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ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

ABCI China/Hong Kong Equity Research

2H15 Economic Outlook and Investment Strategy

Moving forward, step by step

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Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price

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2H15 Global Economic Outlook

Global growth momentum in 2H15: Moving forward, step by step

The world economy was still struggling in 1H15 as external vulnerabilities and domestic challenges had hindered the recovery pace. The U.S has laid out expectation of rate hike later in 2015 as its economy improves; Japan's QE pledge showed signs of reviving the beleaguered economy, as indicated by the stronger-than-expected 1Q15 GDP growth. EU, however, continues to wrangle with Greece's debt issues and economic activities in the Eurozone showed languid growth, endangering the recovery of the region despite continued bond purchases through the QE program. Meanwhile, emerging Asia continued to see domestic credit loosening and fiscal expansion to boost economic growth. Moving into 2H15, we expect the global economy to regain a mild momentum.

China, the second largest economy in the world, saw stagnant growth in 1H15. In our view, more accommodative economic policies to stimulate domestic demand will be launched in 2H15. Meanwhile, growth in Hong Kong's economy is expected to remain subdued in 2H15 on decelerating growth in consumption and services exports.

Global economic forecasts

YoY (%)	2012	2013	2014	2015F	2016F
U.S.	2.3	2.2	2.4	**2.8**	**3.0**
Euro Area	(0.8)	(0.5)	0.9	**1.3**	**1.5**
Germany	0.6	0.2	1.6	**1.7**	**1.9**
France	0.3	0.3	0.4	**1.0**	**1.2**
Italy	(2.8)	(1.7)	(0.4)	**0.2**	**0.8**
Spain	(2.1)	(1.2)	1.4	**1.8**	**2.0**
Netherlands	(1.6)	(0.7)	0.9	**1.4**	**1.5**
Greece	(6.6)	(3.9)	(0.8)	**(0.8)**	**(1.2)**
Portugal	(4.0)	(1.6)	(0.9)	**1.4**	**1.5**
Ireland	(0.3)	0.2	4.8	**3.6**	**3.8**
UK	0.7	1.7	2.6	**2.6**	**2.4**
Japan	1.8	1.6	(0.1)	**1.8**	**2.2**
Mainland China	7.7	7.7	7.4	**7.0**	**7.0**
Hong Kong SAR	1.7	3.1	2.5	**2.3**	**2.5**
Singapore	3.4	4.4	2.9	**2.9**	**3.1**
South Korea	2.3	3.0	3.3	**3.4**	**3.5**
Russia	3.4	1.3	0.6	**(4.2)**	**(2.2)**
India	5.1	6.9	7.2	**7.7**	**7.8**
Brazil	1.8	2.7	0.1	**(1.2)**	**0.5**

Source(s): IMF, ABCI Securities estimates

U.S.: Engineering a graceful exit

The U.S. economy got off to a lackluster start in 2015, with 1Q15 GDP contracting by an annualized rate of 0.2% QoQ. The harsh winter, declining oil prices, and a strong USD all contributed to the disappointing growth. In addition, the decline in industrial production and capacity utilization, accompanied by the decreasing ISM manufacturing PMI, indicates a slowdown in the industrial sector.

Nonetheless, some bright spots remain. Job market improved over the last few months as unemployment rate continued to decline. The labor force participation rate indicates that more people are entering the job market and the number of job openings is rising. Although headline inflation was suppressed by the declining oil prices, the core inflation (excl. food and energy) still managed to improve moderately in 1H15. Consumption has also been recovering strongly, as reflected by the retail sales growth.

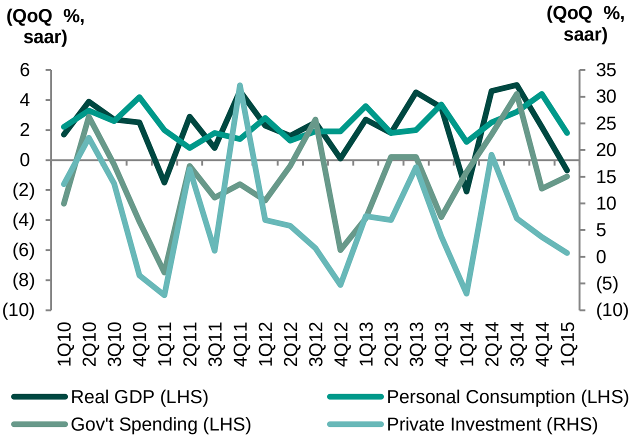
In 2H15, we believe recovery in the U.S will encounter a few challenges. First, the appreciation of USD would bring more harm than benefits, as the U.S. goods would be relatively expensive and overseas earnings in non-US currencies may incur conversion losses due to the continuous rise in USD. We expect the currency to continue to strengthen although the overall appreciation would be mild.

In addition, the economic recovery has not been strong enough to signal a self-sustaining momentum. The increase in new job openings has been mainly driven by the rising number of part-time jobs while wage growth has stagnated. More importantly, inflation still falls short of the Fed’s target and the low level of oil prices would only exacerbate the issue.

Finally, the rate hike would be crucial in determining the recovery in the U.S. There has been an increasing expectation that the Fed would start to increase rate in 2015, but diverging opinions on the timing of such move among the Fed officials indicate the difficulty of withdrawing from the unprecedented monetary program. The recovery pace could be disrupted If the economy is not strong enough once the rate hike cycle commences.

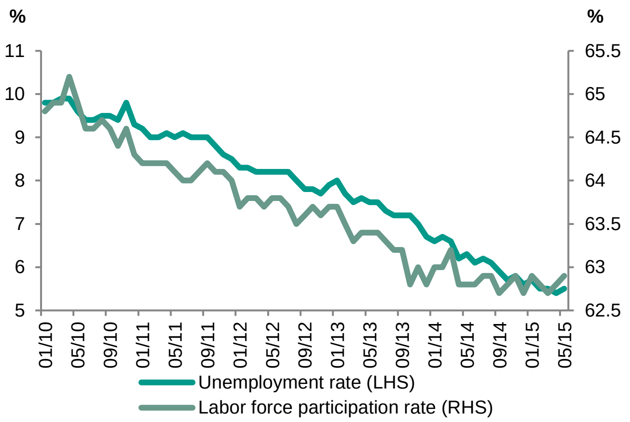
The liquidity generated from the QE program has created a buoyant stock market, but the recent bull run appears to be detached from the economic fundamentals. The U.S. companies have been spending on share buybacks and M&A activities instead of capital investment, thus inflating the overall market valuation. Once the Fed starts to raise rate, equity market would suffer from short-term loss on revaluation. As overseas funds are returning to the U.S. and the financial fiasco in the Eurozone continues to unfold, we expect that bond yields would continue to fall. Since the market has long been anticipating the rate hike, we believe the immediate market reaction would not be drastic and be short in brevity. Moreover, we expect the Fed to kick start the rate hike cycle no sooner than 3Q15, hence the impact on the economy would be minimal for the year. Based on our projections, we estimate the U.S. economy would grow by 2.8% YoY for 2015.

Exhibit 1: U.S. GDP contracted in 1Q15



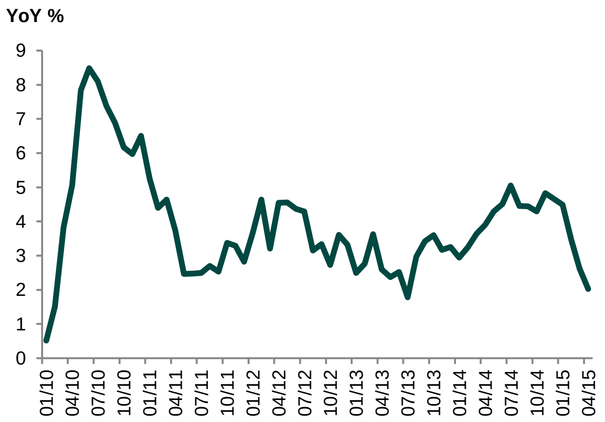
Source(s): Bloomberg, ABCI Securities

Exhibit 2: U.S. job market continues to improve



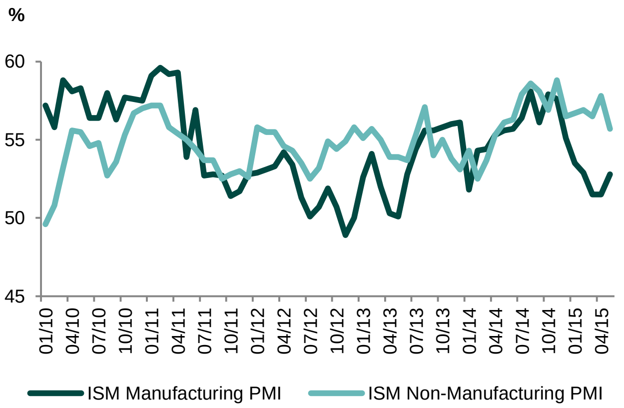
Source(s): Bloomberg, ABCI Securities

Exhibit 3: U.S. industrial production has weakened since 2015



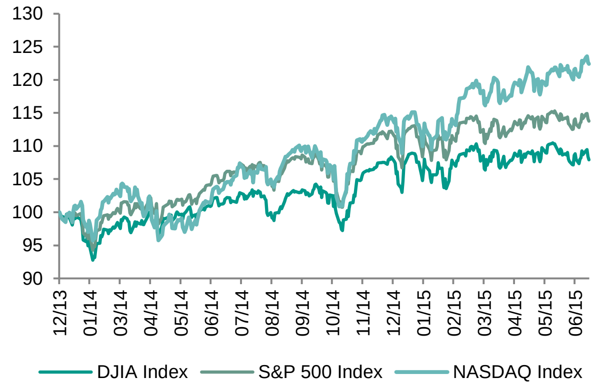
Source(s): Bloomberg, ABCI Securities

Exhibit 4: U.S. PMIs are proceeding in different directions



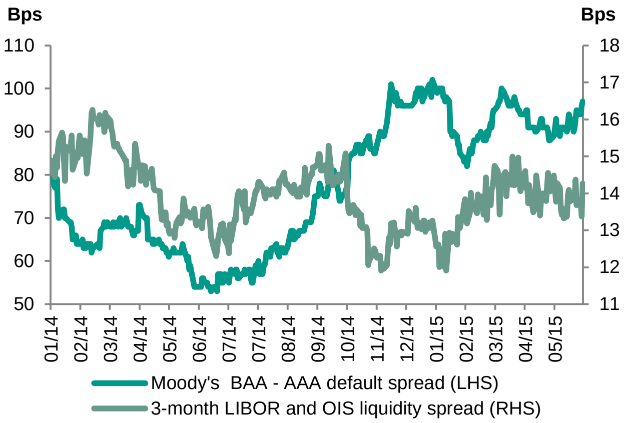
Source(s): Bloomberg, ABCI Securities

Exhibit 5: U.S. equity market has been edging up since 2014



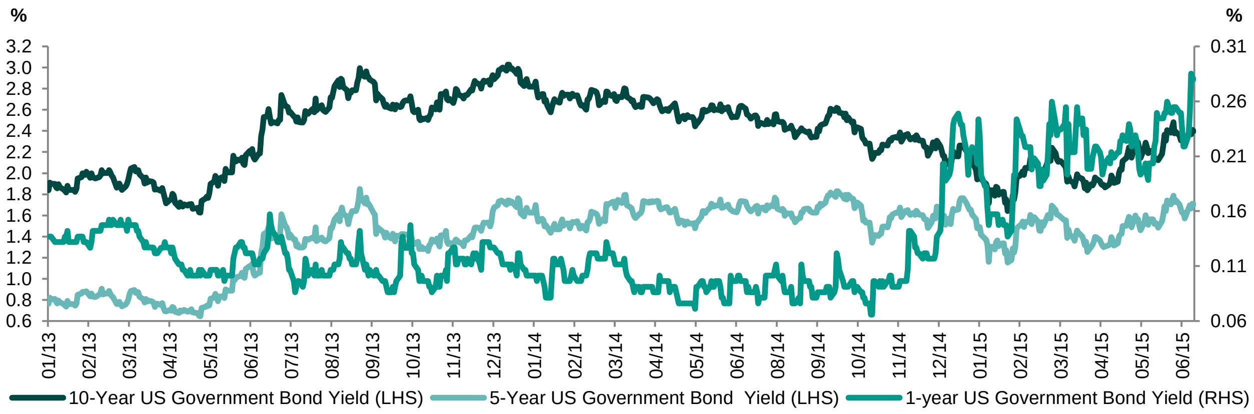
Note: Baseline as of Dec. 31, 2013
Source(s): Bloomberg, ABCI Securities

Exhibit 6: U.S. Liquidity spread and default spread signal a placid market sentiment



Source(s): Bloomberg, ABCI Securities

Exhibit 7: U.S. Treasury yield



Source(s): Bloomberg, ABCI Securities

Eurozone: What happens in Greece does not stay in Greece

Eurozone's improvement in 1H15 has reflected the effectiveness of policies and QE programs deployed. The region's GDP has been rising since 3Q14, with France, Italy and Spain showing positive progresses. Retail sales growth of the four core members (i.e. Germany, France, Italy, Spain) recovered, with Italy's retails sales ridding of contraction since Feb. More importantly, inflation has occurred in May 2015 despite the substantial decline in oil prices, hinting that the Eurozone might be able to escape the deflationary vortex.

