

2H2013 Macro Outlook

2 July 2013



Economic rebalancing in sight

The world economy was still struggling to recover in 1H13 as external vulnerabilities and domestic challenges decelerated the pace of recovery. The US disclosed plans of unwinding QE to reflect its stronger-than-expected recovery while Japan stepped up efforts to restore economic momentum through new QE's pledge. Euro Zone struggled to avoid the escalation of debt crisis. Emerging Asian countries continued to see domestic credit loosening and fiscal expansion to accelerate the economic growth. We expect the global economic recovery to gain mild growth momentum moving into 2H13.

China's economic growth momentum had been stagnant in 1H13, indicating longer-than-expected rebalancing of the world's second-largest economy. Stepping into 2H13, proactive economic reforms to support domestic demand will be the key to revive the growth momentum.

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Global economic outlook for 2H13

1. Global economy struggling in a prolonged recovery

In response to concerns over slow pace of economic recovery, the US pledges to maintain the interest rates at low levels. Although the job market continues to show signs of improvement, the magnitude of economic activities' expansion is insufficient for a full exit of QE in 2H13. Nevertheless, Fed Chairman Bernanke laid out the Fed's expectations regarding the expected timing and pace of the wind-down of the ongoing QE. European countries, especially those debt-stricken members, record a contraction of activities which endangers the recovery of euro zone and we expect economic recession remains intact. In Asia, Japan's new QE pledge aims at reviving the struggling economy and it shows early signs of improvement in real economy. Emerging Asian economies, on the other hand, exhibit growth moderation and face global liquidity tightening. They turn more aggressive in loosening domestic credits to boost the economic growth.

China, the second largest economy in the world, is expected to experience mild growth acceleration in 2H13. China economic momentum in 1H13 had been stagnant, reflecting longer-than-expected process of economic restructuring. We expect more accommodative economic policies to boost domestic demand will be launched in 2H13 to accelerate the pace of economic recovery. Hong Kong economic growth is expected to remain stable in 2H13. Consumption and investment are likely to be the positives growth drivers.

**Global economic forecasts**

	2011	2012	2013F	2014F
US	1.8	2.2	2.3	3.0
Euro Area	1.4	(0.6)	(0.6)	(0.2)
Germany	3.1	0.9	0.7	1.5
France	1.7	0.0	0.1	0.7
Italy	0.4	(2.4)	(1.8)	(0.5)
Spain	0.4	(1.4)	(1.8)	(1.5)
Netherlands	1.0	(0.9)	(0.4)	0.8
Greece	(7.1)	(6.4)	(5.5)	(2.5)
Portugal	(1.6)	(3.2)	(2.5)	(0.9)
Ireland	1.4	0.9	0.9	1.8
UK	0.9	0.2	0.7	1.4
Japan	(0.6)	2.0	2.2	1.8
Mainland China	9.3	7.8	7.6	7.6
Hong Kong SAR	4.9	1.4	2.8	3.3
Singapore	5.2	1.3	2.2	3.8
South Korea	3.6	2.0	2.5	3.7
Russia	4.3	3.4	3.5	3.8
India	7.7	4.0	5.5	6.5
Brazil	2.7	0.9	2.8	3.8

