding inflationary pressure and an end to liquidity drain are likely to set conditions for longer term upward market momentum
- Recent market pullback normal in course of secular growth trajectory
- Final phase of bull run yet to come

---

**Hong Kong, 6 July 2010** – Sun Hung Kai Financial (“SHKF”), Hong Kong’s leading non-bank financial institution, expects the global concerns about the pace and sustainability of the economic recovery currently weighing on the Hong Kong and China equity markets will present a good buying opportunity during the second half, ahead of a likely bull run driven by healthily slower GDP growth in China, receding inflationary pressure and an end to the liquidity drain.

After the severe property tightening measures announced in April this year and the outbreak of the Eurozone sovereign debt crisis, concerns about a hard landing in the Chinese economy are likely to extend into the second half of the year and weigh on equity market performances. Europe is China’s largest export market and the weaker Eurozone economy and Euro may hamper China’s export growth. The weaker Euro also makes European goods more competitively priced than American goods in the international trade arena, hurting U.S. exports and slowing the U.S. economic recovery. Importantly, as the U.S. is China’s second largest export destination, this would also dampen China’s export recovery.

Mr. Alvin Chong, Head of Research, Sun Hung Kai Financial, expects China's economic growth to slow to approximately 8 to 10% in 2H 2010, and believes that the recent stock market pullbacks - a normal event in the course of a secular growth trajectory - have reflected this probable slowdown in China and the rest of the world.

“Further declines from current levels offer bargain opportunities amid near-term low risk appetite and fragile investor sentiment. Most market participants dislike uncertainty and embed high risk premiums for holding stocks, however, they usually undershoot the downside target. As such, sharp pullbacks offer up cheap, even bargain prices, for long-term fundamental investors focusing on the long-term expected returns rather than the likely short-term market weakness. We believe that the final phase of a bull run has yet to come, and the market will resume its uptrend when the global economic recovery resumes its shape. A combination of strong but healthily slower China GDP growth, receding inflationary pressure and an end to the liquidity drain will likely set the conditions for further market upward momentum. We suggest focusing on price levels rather than market timing for equity investment, because the first strategy is much easier to implement than the latter.”

Mr. Chong added that while he does not expect the Eurozone sovereign debt crisis to change the course of the global recovery, particularly with Greece, Italy, Ireland, Portugal and Spain together representing only 8% of world GDP, the recovery may take longer. The IMF has recently raised its global growth forecast to 4.2% from 3.9%. Advanced economies are expected to expand 2.3% in 2010 after the 3.2% contraction in 2009, while emerging economies are predicted to expand 6.3% this year after the modest growth of 2.4% last year.

“We believe China is keen to achieve GDP growth of 8% to 10% p.a. in the next five years despite the headwinds in Europe. Past evidence suggests China can deal very competently with domestic and external economic turbulence. Since the Asian financial crisis in 1998, China has been able to register GDP growth ranging between 8% and 13%, with a compound average of 9.5%,” explained Mr. Chong.

“Today, de-leveraging is no longer a threat, liquidity is more abundant through global economic stimulus programmes, and most governments have developed better skills and established procedures to identify and prevent systematic risks from turning into financial panic. They see further, move faster and cooperate better to implement fixes. We believe policymakers will keep monetary policy loose for longer, and this will likely create an environment in which global monetary expansion leads to high inflation and asset bubbles, creating strong liquidity-driven equity markets down the road. There is also a chance that the U.S. will relax its grip on the export of high technology products to China, to make up for its loss of competitiveness in international trade. This would enable China to progress faster up the value chain and boost its tertiary industries,” he added.

SHKF believes China's inflation pressure may taper off in the second half of the year, with economic overheating unlikely to be a threat and most of the macro and policy measures expected to subside. In the long-term, rising wages could boost consumption in staples, clothing and other necessities, and more importantly, China's social safety net is expanding and public infrastructure is improving. Urbanisation and social-security reform will also be two key medium- to long-term growth drivers. The rising affluence of China's masses is unleashing long-term secular demand growth for a wide range of products and services, including healthcare, housing, apparel, auto, entertainment, consumer electronics and insurance, among others.

In terms of stock selection, SHKF recommends accumulating market leaders with pricing influence that are able to benefit from the rising affluence of China's masses. The Group also recommends accumulating financially robust Chinese property developer stocks.

-- ENDS --

### **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, is the leading non-bank financial institution in Hong Kong. Founded in 1969, the Group offers tailored financial solutions to retail, corporate 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 87 locations in Hong Kong, China, Macau and Singapore, the Group currently has over HK\$60 billion\* in assets under management, custody and/or advice and more than HK\$12.5 billion\* in shareholders' equity. (\* Figures as at 31 December 2009)

#### **For enquiries:**

#### **Sun Hung Kai Financial**

Marie Yung	+ (852) 3920 2511	marie.yung@shkf.com
James Murphy	+ (852) 3920 2510	james.murphy@shkf.com
Peony Cheng	+ (852) 3920 2513	peony.cheng@shkf.com

*# This press release is based on the views and opinions presented by Sun Hung Kai Investment Services Limited's equities research team. For full information, including relevant disclosures, warnings etc, please refer to the report "Hong Kong & PRC Market Outlook 2H 2010" published on 6 July 2010.*