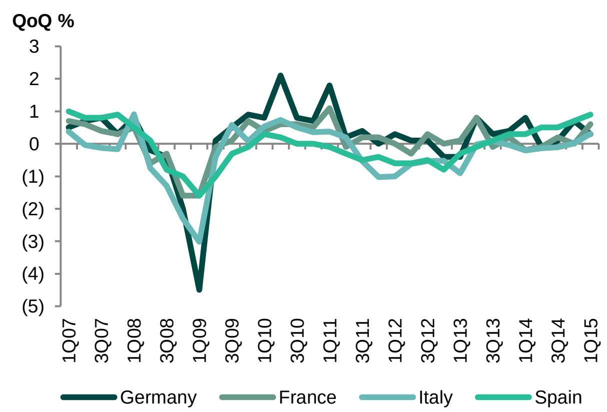
Nonetheless, various fundamental weaknesses in the Eurozone still warrant attention. Unemployment is high in the region– Germany is the only core member state with an unemployment rate of less than 10%. Industrial production is growing unevenly among the core members. In Germany, the fiscal condition has improved since 2014 and it is the only country showing a reduced debt-to-GDP ratio. The slow recovery is also postponing the fiscal consolidation and structural reforms of the Eurozone member states.

The Greek debt crisis has escalated in recent months. Negotiation between Greece and its creditors has been lengthened by a lack of consensus on key issues such as pension plan reform, tax, and privatization. There are signs of an agreement can be reached in the near term, but we believe it is entirely possible that Greece would continue to stall the negotiation process to delay debt repayment as well as to strive for a bailout plan that the Greek government desires. Negative effects of the protracted negotiation may ripple across the Eurozone.

Aside from the debt problem in Greece, there are also discussions concerning the Grexit and Brexit, which stand for the exit of Greece and the U.K. from the Eurozone. For Greece, the Grexit would be triggered by the failure to reach an agreement with other Eurozone countries and default on its loans; for the U.K., the Brexit would be decided by the referendum in the country. Either event would potentially wreak havoc on the Eurozone economy, although we believe the Grexit is unlikely to occur because recent progress in negotiation points to possible agreements; besides, in our opinion, the Eurozone authority would make every effort to prevent a precedent of Grexit to lower the likelihood of the Brexit.

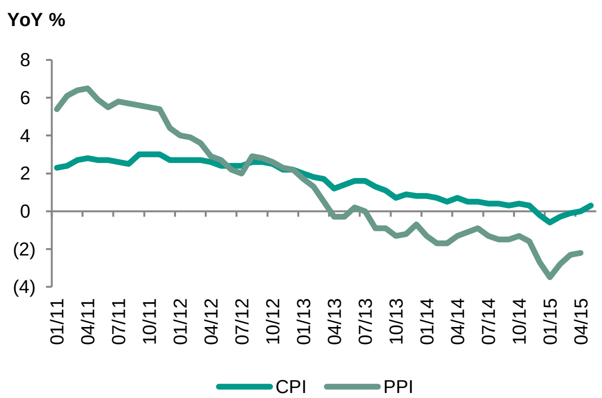
While stimulating regional growth and cultivating new growth drivers will remain the priorities of the Eurozone members in 2H15, we believe the uncertainty of the Greek debt crisis, and the possibility of Grexit and Brexit will be the major overhangs. In the short term, once the Greek debt crisis is resolved, we believe the equity indices across the region would see substantial rebound. In light of the challenges, we expect the Eurozone economy to show limited growth as a whole and its members would demonstrate uneven progress. We expect the economy would expand by 1.3% YoY in 2015F; GDP in Germany, France, Italy, and Spain would grow by 1.7% YoY, 1.0% YoY, 0.2% YoY, and 1.8% YoY in 2015F.

Exhibit 8: GDP growth of Eurozone nations



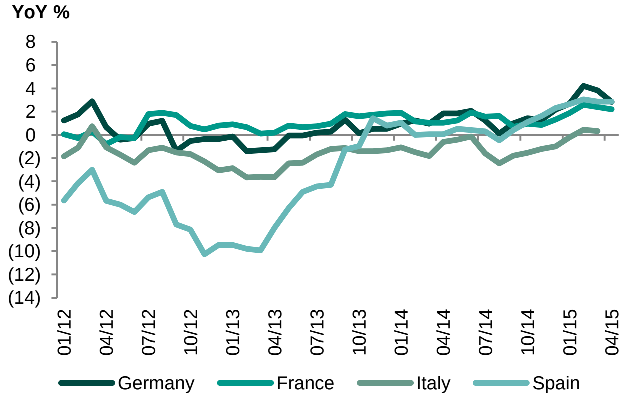
Source(s): Bloomberg, ABCI Securities

Exhibit 9: Eurozone inflation shows improvement



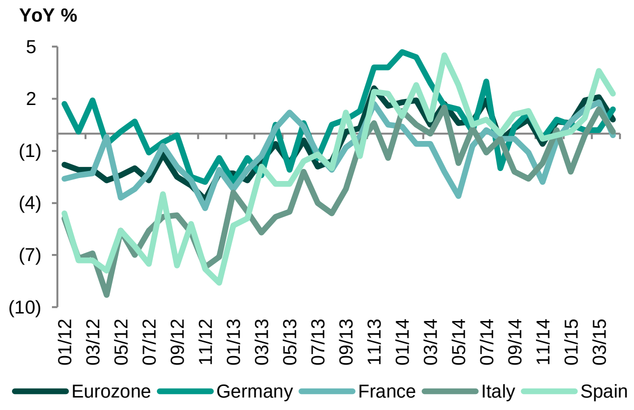
Source(s): Bloomberg, ABCI Securities

Exhibit 10: Retail sales growth of major Eurozone members (3MMA)



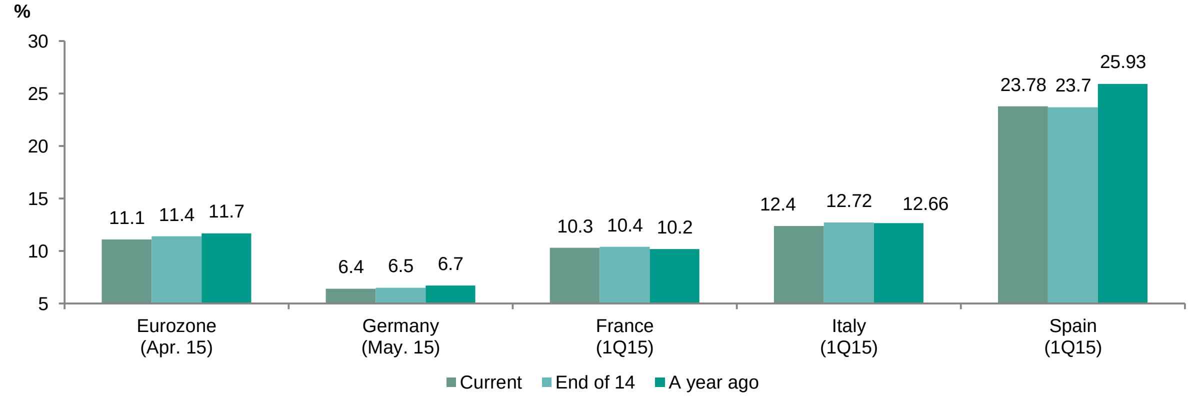
Source(s): Bloomberg, ABCI Securities

Exhibit 11: Industrial production growth of major Eurozone members



Source(s): Bloomberg, ABCI Securities

Exhibit 12: Unemployment rates in some Eurozone states remain high



Source(s): Bloomberg, ABCI Securities

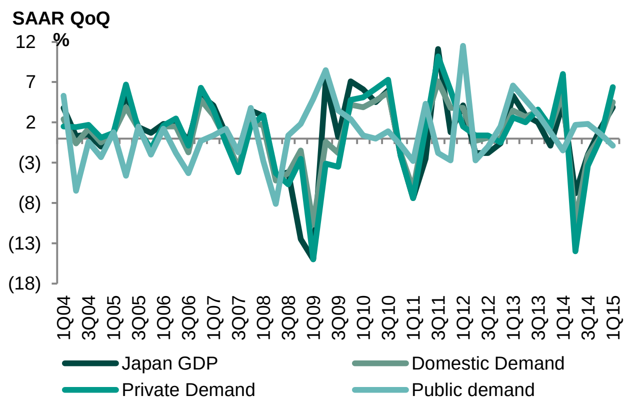
Japan: Maintaining the recovery momentum

In 1H15, the Japanese economy continues to improve. As of 1Q15, Japan recorded an annualized GDP growth of 3.9% QoQ, representing a significant increase from the 1.2% QoQ in 4Q14. Capital investment has been trending up, growing by 7.3% YoY in 1Q15. However, the third arrow of Abenomics has been progressing slowly, with wage growth and the employment situation achieving only a mild improvement. Negative impacts of the retail sales tax increase remain; retail sales only showed seasonal improvement and household spending dropped by 1.3% YoY in April. In addition, the weak Japanese Yen has boosted exports but hampered domestic demand.

Additional stimulus package from the BOJ has helped Japan avoid a prolonged recession. However, inflation, the core objective of Abenomics, declined significantly in May 2015. CPI and core CPI (ex. food and energy) fell from 2.3% YoY and 2.1% YoY in March to 0.5% and 0.4% YoY, signifying the country's low demand and sluggish domestic retail sales growth, instead of the declining oil prices, have been driving prices down. It shows that the Abenomics, without the complementary structural reform, would not achieve the intended results.

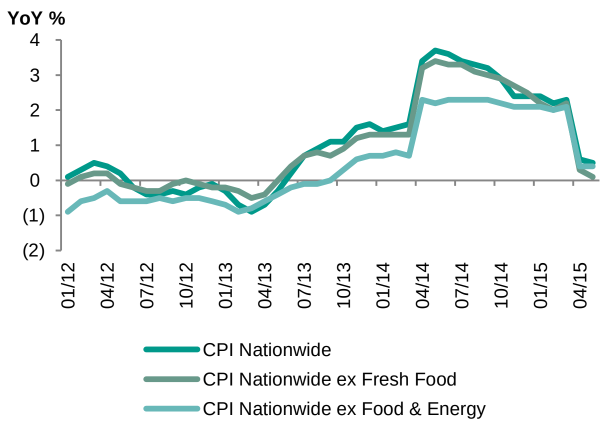
In 2H15, the country's ability to sustain the present economic momentum would be the key to resolve the conundrum imposed by deflationary pressure and sluggish consumption. The impact of recent wage increase remains to be seen, but we believe more needs to be done to further boost economic growth. In addition, we are of the view that the Japanese Yen will soon be adjusted and more actions from BOJ to counteract against the reducing purchasing power can be expected. Hence, we estimate the Japanese economy would grow by 1.8% YoY in 2015F.

