

[For immediate release]

SHKF expects global economy to grow modestly in 2H 2015

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HSI to reach 32,500

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Asian stocks favoured with focus on China, Hong Kong and India markets

Highlights:

- The global economy is expected to grow modestly
 - The US and China's economic momentum is expected to improve in 2H 2015, and gradual economic stabilisation in Japan and Europe will support the moderate improvement of the world's growth momentum
 - Overweight allocation to equities, favouring Asian stocks with focus on China, Hong Kong and India markets
 - Major central banks tend to keep their accommodative monetary stance and the world's abundant capital flows may bode well for asset prices
 - HSI target revised up to 32,500; HSCEI target at 17,000
 - Three major investment themes for Hong Kong equities: (1) interconnection between China and Hong Kong stock markets; (2) China's policy-/reform-led sectors; (3) Mainland China's monetary easing policy
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Hong Kong, 2 June 2015 – Sun Hung Kai Financial (“SHKF”) expects the global economy to grow modestly in the second half of 2015. Economic momentum in the US and China is expected to improve in the second half; and Japan and Europe's gradual economic stabilisation will support the moderate improvement of the global growth momentum. Asia is still the economic growth engine among other regions, and India's growth, in particular, is remarkable compared with its performance last year.

In respect of interest rates and capital flows, the Federal Reserve may lift rates this year but the pace of rate hikes should be relatively slow. Other major central banks tend to keep their accommodative monetary stance given the muted inflationary pressure, and the world's abundant capital flows may bode well for asset prices.

Mr Kenny Wen, Wealth Management Strategist at SHKF, said, “We maintain an overweight allocation to equities and expect global equities to have further upside in 2H 2015, but given that some stock markets have seen noticeable rallies since the beginning of this year, their movements may be more volatile. Investors should avoid being too aggressive and a diversified portfolio will be the investment focus. On the strategy front, US small caps may test higher, and investors may buy on the dips on Europe and Japan stocks so as to increase the risk-reward ratio. Asian equities remain our core selection with the focus on China, Hong Kong and India markets. The HSI is expected to hit a record high by breaking its historical high in 2007.”

HK equities: Mainland China's economy may stabilise; HSI to reach 32,500

The market sentiment in both China and Hong Kong was fuelled by the central government's stronger efforts to stabilise China's economic growth with a package of measures since late 2014. In addition, the China Securities Regulatory Commission announced in late March that Mainland mutual funds would be allowed to participate in the Shanghai-Hong Kong Stock Connect. Hong Kong equities attracted capital inflows from Mainland China due to lagging valuations, which prompted the HSI to hit a seven-year high by breaking the 28,500-level in April.

Easing policy supports stabilisation of China's economy

The world's abundant liquidity is actively looking for investment opportunities. The Shenzhen-Hong Kong Stock Connect is likely to be unveiled in this year. Mutual recognition between Mainland China and Hong Kong funds will be launched on 1 July 2015. These factors may attract more capital to the Hong Kong stock market. SHKF retains its positive view on Hong Kong stocks in 2H 2015.

We expect that the People's Bank of China will lower the benchmark interest rate once and cut the reserve requirement ratio two times in the rest of 2015. Regarding fiscal policy, the Chinese government will increase the country's fiscal deficit-to-GDP ratio to 2.4% this year. Transport and infrastructure, and environmental and water resource projects may become the focus of capital investment. Supported by both monetary and fiscal policies, Mainland China's economy is expected to experience stabilised growth in 2H 2015.

Further, in line with economic stimulus policy, the central government steps up its efforts to tackle problems in the financial system, such as the "RMB 1 trillion local government debt-for-bond swap" programme launched earlier, which aims to replace the high-interest-rate short-term China Urban Construction Investment Bond and bank loans with low-interest-rate long-term local debts that are expected to lower Mainland China's credit risk and promote capital flows.

China and Hong Kong stock markets to trend higher on three major themes

With regard to valuation, HSI and HSCEI valuations are estimated to be at 13.1X and 10.1X P/E respectively this year, well below the Shanghai Composite's 19.2X. Based on SHKF's internal valuation model, we have revised our HSI target upward to 32,500 by the end of 2015 and our target for the HSCEI is 17,000. Our target for the Shanghai Composite is also revised to 5,300. The three major investment themes for Hong Kong equities in 2H 2015 are: (1) interconnection between China and Hong Kong stock markets; (2) China's policy-/reform-led sectors; and (3) Mainland China's monetary easing policy. Investment opportunities driven by these themes are expected to focus on brokerage, Internet, environmental and new energy, logistics and high-quality large Chinese property stocks.