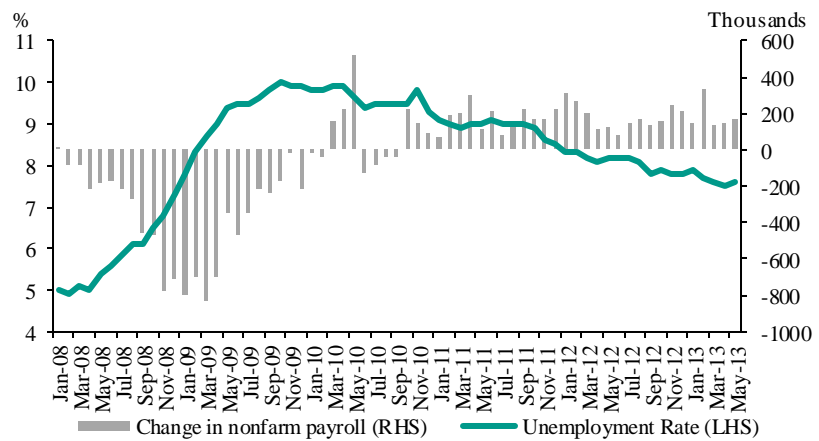
Source: IMF, ABCIS estimates



2. US – Positive economic signs may slow the pace of asset purchases before September

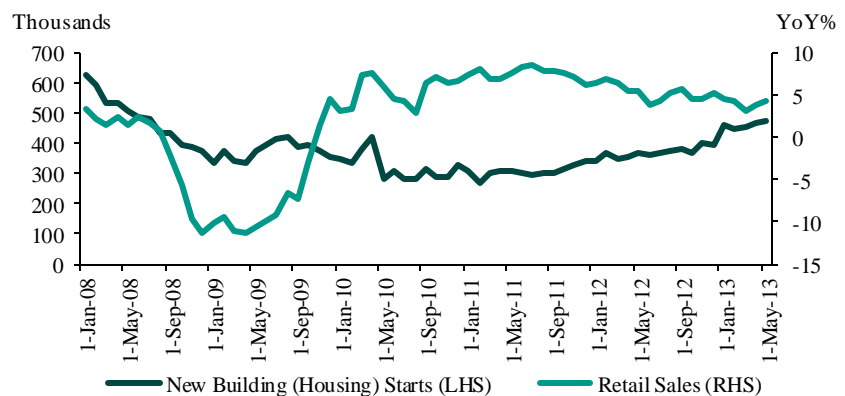
The general economic landscape shows that the US economy is on track of recovery. In terms of the employment situation, the non-farm payrolls change in May was 175 thousand, which is significantly better than the previous figure in April. Although unemployment rate slightly increased to 7.6% in the same period, it indicated that more people are reentering the job market. The housing market started to turn around as the new home sales continued to rise in May. Private investment and personal consumption has improved substantially, while inflation remains very low.

The US employment conditions show continued improvement



Source: Bloomberg

Housing market and retail sales rebound

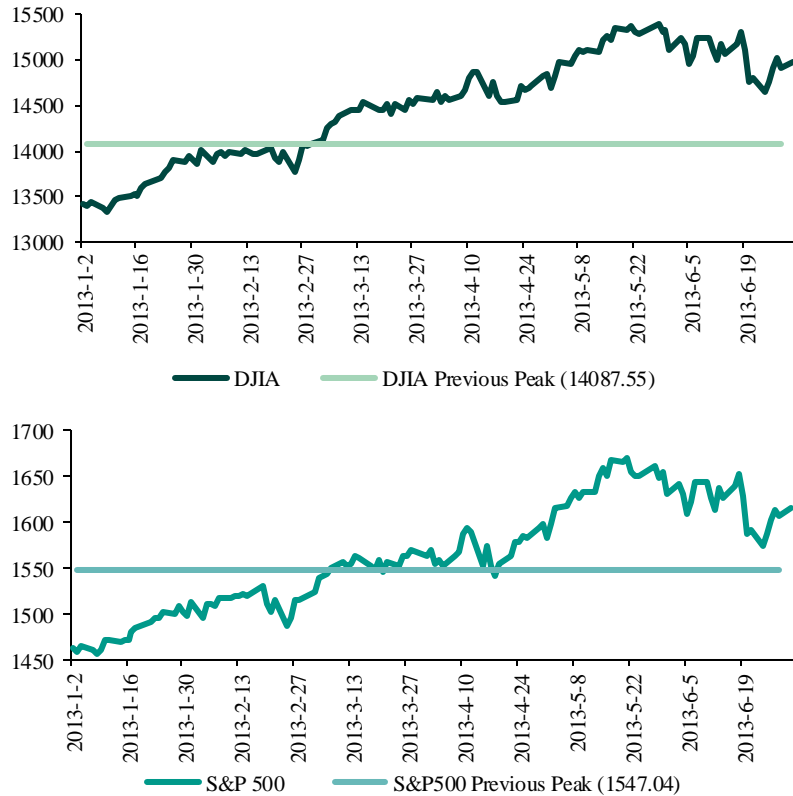


Source: Bloomberg

Driven by the surprises of certain economic indicators in recent months and the liquidity created by the Quantitative Easing program, the US stock market has achieved the best performance so far this year. Currently, the YTD change of the DJAI and S&P500 are 14.28% and 13.24%, and both of the indices standing above the respective peak levels in 2008.