Exhibit 13: Japan's GDP growth



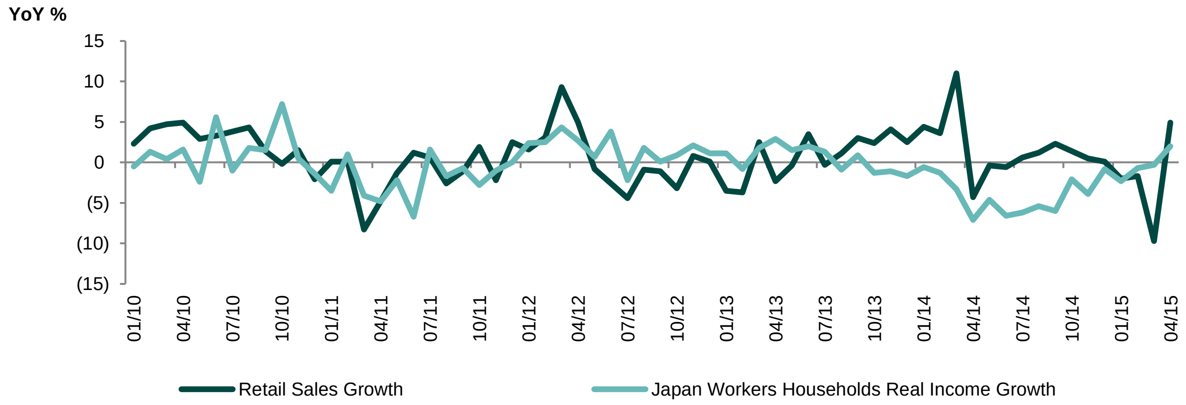
Source(s): Bloomberg, ABCI Securities

Exhibit 14: Japan's inflation weakens dramatically



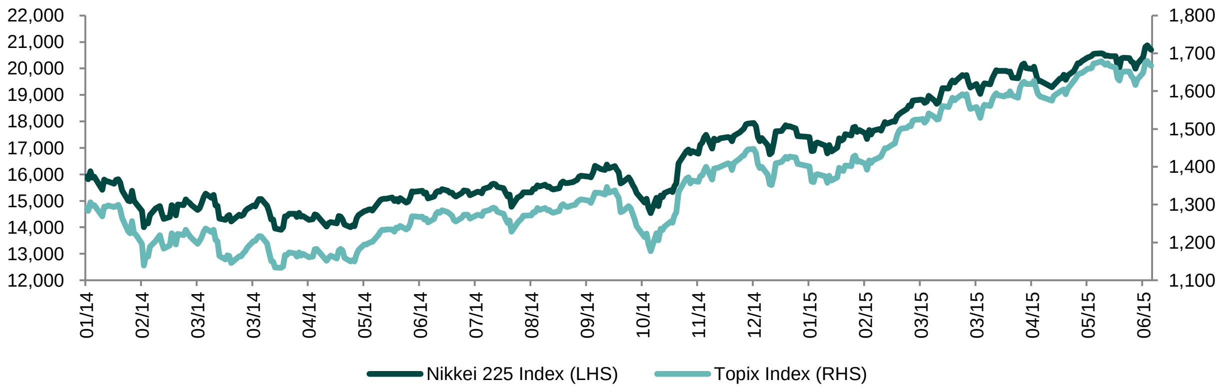
Source(s): Bloomberg, ABCI Securities

Exhibit 15: Japan's retail sales rose with household income



Source(s): Bloomberg, ABCI Securities

Exhibit 16: Additional stimulus package in Oct 2014 helped boost stock market sentiment



Source(s): Bloomberg, ABCI Securities

Emerging Asia: Limited growth prospects

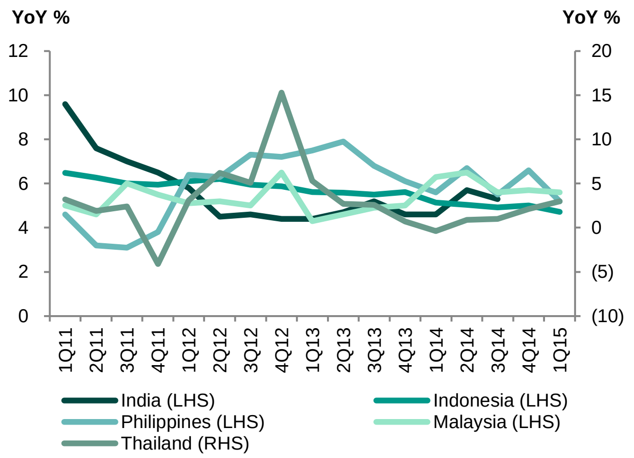
The global economic environment in 1H15 has been unfavorable to emerging Asia. The contraction of China's imports from the region has been extending from mid-2014 to 2015. The lower commodity demand also exerts pressure on commodity-exporting countries such as Indonesia and Malaysia. Meanwhile, recovery in the Eurozone and the U.S. has not been substantial enough to benefit these emerging economies.

Economic fundamentals in emerging Asia showed limited improvement. Current account (as a percentage of GDP) is low, with the ones in India and Indonesia still incurring deficits. Foreign reserves have also been decreasing among the ASEAN countries. In anticipation of the Fed's normalization of the U.S. monetary policy, funds are exiting the emerging Asia– this is reflected by the falling stock prices and accelerated depreciation of some local currencies (e.g. INR, IDR, MYR). Moreover, these Asian markets would also suffer from regional rotation, especially when the equity markets in other parts of Asia (such as China and Japan) are rallying. We believe the actual rate hike would result in higher volatility in the emerging Asian markets. However, since the impending rate change has been priced in, we believe its immediate impact would not be as dramatic as that in June 2013.

Nonetheless, two external factors will continue to support economic development in the emerging Asian markets. Low oil prices will reduce the financial burden on the oil-importing countries and allow them to conduct fiscal consolidation with more ease, while the strong USD will create a more favorable external trade environment.

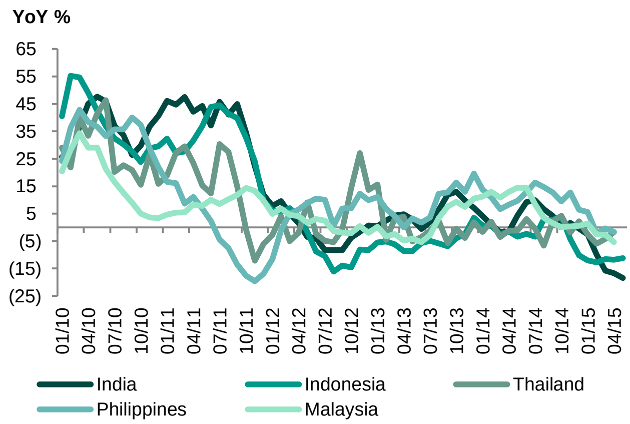
Overall, we believe the region's economic growth would be negatively impacted by the U.S.'s normalization of monetary policy and the slow-paced recovery of the global economy. In addition, structural weaknesses in these emerging economies will continue to curtail domestic growth. The region's currencies and equity indices would experience more volatility in 2H15 once the Fed starts to increase rate and may underperform compared to the developed markets. Hence, we expect economic growth in emerging Asia to be limited in 2H15. Our 2015F GDP estimates for India and ASEAN are 7.7% YoY and 5.0% YoY.

Exhibit 17: GDP growth in emerging Asia



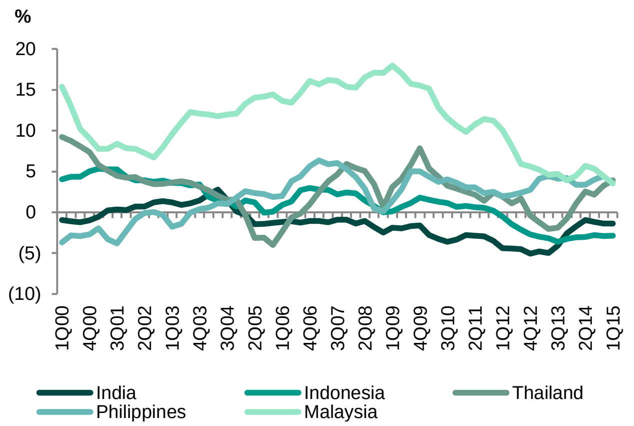
Source(s): Bloomberg, ABCI Securities

Exhibit 18: Export growth in in emerging Asia



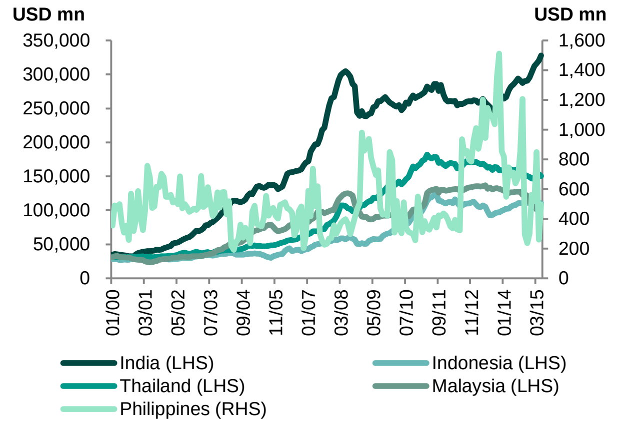
Source(s): Bloomberg, ABCI Securities

Exhibit 19: Current account/GDP in emerging Asia



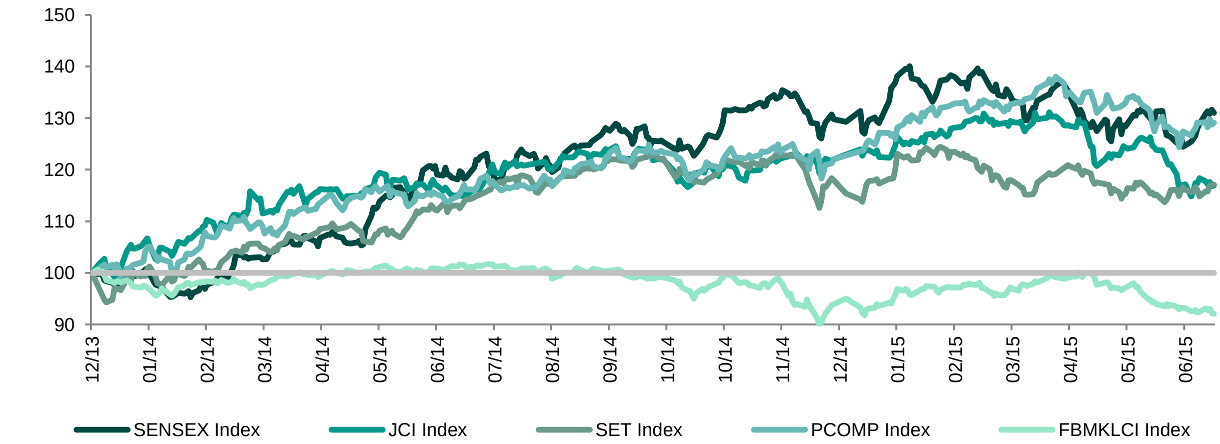
Source(s): Bloomberg, ABCI Securities

Exhibit 20: International reserve in emerging Asia



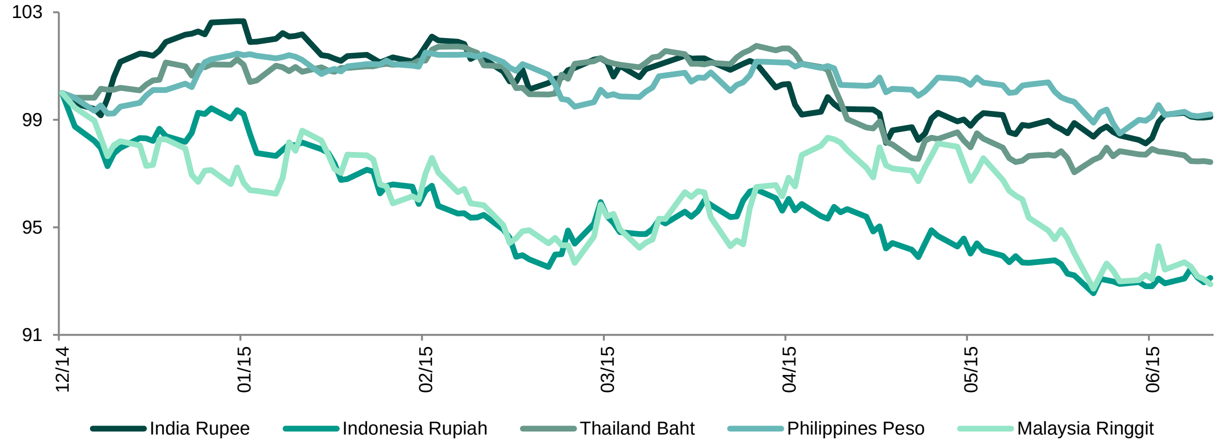
Source(s): Bloomberg, ABCI Securities

Exhibit 21: Equity indices in emerging Asia



Note: Base line as of Dec 31, 2013
Source(s): Bloomberg, ABCI Securities

Exhibit 22: Currencies of emerging Asia



Note: Base line as of Dec 31, 2014
Source(s): Bloomberg, ABCI Securities

2H15 China Economic Outlook

China: Settling into a "new normal"

The first half of 2015 was marked by moderating growth in China, a robust boom in the equity market, and an uneven economic recovery worldwide. China's GDP growth slowed to 7.0% YoY in 1Q15, the slowest in six years. Domestic demand remained subdued on extended sluggishness in the property market as well as the adverse spillover effects to related sectors. The anemic demand has prompted authorities to escalate monetary easing in 1H15, resulting in a 50 bps cut in benchmark interest rates and 150 bps reduction in required reserve ratio (RRR). Weakening growth in China has reverberated around the world, sending prices of commodities tumbling and causing further impairments to the global economy. While most economic indicators in 1Q15 reflected a moderating growth, those of April and May showed mild improvements that signal a stabilizing economy and steadying macroeconomic conditions.