Despite the bright market outlook for China and Hong Kong equities, investors should pay heed to several risk factors, especially if the reform pace turns out to be slower than what the market has anticipated, or the economic data is still mixed even with a package of stimulus measures, the performance of both China and Hong Kong equities may be weakened. Subdued sentiment in Mainland China's property market, in particular, may put the country's economic growth under pressure.

Asia: core selection in portfolio with allocation to equities and bonds

China's economic growth may slow down significantly compared with last year. Nevertheless, the Asian economies are expected to expand rapidly driven by other countries in the region such as India. Asian equities are trading at reasonable valuations with the current P/E at only 12.8X, below past averages. Moreover, the region's corporate earnings are expected to show almost double-digit growth for both 2015 and 2016, favouring the performance of Asian stock markets. India should be in focus in addition to China and Hong Kong's stock markets.

In the bond market, due to optimism for corporate earnings and possible further rate cuts in China, India and South Korea, which can lower the financing costs for corporates, the credit quality of Asian bonds will continue to improve. Therefore, Asian bonds could be a defensive choice for stable returns.

India: Modi and Rajan tie up with positive outlook for stocks

India's Prime Minister Narendra Modi rolled out various reform measures after he took office in mid-2014, for example, the "Make in India" campaign that aims at attracting foreign businesses to invest and set up production plants in India. This is coupled with the efforts of the Governor of the Reserve Bank of India Raghuram Rajan, who is good at undertaking policy adjustments based on macroeconomic conditions. The measures of Modi and Rajan are supportive for the stable development of the Indian economy, which is expected to surpass China to become the world's fastest-growing major economy by next year. Indian stocks' correction in recent months may present an opportunity for investors to increase their exposure to India. The Sensex Index may rally further to 31,500 in 2H 2015.

US: modest economic growth; positive on small caps

The 1Q 2015 economic slowdown in the US may be short-term. The US economy is expected to pick up growth momentum in 2H 2015. The International Monetary Fund expects the US growth to remain stable at around 3% for 2015 and 2016. Without any consensus on rate-hike timing among Federal Reserve Board members, the first rate hike may happen in September 2015 the soonest. Yet, the pace of rate increase should be adjusted based on actual economic conditions and the extent should be relatively moderate.

Continued growth in the economy and earnings remain the positive factors for US equities in 2H 2015. However, the high valuations of US stocks and the Federal Reserve's potential rate hike decision suggest that US equities may become more volatile in the second half. US small caps may be more insulated against the Dollar's strength given that their major business presence is in the domestic market. Moreover, they are benefiting from frequent M&A activities, implying their outlook could be better than that of large caps. The Russell 2000 Index, which reflects the performance of US mid-/small-caps, may test upper at 1,380.

Japan and Europe: wait for buying opportunities; hedge against currency risk

Japan's 1Q 2015 economy performed well above expectations but the core inflation rate (deducting the impact of sales tax hike) merely rose 0.2% YoY in March. The Bank of Japan is still likely to expand the QE scale in 2H 2015, which may benefit the market sentiment for Japanese stocks. However, the economic data may be disappointing in the coming few months amid the higher market anticipation for Japan's economic outlook. Furthermore, Japanese equities have recorded sharp rallies and the market may go through a potential retreat before the central bank's

additional bond purchase. Investors may consider taking such an opportunity by investing in Japanese equities.

In the Eurozone, the growth edged up 0.4% QoQ in 1Q 2015 and the inflation stabilised and remained flat in April, reflecting gradual improvement. However, investors should keep an eye on Greece that in case it fails to meet repayment on 5 June 2015, a default will occur, which will lead to volatility in Europe equities. Investors who are optimistic about Europe should pay attention to Greece and buy on the dips.

Investors favouring the outlook of Japan or Europe are advised to hedge against currency depreciation risk to mitigate the impact on returns from the fall of the Yen or the Euro.

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About Sun Hung Kai Financial Limited

Sun Hung Kai Financial Limited (“SHKFL”), with its foundation dating back to 1969, is a 70%-owned subsidiary of Everbright Securities Company Limited (“Everbright Securities”, SSE: 601788).

Operating under the Sun Hung Kai Financial brand as well as the SHK Direct and SHK Private sub-brands, SHKFL has two core business segments, Wealth Management and Brokerage, and Capital Markets. It offers customised wealth management and investment solutions for retail, corporate and institutional clients. Backed by Everbright Securities, SHKFL provides greater access for Hong Kong and Mainland investors to a broad range of products and services.

SHKFL has an extensive branch and office network in Hong Kong, Macau and Mainland China, and offers a diversified financial trading platform to its customers. SHKFL, through its subsidiaries, currently has about HK\$85 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.

*As of 31 December 2014

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This press release is based on views and opinions of the retail research team of Sun Hung Kai Investment Services Limited.