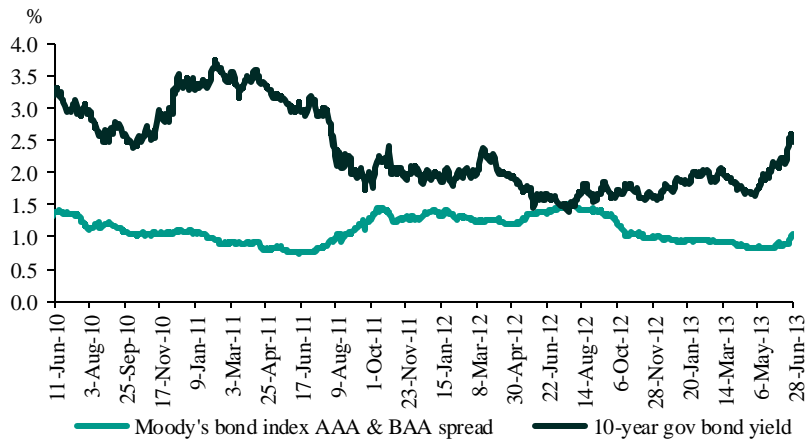


The US equity indices edge up higher beyond record level



Source: Bloomberg

Bonds sell-off prior to QE withdrawal led to recent bond yield hike



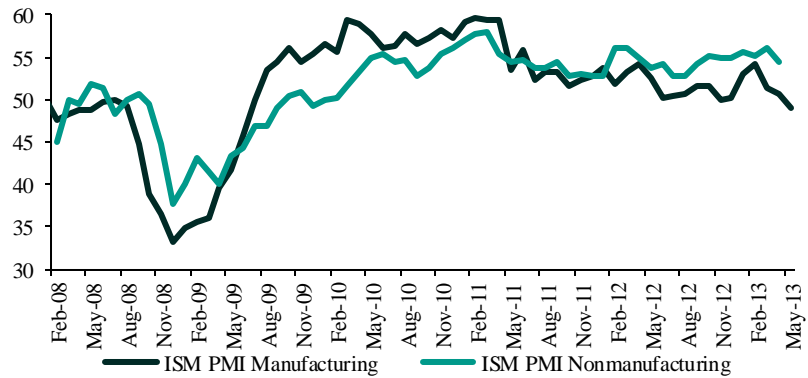
Source: Bloomberg

However, the stock market gains were partially erased after the announcement of the possible QE exit during the FOMC meeting held on June 19. Fed Chairman Ben Bernanke laid out the plan for dialing down the current asset purchase program and revised the economic outlook. The biggest concern for the market right now is not the evaporation of liquidity, but the timing of the QE reduction. Although



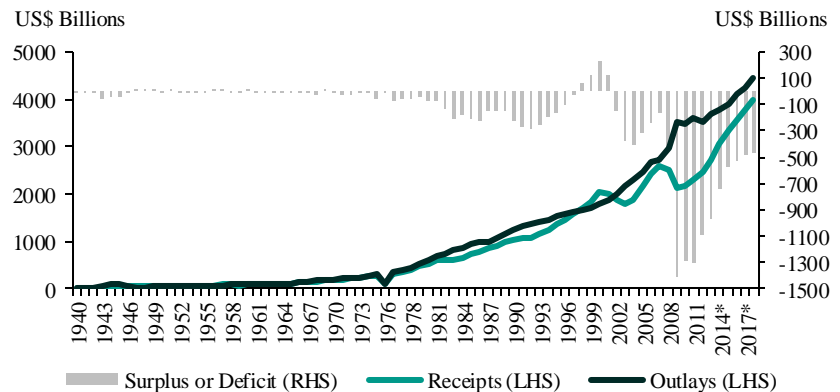
we see signs of recovery, certain economic indicators show that the recovery process has just begun. Reducing the bond purchase efforts too soon and too fast may jeopardize the recovery process.