In 2H15, the lagged impacts of stimulus measures will start penetrating into the real economy, accelerating growth in private consumption, investment, and exports. A more balanced expansion in China's economy will be observed. We believe the economy will bottom out in 1H15 and expand by 7.0% YoY. In 2H15, a more balanced, albeit moderate, growth will be seen, with the GDP expanding by 7.1%. Inflation is also expected to remain mild at 2.1% in 2H15 and the full-year estimate is at 1.7%.In general, China is in the stage of steadying the momentum of progressive economic development. Our 2015F and 2016F GDP growth forecasts are 7.0% YoY.

Exhibit 23: Economic forecasts for China

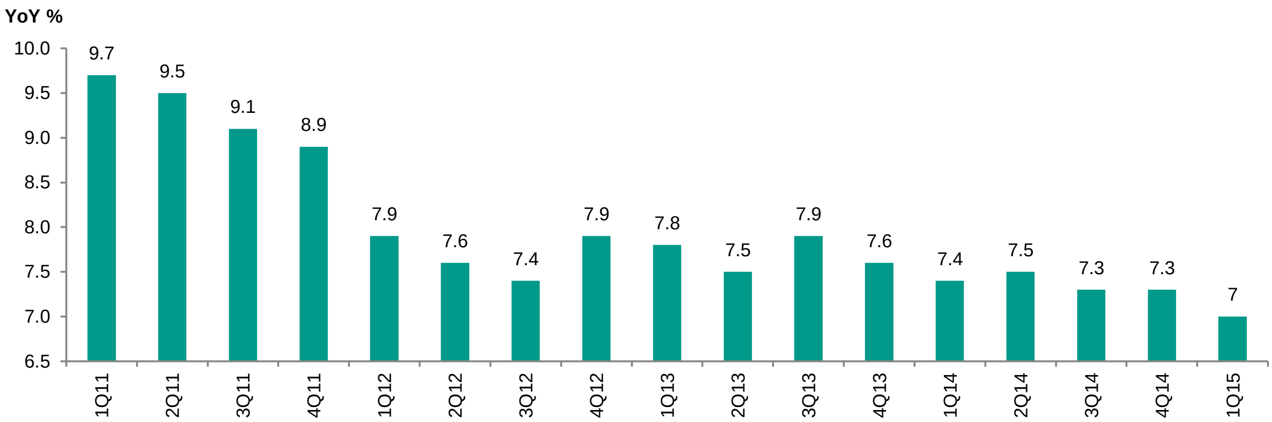
(YoY %, or otherwise specified)	2013	2014	1Q15	2Q15F	2H15F	2015F	2016F
Real GDP	7.7	7.4	7.0	7.0	7.1	7.0	7.0
FAI (YTD YoY %)	19.6	15.7	13.5	11.0	12.0	12.0	12.5
Retail Sales	13.1	12.0	10.2	10.8	11.2	11.0	12.0
Exports	7.9	6.1	(15.0)	(2.5)	3.6	2.3	5.0
Imports	7.3	0.4	(12.7)	(16.5)	(4.4)	(10.5)	2.5
Trade Surplus (US$ bn)	259.8	382.5	3.1	152.1	367.6	643.4	719.4
CPI	2.6	2.0	1.2	1.3	2.1	1.7	2.6
PPI	(1.9)	(1.9)	(4.6)	(4.5)	(4.0)	(4.3)	(2.2)
M2	13.6	12.2	11.6	12.0	12.3	12.3	12.5
Exchange Rate (US$/RMB)	6.0543	6.2040	6.1996	6.2055	6.2040	6.2040	6.1730

Source(s): NBS, Bloomberg , ABCI Securities estimates

2H15 China Policy Outlook

With China entering into a "new normal" of slower and sustainable growth, the government set the GDP growth target at 7.0% for 2015, down from 7.4% in 2014 and is the lowest in 11 years. The move signals the government is reviving growth through a quality approach to ensure that benefits of economic growth will be shared by a larger population. In1H15, much attention has been centered on economic themes relating to China's "new normal" of moderate growth. After the conclusion of China's annual parliamentary session (NPC) in March, Premier Li Keqiang said it will not be easy for China to achieve a 7% GDP growth in 2015, and the Chinese economy will operate within an appropriate range as the economic development enters a slower growth phase. Given the heightening disinflation risks and the economic rebalancing in process, we believe China's economic policies will turn more accommodative in 2H15 than in 1H15. To alleviate the intensifying downside risks, China has gone forward with a policy of selective loosening with liquidity injection, tax relief, greater support to enterprises, increased infrastructure investment, and establishment of free-trade zones. To achieve a GDP growth of 7.0% for 2015, policymakers have been enhancing support for small businesses and accelerating spending of budgeted funds. Our analysis of various growth-prompting monetary and fiscal initiatives likely to be introduced in 2H15 is provided in the following sections.

Exhibit 24：Chin's GDP growth continues to normalize



Soruces(s): NBS, Bloomberg, ABCI Securities

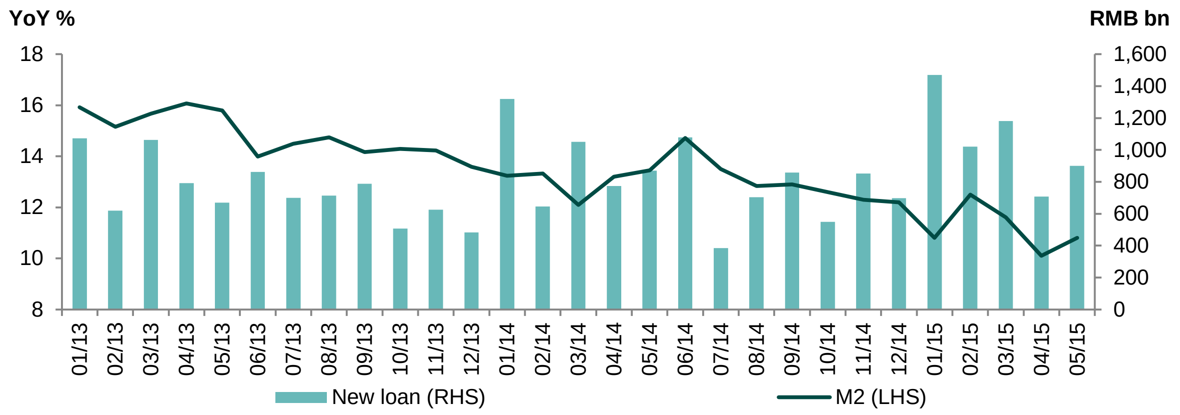
Monetary policy: Ramping up the monetary loosening programs

In 1H15, the People's Bank of China (PBOC) launched a 150 bps cut in RRR and a 50 bps cut in interest rate for financial institutions. Unlocking more than RMB 1.8tr for lending, the cuts target to diminish the risk of further slowdown in the country. We believe the latest RRR cut in April and rate cut in May will further boost the lending momentum and lower the market risk premium, thus improving market sentiment and stimulating economic activities.

China's challenge in 2H15 will be maintaining a healthy credit growth while accelerating economic restructuring and sustaining its GDP growth at 7%. With inflation remaining subdued, PBOC should have the flexibility to step up credit loosening to stabilize the economy. We expect the authority to launch two rate cuts (25 bps each) and two RRR cuts (50 bps each) in 2H15. Interest rate liberalization will deepen further, especially after the launch of deposit insurance on May 1. We believe full liberalization of the floating range in deposit rates may occur in 2H15. Furthermore, PBOC will keep the money supply and aggregate financing to the real economy (AFRE) growing at a reasonable pace while optimizing financing and credit structures.

Liquidity management will continue to be a priority of monetary policy in 2H15. Considering the possible rate hike in the U.S. later this year, we believe international capital will continue to exit China. PBOC will continue to accommodate capital demand and manage temporary liquidity fluctuations in the banking system on a discretionary basis via monetary tools, including repo, pledged supplemental lending (PSL), short-term liquidity operations (SLO), medium-term lending Facility (MLF), and the standing lending Facility (SLF).

Exhibit 25: New loans increase and M2 declines in 2015



Source(s): PBOC, ABCI Securities

Exhibit 26: Total social financing turns stable

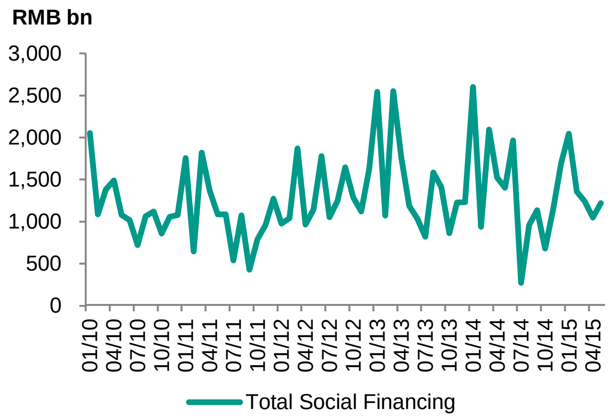
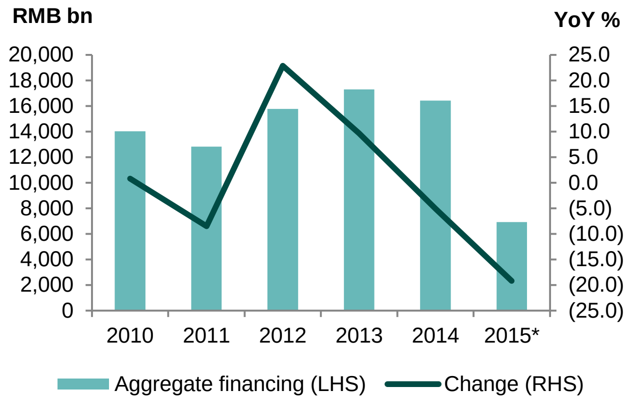
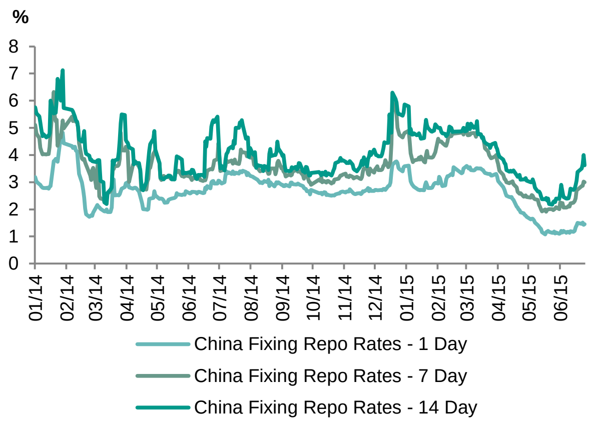


Exhibit 27: Aggregate financing fell in 5M15



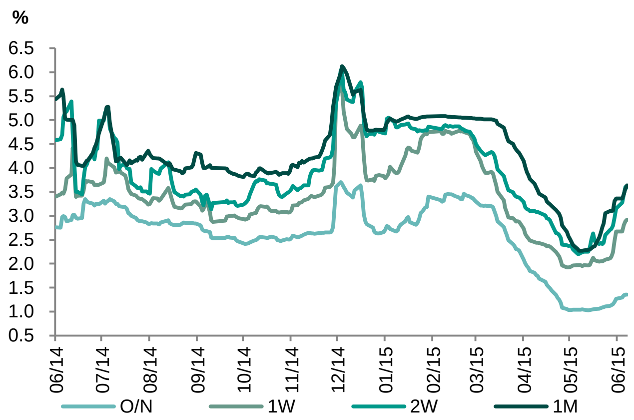
*Jan - May
Source(s): PBOC, ABCI Securities

Exhibit 28: 7-day Repo



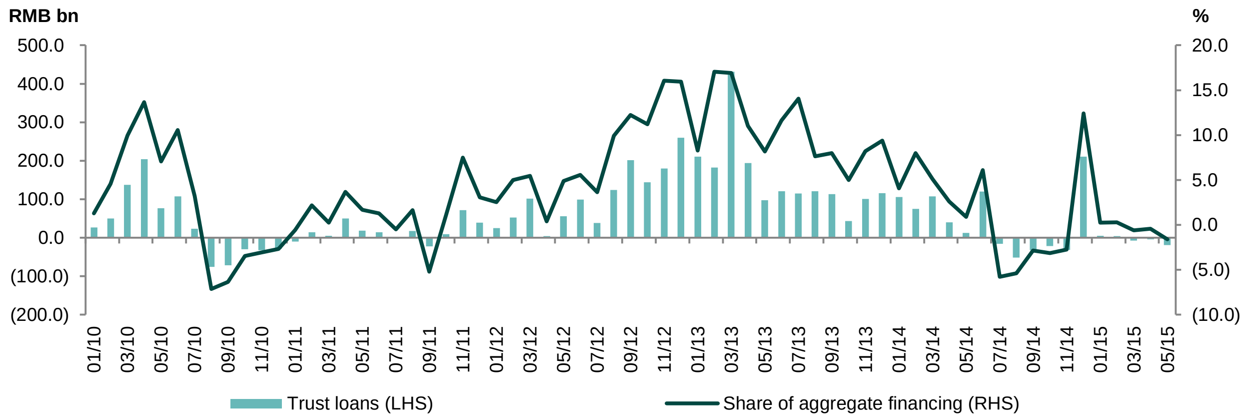
Source(s): Bloomberg, ABCI Securities

Exhibit 29: SHIBOR



Source(s): shibor.org, ABCI Securities

Exhibit 30: Share of trust loans is declining



Source(s): PBOC, ABCI Securities

Fiscal policy: Stimulus to mitigate fallen aggregate demand

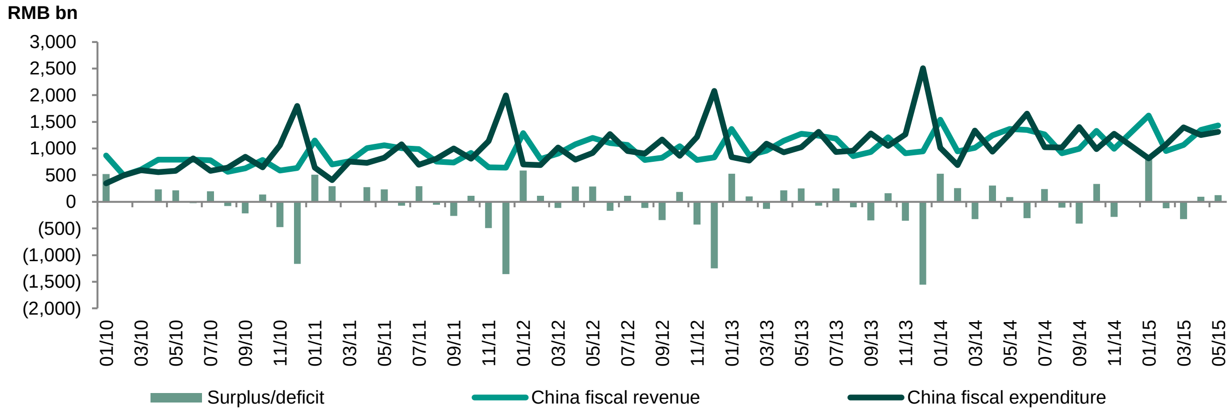
Fiscal policy in 2H15 should serve the purpose of buffering against the slowing economy in China. The impact of weaker growth will be revealed by the lower domestic demand as companies and families tighten their purse strings. Pro-consumption fiscal stimulus has been China's response to shrinking domestic demand. The nation's fiscal deficit in 2014, as a percentage of GDP, was less than 2% as compared to the 10% in the U.S. and 6% in the Eurozone. Room to expand fiscal spending, therefore, is still ample, especially when the government targets for a larger fiscal deficit at 2.3% of GDP (or RMB 162bn) in 2015. We believe more support will be provided for tax relief, social housing, SMEs, livelihood-related and environmental protection.

Fiscal spending on infrastructure is crucial to maintaining China's overall growth in 2015 amid slowdown in real estate, manufacturing, and other key sectors considered to be the main pillars of China's economy. The central government will support infrastructure investment in highways and high-speed railway construction, electricity grid upgrades, and resource development in central and western China. Construction of subsidized housing, which is funded partially by the local governments, will also be monitored.

Deepening tax reform is another major fiscal measure to alleviate the financial burden of enterprises. The enhancement of tax efficiency, along with tax reductions, would boost growth in services and consumer industries. The replacement of the business tax with a value added tax (VAT) will extend to most sectors in the economy, and the consumption tax is likely to be slashed further to increase purchasing power and stimulate domestic consumption.

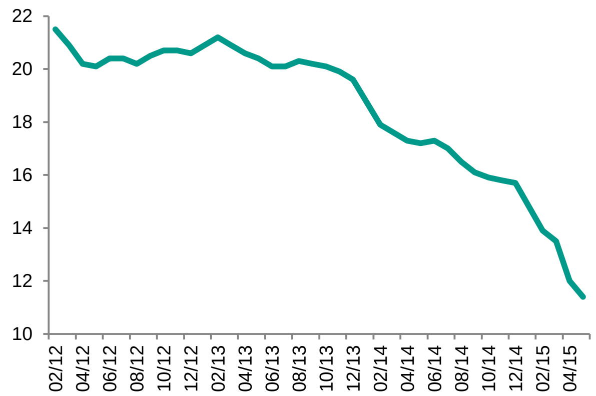
Special attention will be given to large-scale investment projects. To spur growth, the government has launched the "New Silk Road" initiative and set up new free-trade zones (FTZ). We believe the "New Silk Road" project will stimulate services export and help absorb part of the domestic production capacity in the industrial sector by boosting overseas demand, while the FTZ project will introduce new investment opportunities to domestic and foreign investors. Meanwhile, more resources will be devoted to the development of the technology sector to increase employment, accelerate capital flow, and cultivate higher creativity in the society.

Exhibit 31: A healthy fiscal position to weather economic slowdown



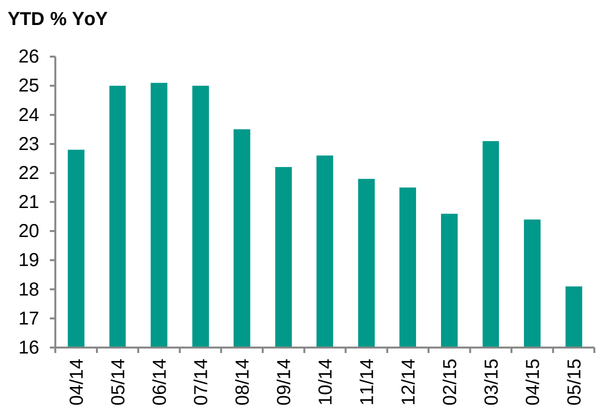
Source(s): Ministry of Finance. ABCI Securities

Exhibit 32: China FAI growth continues to decline



Source(s): NBS, ABCI Securities

Exhibit 33: Surging infrastructure FAI

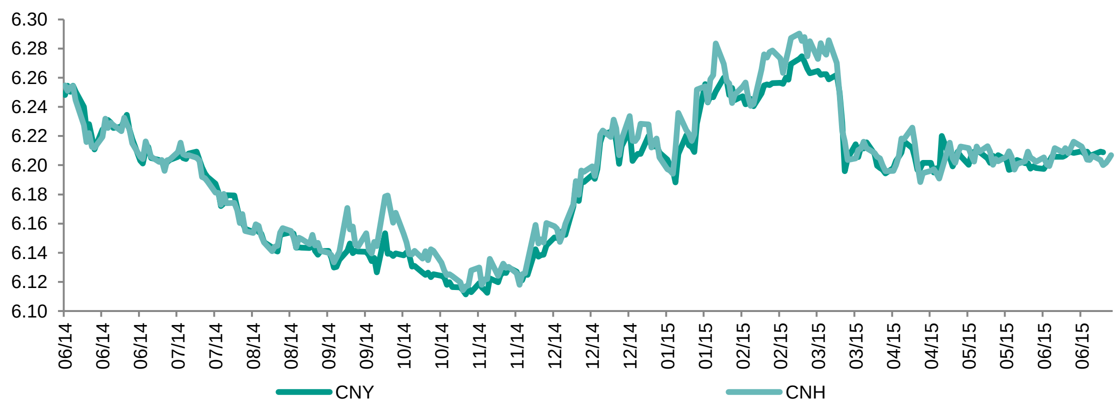


Source(s): NBS, ABCI Securities

RMB trend: Expect greater volatility, but drastic depreciation is unlikely

After experiencing a 2.4% depreciation in 2014, RMB edged down slightly by 0.09% in 1H15 (as of June 26, 2015) mainly because of reduced momentum in China and expectation of the U.S. rate hike later this year. In 2H15, we believe RMB will be supported by the inclusion of RMB into IMF's Special Drawing Rights (SDR) basket of currencies, stronger economic impetus revived by the macro loosening measures, and further forex liberalization through the opening of capital account. However, greater volatility of RMB can also be expected due to uncertainties surrounding the rate increase in the U.S. and continued credit loosening in major economies. In general, we believe China will strengthen RMB's two-way floating flexibility to further internationalize the currency. In our view, RMB is unlikely to depreciate substantially in 2015. We forecast RMB to fluctuate mildly by 0.5% from its current level (RMB 6.2093 per USD) to RMB 6.1783~6.2403 per USD by end-2015.

Exhibit 34: RMB has remained relatively stable since 2015



Source(s): Bloomberg, ABCI Securities

Economic themes for 2H15

Transitioning towards a “new normal" is China’s key economic theme in 2015, with the process being marked by a moderated growth, economic structure adjustments, and deepening structural reforms. Economic growth slowed further to 7.0% in 1Q15. In a meeting held by the Political Bureau of the Communist Party of China (CPC) at end-April, President Xi Jinping stressed that China is facing risks on the downside and more easing measures and structural reforms are needed. As such, the “conventional” monetary stimulus, namely, the RRR and interest rate cuts, will continue to be applied to counteract deflationary forces. Increased fiscal support will keep growth in infrastructure investment elevated, although an increasing share of such spending will to be directed towards social infrastructure (pension, healthcare, and education). In general, China is still experiencing volatility in external demand and a slowdown in domestic economic activities. Economic indicators in the past few months signaled stammered growth in 1H15; impacts of macro loosening measures deployed in the past few months remained subtle in the manufacturing and services sectors. Hence, we expect China to roll out more measures to support the economy.

1. China’s “New Silk Road” vision and surging infrastructure investment to boost FAI growth

Investment growth is still the key instrument to sustain growth in 2H15. Deceleration in FAI growth has been a growing concern; 5M15 FAI growth fell to 11.4% YoY from 4M15’s 12.0%. We attribute the moderating growth to continued slowdown of new property development, which posted a 5M15 growth of 5.1% from 4M15’s 6.0%. In light of the weakening property investment, more government-initiated infrastructure investments have been launched, and 5M15 infrastructure FAI growth reached 18.1% YoY. The Silk Road Economic Belt and the 21st Century Maritime Silk Road are the major infrastructure and investment schemes to widen China’s economic connections around the world. Major infrastructure projects in railways, roads, energy, information technology, and industrial parks will commence in the coming years. The “New Silk Road” envisions an economic cooperation area stretching from the East to the West and formation of closer economic ties with countries along the Road. We estimate that FAI is likely to expand by 12.0% for 2015F.

2. “China Manufacturing 2025” plan to become a world manufacturing superpower

The “China Manufacturing 2025” strategy” is issued to boost automation in manufacturing, promote innovation and environmental sustainability, and upgrade railway equipment, engineering machinery, and internet-connected factories. Aiming to transform China into a modern manufacturing industry superpower, the initiative would allow the country to move up the global supply chain while maintaining economic growth at a sustainable level. In the next decade, China will boost efficiency in ten industrial sectors, thus pushing forward the economic transformation of the manufacturing industry.