PMI suggest the US Recovery will take time to gain a solid footing



Source: Bloomberg

The US budget deficit is expected to decrease with spending cuts



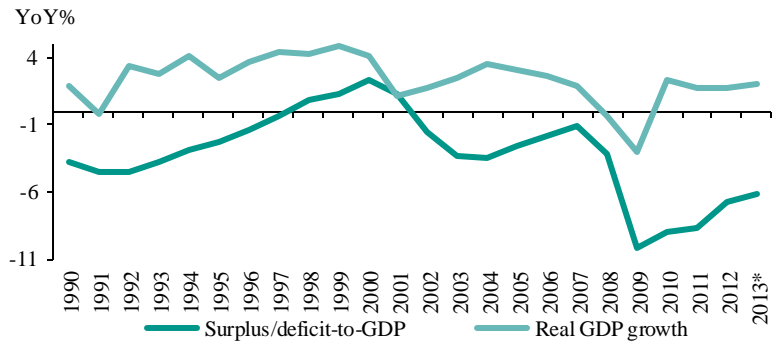
*Bloomberg forecast

Source: Bloomberg

Another factor that will hamper economic growth is the sequestration that will cut the federal budget substantially. The mandatory government spending cuts, as predicted, has already been posing negative impacts on the US economic recovery. Not much progress has been made so far and the Republicans are pushing for a more aggressive budget cut for the next year. We expect that the federal budget talk will resume soon as debt limit is approaching and another formal negotiation is set to be held sometime later this year.



The US deficit-to-GDP is still at high level



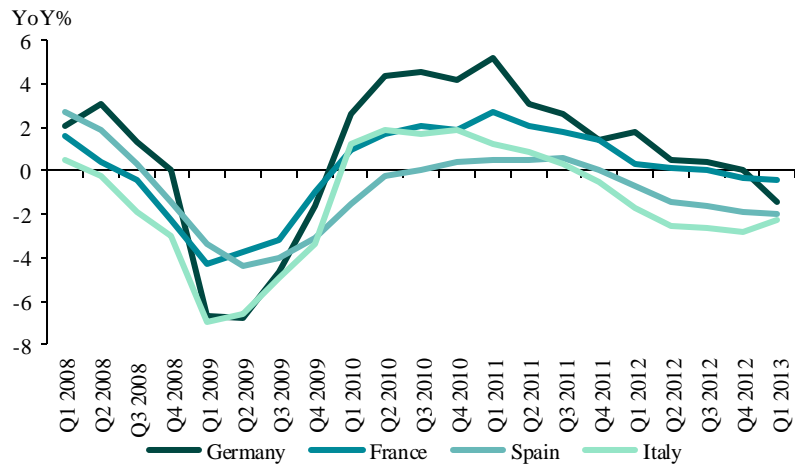
*forecast

Source: Bloomberg, ABCIS estimates

3. Euro Zone - A bumpy road ahead

The credit crisis in Euro Zone has been stabilized. On the national level, many European countries are implementing different policies to control the budget deficits and national debt. On the regional level, various mechanisms have been put in place to monitor the financial system in the region and prevent another systemic collapse in the region.