Exhibit 35: Ten industrial sectors in “China Manufacturing 2025” strategy

1	Agricultural equipment
2	Rail equipment
3	High-end numerical control machinery and automation
4	New materials
5	Maritime engineering equipment and high-tech vessel manufacturing
6	Aerospace and aviation equipment
7	Electrical equipment
8	Energy-saving vehicles
9	Information technology
10	Biomedicine and high-performance medical apparatus

Source(s): China State Council, ABCI Securities

Exhibit 36: Nine tasks identified as priorities

1	Improving manufacturing innovation
2	Integrating information technology and industry
3	Strengthening the industrial base
4	Fostering Chinese brands
5	Enforcing green manufacturing
6	Promoting breakthroughs in 10 key sectors
7	Advancing restructuring of the manufacturing sector
8	Promoting service-oriented manufacturing and manufacturing-related service industries
9	Internationalizing manufacturing

Source(s): China State Council, ABCI Securities

3. Consumption growth driven by rising services demand and surging internet consumption

5M15 retail sales grew 10.1% YoY, up slightly from 4M15's 10.0% YoY. The mild improvement was aided by stronger-than-expected sales in catering services. However, revenue from sales of petroleum and related products and automobile continued to weaken, as evidenced by the respective YoY growth of -5.5% and 2.1%. Nonetheless, we expect retail sales to recover in 2H15 on rising demand for services and surging internet consumption.

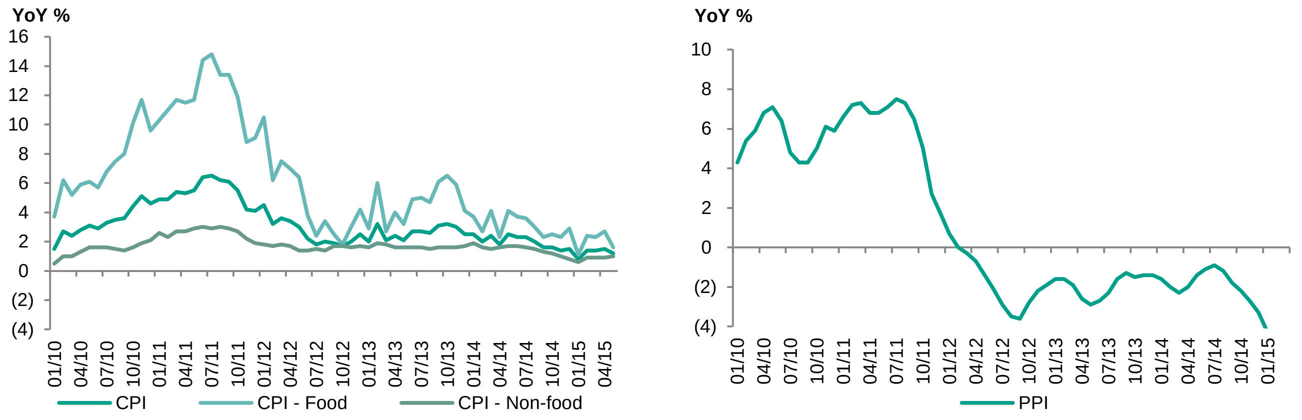
Along with the wealth effects induced by the recent stock rally and surging disposable income, we believe that services consumption, primarily consumer spending on medical services, education, entertainment, tourism, household services and financial services, will be the main growth drivers of urban consumption. Internet consumption will also be an increasingly important supporting force. The flourishing e-commerce industry in China will increase integration of businesses and new technologies. The development in e-commerce will create more new business and services models such as location-based services, mobile healthcare, and Internet of Vehicles, which inevitably will become an integral part of people's daily lives in the foreseeable future.

4. Mild inflation in 2H15 gives room for more monetary easing

During the first five months of 2015, CPI inflation fluctuated between 0.8% and 1.5%, with the YTD CPI inflation reaching 1.3%. Mild inflation during the period was attributable to the base effect, stable pork price, falling fuels prices, and the slight increase in prices of agricultural products enabled by the stable weather. Food prices rose only by 2.0% in 5M15 on mild inflation of vegetables and pork. Pork prices have been moderating since the beginning of 2015, posting a YTD growth of 1.5% YoY while vegetables price rose by 3.4%. We believe food price inflation would remain stable in 2H15, which in turn will keep the overall inflation within the 3% YoY threshold established for 2015. We estimate CPI for 2015F to be 1.7% YoY, and the mild inflation in 2H15 will give room for further monetary easing.

China's PPI has been declining since March 2012 due to falling international commodity prices and frail domestic demand. Uneven recovery in the global economy implies that international commodity prices are unlikely to rise substantially from the current level in the near term. Meanwhile, we expect growth in China's FAI and industrial production to remain stable and therefore, chances of a major rebound in domestic industrial goods prices are slim. Therefore, we forecast decline in PPI will narrow from 4.6% in 1H15F to 4.0% YoY in 2H15F, thus bringing the full-year figure to 4.3%.

Exhibit 37: Low inflationary pressure persists

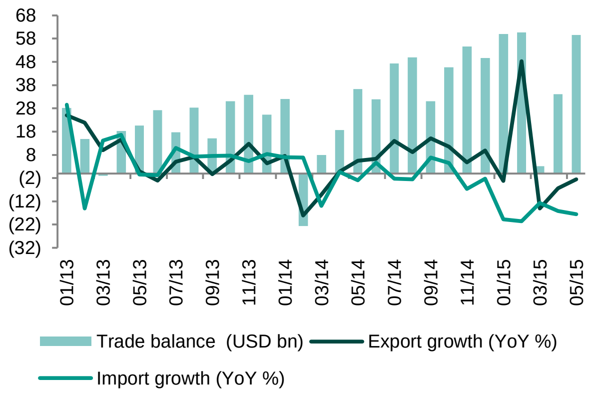


Source(s): NBS, Bloomberg, ABCI Securities

5. External trade growth to remain unstable

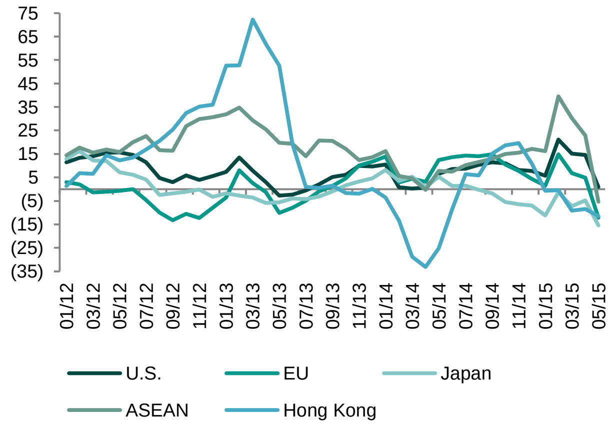
For China's exports, demand from major trading partners, including the U.S, E.U., Japan, ASEAN and Hong Kong , has been declining since March 2015. New export orders index (a sub-index of manufacturing PMI) was 48.9 in May, indicating an uncertain external trade environment. For 2H15, we expect export growth to moderate and maintain a single-digit increase on recovering demand from developed nations; our forecast for export growth is 2.3% YoY for 2015F. China's YTD imports up to May declined 17.3% YoY. Exporters of commodities (such as iron ore and crude oil), Asian suppliers of industrial components, as well as western producers of factory equipment and consumer goods suffered. Nonetheless, we reckon that lower import prices resulting from falling commodity prices would be able to support consumption demand, and expect decline in import growth to narrow in 2H15. Meanwhile, China is targeting to expand imports to propel trade. The government may implement preferential charging policies, scrutinize import charges, and encourage domestic corporates to participate in import-related businesses. This will provide an opportunity for enterprises to adopt hi-tech equipment imported from the developed countries to upgrade industrial structures.

Exhibit 38: Exports show rebounding signs



Source(s): Bloomberg, ABCI Securities

Exhibit 39: Exports to major trading partners have been declining since Mar 2015



Source(s): Bloomberg, ABCI Securities

Hong Kong 2H15 Economic Outlook

In 1Q15, Hong Kong's economy grew modestly by 2.1% YoY with unemployment rate remaining low at 3.3%. Inflation was slightly alleviated to 4.0% YoY in 4M14; growth in private consumption expenditures decelerated to 3.5% YoY in 1Q15, compared to 4.1% and 4.7% in 4Q14 and 3Q14. Private consumption in Hong Kong, which has been largely supported by the mainland tourists' spending in the city, fell (as measured by contribution to GDP) on the economic slowdown in China, weak RMB, and policy to restrict multiple entries to Hong Kong. Decline in retail sales growth has widened since the beginning of 2015, and we expect Hong Kong's retail sales to record only a marginal growth for 2H14.

Supported by infrastructure projects, investment remains strong at 7.3% YoY in 1Q15, and we expect such growth to sustain in 2H15 to become a major growth driver for the year. As a result of the stagnant growth in China's external trade, a still-recovering global economy, and decelerating services trade arising from reduced tourist visits, Hong Kong's exports of goods and services edged up by only 0.2% YoY in 1Q15. As momentum in China and developed economies improves in 2H15, Hong Kong's external trade will follow suit.

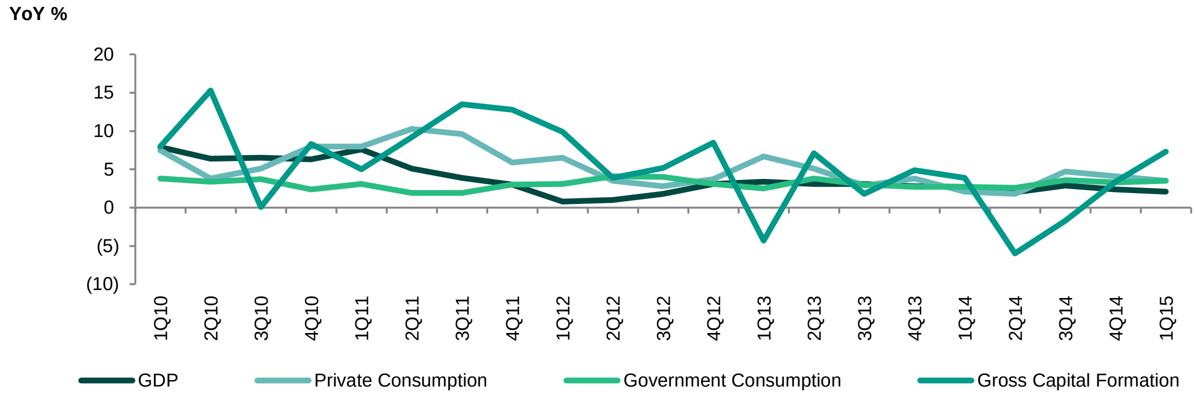
On the property front, possible rate hike later this year in the U.S. will be the major headwind against the sector. We expect Hong Kong's property price will stay flat for the rest of 2015 due to surging market supply and rate hike concerns. The launch of Shenzhen-HK Stock Connect and China-HK Mutual Fund Recognition initiative will be major drivers supporting the stock market in 2H15, which in turn would stimulate consumption through the resultant positive wealth effects. Overall, we estimate Hong Kong's economy to achieve a more balanced growth at 2.3% for 2015F.