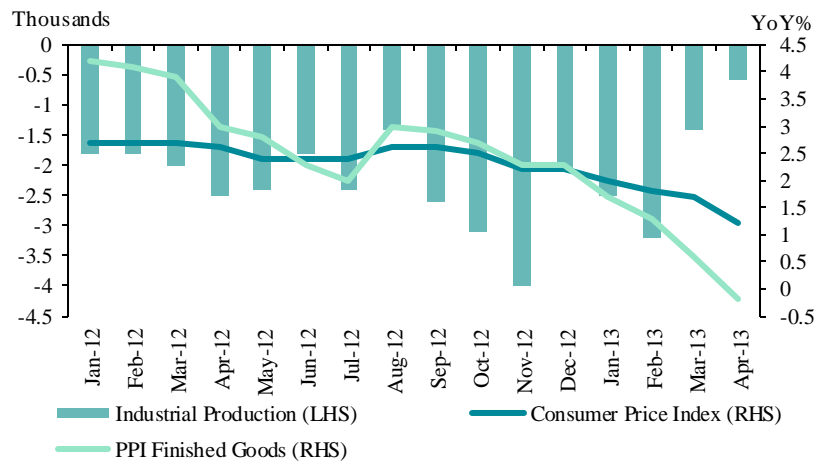
Weak economic growth in Europe



Source: Bloomberg



Growth fatigue in the Euro Zone

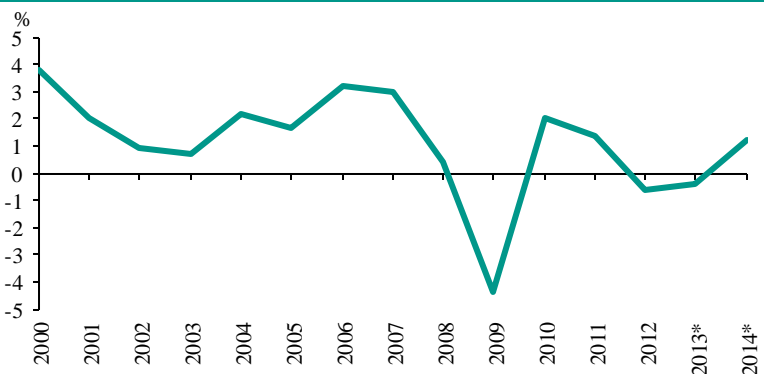


Source: Bloomberg

As a sharp contrast to the improving economy in the US, the situation in the Euro Zone economy unexpectedly took a turn for the worse. The euro zone economy shrank in the first quarter. The unemployment rate in the Euro Zone reached an all-time high of 12.2% in March. Economic activities also slowed down, as indicated by the PMI and industrial output.

The stagnant economic state raises the question the effectiveness of economic policies in Europe, but recent improvement in consumer confidence and economic activities indicators implies a possible bottom-out situation. Even though countries in the region are having different opinions about how to deal with the region’s problems, we believe that European leaders will push for further policies to revive the economy and maintain the recovery momentum. On the sovereign level, we see signs of loosening the austerity measures as Italy took the lead in changing the current austerity measures in order to fight the so-called “austerity fatigue”. We believe that other countries will follow suit in the rest of the year.