Exhibit 40: Economic forecasts for Hong Kong in 2015F and 2016F

(YoY %, or otherwise specified)	2012	2013	2014	1Q15	2015F	2016F
Real GDP	1.7	3.1	2.5	2.1	**2.3**	**2.5**
Consumption	4.1	4.6	3.2	3.5	**3.3**	**3.3**
Investment	6.8	2.6	-0.2	7.3	**5.5**	**5.0**
Government expenditure	3.6	3.0	3.0	3.5	**3.5**	**3.5**
Exports	1.9	6.2	0.8	0.2	**0.8**	**2.0**
Imports	2.9	6.6	1.0	0.5	**1.4**	**2.7**
Unemployment rate (%)	3.3	3.4	3.3	3.3	**3.4**	**3.4**
CPI	4.1	4.4	4.4	4.4	**3.8**	**3.5**

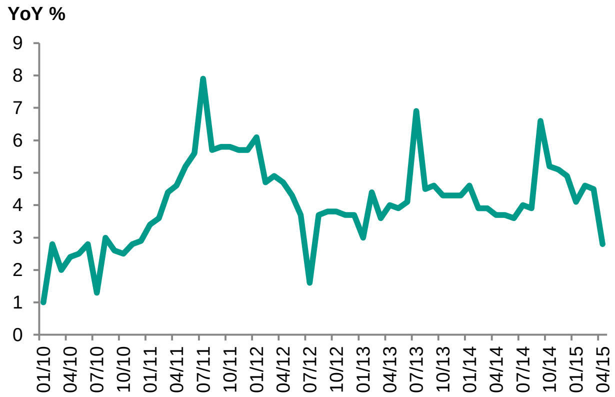
Source(s): Hong Kong Census, ABCI Securities estimates

Exhibit 41 : Hong Kong's GDP growth hovers at around the 2% level



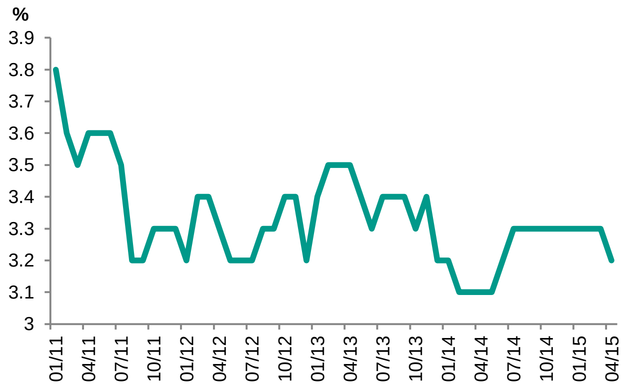
Source(s): HK Census, Bloomberg, ABCI Securities

Exhibit 42: Inflation shows signs of cooling in Hong Kong



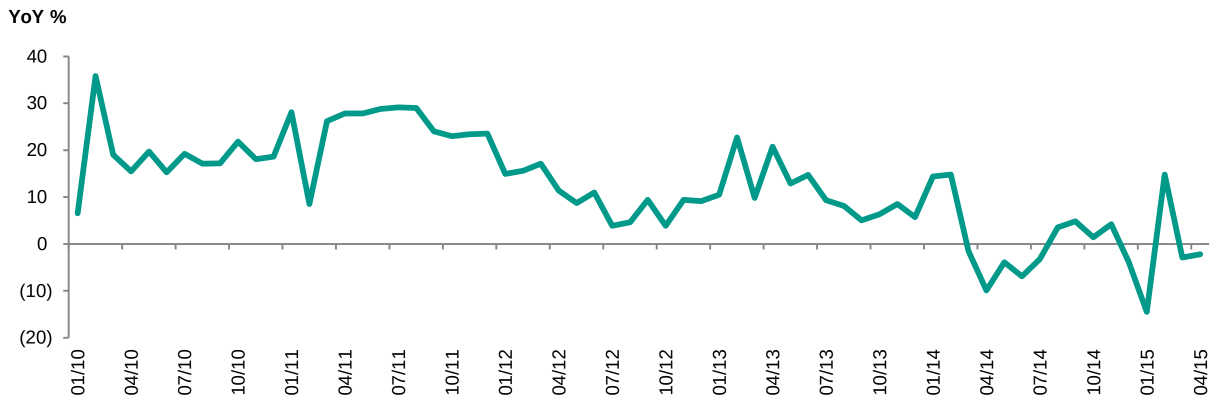
Source(s): HK Census, Bloomberg, ABCI Securities

Exhibit 43: Unemployment remains low in Hong Kong



Source(s): HK Census, Bloomberg, ABCI Securities

Exhibit 44: Weakening retail sales in Hong Kong



Source(s): HK Census, Bloomberg, ABCI Securities

Investment strategy for 2H15

In 1H15, PBOC conducted several rate and RRR cuts in an attempt to rev up the growth momentum. The release of trillions in liquidity reflects the government's efforts to revive growth. With excessive liquidity entering the capital market, China's SHCOMP and HK's HSI rose 29.6% and 13.0% YTD; average daily transaction (ADT)in the respective stock markets increased by 540.5% (SHSE and SZSE) and 97.5% YoY in 1H15 (as of June 26, 2015). With the limited economic rebound observed in 1H15, we believe further monetary accommodation and fiscal stimulus will be deployed to spur growth in 2H15.

With China's economy bottoming out in 1H15, optimism over an economic rebound in 2H15 has been growing. For higher returns, investors may shift their interest to China and Hong Kong markets as continuous monetary loosening has enabled more liquidity to flow into stock market. Also, the China-HK Mutual Fund Recognition initiative and expected launch of the Shenzhen-HK Stock Connect in 2H15 will provide additional impetus for the stock market. The HSI and HSCEI are currently trading at consensus FY15 forward P/E ratios of 12.82x and 9.31x; the consensus outlook, we believe, has not factored in the recovery of China's economy and further liberalization of capital market in 2H15. The P/E ratios of both indices are currently below their respective 15-year averages. This situation has been caused mainly by excessive market concerns (e.g. economic risks and corporate earnings risks), which led to a high risk premium for stock investments. In 2H15, we believe these concerns will gradually diminish as the economy improves, and investors should take advantage of the ample liquidity to accumulate equities in Hong Kong and China. For the rest of 2015, we expect the trading range of the HSI and HSCEI to hover at 26,046-30,214 (or 12.5x-14.5x FY15F forward P/E; 1.35x-1.56x FY15 forward P/B) and 12,648-19,394 (or 9.0x-13.8x FY15F forward P/E; 1.19x-1.82x FY15 forward P/B), respectively. We set the respective year-end targets at 29,172 (or 14.0x forward P/E; 1.51x forward P/B) and 16,864 (or 12.0x forward P/E; 1.58x forward P/B). For the A-share market, we expect the growth momentum will be extended in 2H15 on increased liquidity and further opening of China's capital market to foreign investors; our year-end targets for SHSE Composite Index, SZSE Component Index, and CSI 300 Index are 5,723 (or 23.0x forward P/E; 2.74x forward P/B), 19,656 (or 41.0x forward P/E; 5.52x forward P/B), and 5,713 (or 21.0x forward P/E; 2.98x forward P/B), respectively.

Investment themes in 2H15

1. Credit loosening and liberalization of capital market will favor the financial sectors

The interest rate and RRR cuts in 1H15 have encouraged commercial banks and financial institutions to allocate more funds to the real economy in areas needing support. The release of credits will benefit banks such as **CCB (939 HK)** and **ICBC (1398 HK)** through on increased lending in 2H15**.** The 90 bps rate cut since November 2014 has also benefited financial companies and financial leasing companies. In addition, China's intention to expand the role of consumer financing in the economy will support China's macroeconomic transition from an export-led economy to one driven by domestic consumption. We believe companies such as **China Financial Services (605 HK)** and **Far East Horizon Limited (3360 HK)** will gain from the rate cut and structural changes in the economy.

Credit loosening has injected ample liquidity into the stock markets and strong rebound is seen in China and Hong Kong. We expect more monetary easing will be implemented in 2H15 and hence extend the uptrend. Moreover, the China-HK Mutual Fund Recognition initiative will attract more mutual funds to invest in both markets. Insurance companies whose portfolios have large exposure to equities, such as **China life (2628 HK), PICC Group (1339 HK),** and **Ping An (2318 HK),** are set to gain from the buoyant stock market. Surging market transactions and capital market activities will boost earnings of brokers and asset management companies, and our stock picks for this segment include **CITIC Securities (6030 HK), China Galaxy Securities (6881 HK), Cinda (1359 HK), and Value Partners (806 HK).**

2. Shenzhen-HK Stock Connect: Further liberalization of cross-border investment

In our opinion, China is ready to launch the Shenzhen-HK Stock Connect program in 2H15. Such a move could accelerate China's opening of its capital market, facilitate the financial market reform in the country, and increase utilization of offshore RMB in Hong Kong. Furthermore, it will introduce new investment opportunities for investors in both markets. We believe several stock categories will profit from the mutual market access: a) Stocks with large A-H share valuation discrepancies that may allow investors to benefit from arbitrage trading such as **Shandong Molong (568 HK)** and **ZTE (763 HK)** ; b) business conglomerates with international business exposure and the gambling sector, including **AIA (1299 HK), CKH Holdings (1 HK),** and **Galaxy Entertainment (27 HK),** as these stocks are previously inaccessible to the mainland stock investors; c) Chinese brokerage firms, such as **China Galaxy Securities (6881 HK), CITIC Securities (6030 HK), and Haitong Securities (6837 HK)** , whose earnings will be boosted by the mutual market access, while **China Everbright Ltd. (165 HK), Guotai Junan Int'l (1788 HK), Haitong International (665 HK),** and **Shenwan Hongyuan (218 HK)** will also gain from increasing business opportunities; d) **HKEx (388 HK)**, which will reap the benefits of surging stock market transactions through mutual access of financial markets (Shenzhen-Hong Kong) and RMB internationalization based on its broad range of investment products that will help absorb excess liquidity in China. ,

3. "China Manufacturing 2025" plan favoring smart manufacturing sectors

The new 10-year plan for the manufacturing sector is a move to develop more value-added industries through technological transformation of existing manufacturing process. Climbing up the value chain would enable enterprises to sustain their industrial competitiveness in a global context. The roadmap of the plan calls for moving away from simple, labor-intensive production to create a sophisticated manufacturing sector comparable to those in the industrialized countries by 2025. The initiative promotes research and development, entails generous measures favoring high-tech fields, and encourages technological advancement and the rise of new industries. In general, the upgrade of manufacturing capabilities focuses on improving innovation abilities, integrating informatization and industrialization, and promoting green manufacturing and manufacturing internationalization. We believe enterprises with innovative technologies and vision will ride on such transformation. Our stock picks include **BYD company (1211 HK), CRRC Corp (1766 HK), Digital China (861 HK)**, **Dongfang Electric Corporation (1072 HK), Lenovo Group Ltd (992 HK)**, **Xinjiang Goldwind Science & Technology (2208 HK), Zhuzhou CSR Times Electric (3898 HK)** and **ZTE (763 HK).**

4. "New Silk Road" vision boosting demand for infrastructure

China's call for Asian nations to build a community of shared interests and responsibilities in both economic development and security is vital for the long-term development of Asia. To promote economic cooperation across Asia, Europe, and Africa, China devises a trans-Eurasia and across-ocean trade strategy to build the Silk Road Economic Belt and the 21st century Maritime Silk Road. The two large-scale infrastructure and investment schemes will serve to widen China's economic connections around the world, with major infrastructure projects in railways, roads, energy, information technology, and industrial parks commencing in the coming years. The "New Silk Road" envisions an economic cooperation area stretching from the East to the West and formation of closer economic ties with countries along the Road. In addition to the existing free trade zone (FTZ) in Shanghai, three FTZs to be established in Guangdong, Fujian and Tianjin will also help China enhance trading relationships and facilitate economic cooperation in the Asia-Pacific region.

The "New Silk Road" vision will unleash the potential of large-scale investments in the infrastructure and railway sectors, favoring companies such as **China Communications Construction Co Ltd (1800 HK), China Machinery Engineering Corp (1829 HK), China Railway Construction Corporation (1186 HK)** and **China Railway Group (390 HK) .**

5. Environmental protection favoring renewable energy and water treatment sector

As air pollution in China worsens, the nation is accelerating the development of renewable energy while prioritizing pollution reduction. China aims to increase the share of non-fossil fuels in its overall energy consumption. According to the data from China National Energy Administration (NEA), as of end-2014, more than 70% of China's energy was produced from fossil fuels. For the electricity generation segment, about 65% was generated from coal. Since coal-fired power generation produces the most air pollutants (such as carbon dioxide, sulfur dioxide, etc.) among all other sources, we believe China's energy structure would continue to shift from traditional sources (e.g. fossil fuels) to renewable ones (e.g. wind, solar, hydro, etc.).

Based on the increasing investment in grid construction and the expectation of more accommodative polices, we are positive on the outlook of the wind power, solar power and nuclear power sectors. According to the draft of the 13th Five-Year Plan for energy, the Chinese government plans to attain a wind power capacity of 200GW by end-2020, representing a 109% increase from the 96GW at end-2014. Expansion of wind power capacity should help reduce the use of coal-fired power. **Longyuan Power (916 HK)** and **Huaneng Renewables (958 HK),** which have a relatively low capacity cost and net gearing ratio, are likely to benefit from the capacity growth. In addition, China's strong push on solar power during the 13th Five-Year Plan period should deliver a potent boost to solar power engineering, procurement and construction (EPC) players, including **China Singyes Solar (750 HK)**, on increasing solar power plant construction orders; moreover, these companies should be able to maintain a low net gearing ratio as they are not involved in the operation of power plants. For the nuclear sector, we still prefer **CGN power (1816 HK)** as it is the leading nuclear power company with extensive experiences in the management of nuclear power stations.

Increased effort on environmental protection will present more business opportunities to water, sewage and waste treatment providers. The government continues to accelerate urbanization, engendering the need for more efficient waste water treatment systems in cities. The National Development and Reform Commission (NDRC) believes that urbanization rate in China will reach 60% by end-2020, up from 54% in 2013. At the same time, the Chinese government targets to raise the sewage treatment rate among cities from 77% at end-2010 to 85% by end-2015. As such, demand for new sewage treatment capacity is strong.

According to the Ministry of Water Resources, as of the end-2011, 36% of rivers and 41% of lakes were severely polluted in China and were unsuitable for use for drinking or agricultural purposes. Additionally, nearly 20% of reservoirs and 77% of underground water were polluted. Overall, these data indicate more than 40% of China's surface water resources were polluted.

As living standards continue to improve, the government will need to tackle the pollution issue to restore freshwater resources. China's nationwide water tariffs have been rising, partly due to the increasing consumption per capita. According to the NDRC, China's nationwide water tariffs rose from RMB1.6/ton by end-2001 to RMB4.05/ton by end-2013, representing a 153% rise or a growth of 8% CAGR over the period. Water tariffs are likely to trend up and water treatment operators should therefore benefit from improved margins. We advise investors to select sewage treatment/incineration operators with 1) assets in tier-1 cities, as they usually have a lower default risk and higher hygienic standard, 2) an SOE status, which enables them to maintain a strong relationship with the local governments. For sewage treatment operators, we prefer **Beijing Enterprises Water (371 HK)** for its exposure in wealthier regions such as Guangdong, Zhejiang, and Jiangsu, which should imply a stronger cash flow and a lower default risk. For wastes incineration operators, we like **China Everbright International (257 HK)**. In addition to being an SOE, the company has most of its assets located in affluent coastal regions such as Suzhou, Jinan, Yixing cities, etc.

6. Mainland property sector to restore momentum in 2H15

Performance of China's residential property sector rebounded in 1H15. Total national sales during 5M15 increased by 5.1% YoY. Our property team is of the view that preliminary signs of a turnaround are evident; new home prices in May among tier-1 cities rose 4.2% compared to December 2014. Valuation of the sector is attractive at 6.7x FY15E P/E with a FY15E yield of 4.5%. We believe by now most negatives have already been priced in. Small developers focusing on top-tier cities and the ones with commercial or luxury property exposure will stand to benefit from the impending rebound. We favor **Sunac (1918 HK),** a luxury home developer; and **Logan (3380 HK),** a well-rounded developer in Guangdong.

7. "Internet-Plus" strategy facilitates development of internet-related sectors

China is pursuing an "Internet Plus" action plan that seeks to drive economic growth by integrating Internet technologies with manufacturing and business. The initiative entails the integration of mobile Internet, cloud computing, big data, and Internet of Things with modern manufacturing to foster new industries and business development, including e-commerce, industrial Internet and Internet finance. The aim of the plan is to promote innovation-driven development and transform China into a "powerful industrial country", which resonates with the "Manufacturing 2015" initiative. Our stock picks include **Tencent (700 HK), Alibaba Health Information Technology (241 HK), China Smartpay (8325 HK), Kingsoft (3888 HK), Kingdee International (268 HK)** and **Haier (1169 HK).**

A Share - Investment strategy for 2H15

Bullish outlook; prefer consumer sector, military sector, and sectors benefiting from the "Manufacturing 2025" initiative

China A-share market rallied in 1H15, with SHCOMP achieving a 105.7% YoY growth (based on closing on June 26, 2015); daily turnover also reached all-time high to RMB 2.36tr on May 28. Credit loosening policy has been identified as the main driver as significant amount of liquidity has been released into the capital market. We expect China's stock market will extend its upward momentum in 2H15 on higher liquidity and further opening of China's capital market to foreign investors; our year-end targets for SHSE Composite Index, SZSE Component Index and CSI300 Index are 5,723 (or 23.0 x forward P/E; 2.74x forward P/B), 19,656 (or 41.0x forward P/E; 5.52x forward P/B) and 5,713 (or 21.0x forward P/E; 2.98x forward P/B).

Accommodative economic policies are supporting higher valuations of China's stocks, as reflected by the continuous rise in stock indices. While interesting investment themes and ideas would usually emerge in a heated stock market, our focus remains on taking a disciplined approach to identify sectors with strong fundamentals and robust outlook. As China works through its reform agenda, opportunities will emerge in new areas that were previously unnoticed. For 2H15, we are optimistic on the consumer sector as wealth effects induced by the market rally will drive consumption; military sector will also see strong growth on new contracts as military expenditures surge; meanwhile, the "Manufacturing 2025" initiative will benefit the smart manufacturing sector. Our stock picks are listed as below:

Consumer sector: Inner Mongolia Yili Industrial Group (600887 CH), Kweichow Moutai Co Ltd (600519 CH), and Yonghui Superstores Co Ltd (601933 CH)

Military sector: China Avic Electronics Co Ltd (600372 CH), China Shipbuilding Industry Co Ltd (601989 CH), China Spacesat Co Ltd (600118 CH), and North Navigation Control Technology (600435 CH)

"Manufacturing 2025" related stocks: Changyuan Group (600525 CH), Shanghai Mechanical and Electrical Industry Co Ltd (600835 CH), and NeuSoft (600718 CH)

Stock Indices and Stock Picks

Stock indices in A- and H-share markets

Region	Stock Index	YTD Chg (%)	FY15E P/E (x)	FY15E P/B (x)	Div. Yield (%)
Hong Kong	HSI	12.96	12.82	1.38	3.10
Hong Kong	HSCEI	9.21	9.31	1.23	3.26
China	CSI 300	22.71	16.35	2.29	1.69
Shanghai	SHCOMP	29.62	16.91	2.02	1.75
Shenzhen	SZCOMP	30.72	29.98	3.94	0.87

Source(s): Bloomberg, ABCI Securities

H-Share Stock Picks

Investment theme	Stock Picks	YTD Chg (%)	FY15E P/E (x)	FY15E P/B (x)	Div. Yield (%)
Credit loosening and liberalization of capital market will favor the financial sectors	**Banks & Financial companies**				
	CCB (939 HK)	11.30	6.07	1.01	5.46
	ICBC (1398 HK)	16.61	6.64	1.10	5.01
	China Financial Services (605 HK).	52.73	7.00	1.00	2.38
	Far East Horizon Limited (3360 HK)	(6.54)	6.77	1.01	4.03
	Insurance companies				
	China life (2628 HK)	9.03	16.80	2.31	1.93
	PICC Group (1339 HK)	34.16	10.87	1.47	0.23
	Ping An (2318 HK)	34.77	14.28	2.17	0.98
	Brokerage and asset Management Companies				
	CITIC Securities (6030 HK)	(0.68)	15.80	2.16	1.66
	China Galaxy Securities (6881 HK)	4.83	10.60	1.57	2.48
	Cinda (1359 HK)	16.14	8.23	1.23	3.27
	Value Partners (806 HK)	111.94	14.08	5.32	3.11
Shenzhen-HK stock connect: Further liberalization of cross-border investment	**Companies with large A-H valuation differences**				
	Shandong Molong (568 HK)	51.15	N/A	N/A	N/A
	ZTE (763 HK)	42.87	18.33	2.16	1.37
	Business conglomerates with international business exposure; gambling sector				
	AIA (1299 HK)	20.05	20.88	2.39	1.09
	CKH Holdings (1 HK)	52.16	14.07	0.98	2.43
	Galaxy Entertainment (27 HK)	(24.19)	17.99	3.26	1.70
	Chinese brokers				
	China Everbright Ltd. (165 HK)	46.60	11.35	1.29	2.92
	China Galaxy Securities (6881 HK)	4.83	10.60	1.57	2.48
	CITIC Securities (6030 HK)	(0.68)	15.80	2.16	1.66
	Guotai Junan Int'l (1788 HK),	163.39	16.04	4.39	1.99
	Haitong Securities (6837 HK)	9.89	14.32	2.04	2.00
	Haitong International (665 HK)	131.78	14.68	2.01	2.78
	Shenwan Hongyuan (218 HK)	(10.55)	N/A	N/A	N/A
	Stock Exchange				
	HKEx (388 HK)	65.52	36.35	14.42	2.44

Source(s): Bloomberg, ABCI Securities

H-Share Stock Picks (con't)

Investment theme	Stock Picks	YTD Chg (%)	FY15E P/E (x)	FY15E P/B (x)	Div. Yield (%)
"China Manufacturing 2025" plan favoring smart manufacturing sectors	BYD company (1211 HK)	56.51	47.92	3.05	0.11
	CRRC Corp (1766 HK)	11.11	19.32	2.64	1.43
	Digital China (861 HK)	53.55	13.17	1.24	2.13
	Dongfang Electric Corporation (1072 HK)	7.01	20.61	1.22	0.80
	Lenovo Group Ltd (992 HK)	7.25	13.07	3.19	2.41
	Xinjiang Goldwind Science & Technology (2208 HK)	38.47	15.43	2.21	3.36
	Zhuzhou CSR Times Electric (3898 HK)	28.18	20.35	4.10	1.22
	ZTE (763 HK)	42.87	18.33	2.16	1.37
New Silk Road" vision pushing for boom in demand for infrastructure	China Communications Construction Co Ltd (1800 HK)	25.62	9.98	1.18	2.25
	China Machinery Engineering Corp (1829 HK)	37.88	11.67	1.86	3.28
	China Railway Construction Corporation (1186 HK)	23.28	9.83	1.17	1.59
	China Railway Group (390 HK)	30.72	12.21	1.30	1.32
Environmental protection favoring renewable energy and water treatment sector	Beijing Enterprises Water (371 HK)	25.31	25.80	3.25	1.38
	CGN power (1816 HK)	21.66	23.29	2.60	1.40
	China Everbright International (257 HK)	18.89	25.94	3.42	0.96
	China Singyes Solar (750 HK)	(6.35)	7.26	1.43	1.33
	Huaneng Renewables (958 HK)	27.49	14.73	1.41	1.29
	Longyuan Power (916 HK)	7.31	15.41	1.54	1.25
Mainland property sector to restore momentum in 2H15	Logan (3380 HK)	40.25	5.89	1.05	4.80
	Sunac (1918 HK)	11.03	5.32	1.12	3.26
"Internet-Plus" strategy facilitates development of internet-related sectors	Alibaba Health Information Technology (241 HK)	70.33	N/A	N/A	N/A
	China Smartpay (8325 HK)	175.44	N/A	N/A	N/A
	Haier (1169 HK)	13.76	15.97	3.16	0.65
	Tencent (700 HK)	42.13	37.83	11.02	0.28
	Kingsoft (3888 HK)	76.30	34.74	4.12	0.49
	Kingdee International (268 HK)	116.88	40.95	4.75	0.37

Source(s): Bloomberg, ABCI Securities

A-Share Stock Picks

Sector	Stock Picks	YTD Chg (%)	FY15E P/E (x)	FY15E P/B (x)	Div. Yield (%)
Consumer	Inner Mongolia Yili Industrial Group (600887 CH)	23.09	20.02	5.34	1.93
	Kweichow Moutai Co Ltd (600519 CH)	27.86	16.35	4.31	2.04
	Yonghui Superstores Co Ltd (601933 CH)	36.62	39.53	4.68	1.29
Military	China Avic Electronics Co Ltd (600372 CH)	32.54	84.76	11.09	0.19
	China Shipbuilding Industry Co Ltd (601989 CH)	72.31	105.10	4.83	0.25
	China Spacesat Co Ltd (600118 CH)	102.53	161.12	14.67	0.17
	North Navigation Control Technology (600435 CH)	87.54	N/A	N/A	N/A
"Manufacturing 2025" related stocks	Changyuan Group (600525 CH)	86.07	38.66	5.98	0.70
	NeuSoft (600718 CH)	43.01	55.15	5.78	0.57
	Shanghai Mechanical and Electrical Industry Co Ltd (600835 CH)	77.93	25.06	4.54	1.83

Source(s): Bloomberg, ABCI Securities

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