Euro Zone real GDP growth contraction will persist in 2013



*Eurostat forecast

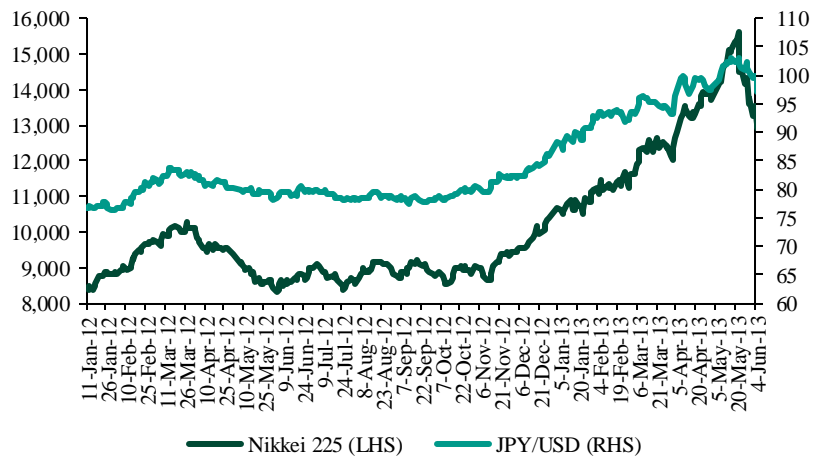
Source: Eurostat



4. Japan - Abeconomics to the rescue

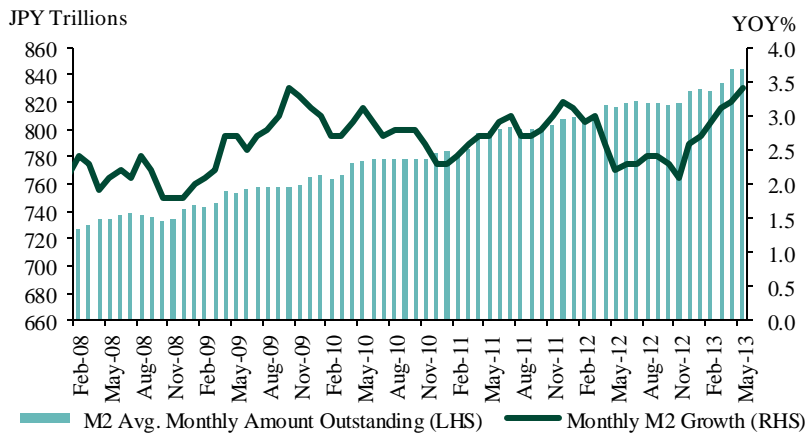
After Prime Minister Shinzo Abe took office, a series of policies were launched to boost the economy. One of the policies is the “Quantitative and Qualitative Monetary Easing” program that purchases Japanese government bond and some other assets with the goal of doubling the monetary base and reaching the targeted 2% CPI in 2 years. Japanese stock market reacted positively following the announcement and the yen also began to depreciate against other major currencies. However, the effects of quantitative easing measures did not last long. The Nikkei 225 Index continued to drop since briefly touching 15,627.26 on May 22nd. The yen reverted to below 100 against the U.S. dollar since June 4th.

Nikkei 225 index and yen exchange rate



Source: Bloomberg

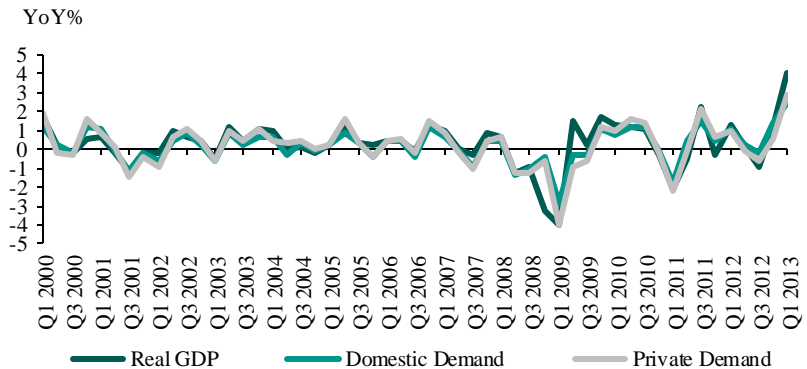
Surging Japan’s money supply



Source: Bloomberg



Japan's economic growth propelled by recent monetary policy



Source: Bloomberg

The fundamental drive of the short-lived stock market rebound and currency depreciation is the lack of follow-up policies. The strategy that Prime Minister Shinzo Abe is pursuing has 3 components: monetary easing, fiscal stimulus, and structural reform, which are referred to as “3 arrows”. But Mr. Abe’s bold vision does not translate into aggressive reform strategy regarding the fiscal stimulus and structural reform, possibly because of the uncertainty about the upper house election in July. We believe that Liberal Democratic Party’s victory in the Tokyo assembly poll in the past weekend implied the possibility that Mr. Abe will continue to serve as Prime Minister. As long as the political uncertainty is out of sight, Mr. Abe will start to formulate strategies that focus more on fiscal stimulus and structural reform in order to maintain the policy momentum.

5. Emerging Asia - Shaping a bright future through thick and thin

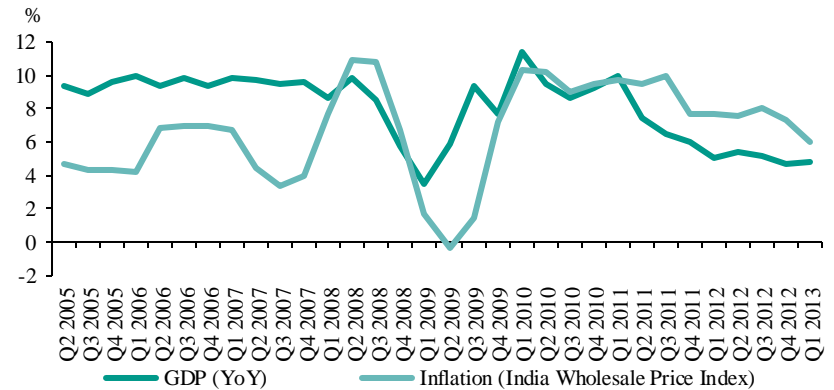
Emerging Asian countries are not immune to the negative impact posted by the Fed’s plan to withdraw the QE program. As a result of fund retreat from the region, the stock markets in Thailand, Philippines, Indonesia, Singapore, India, and South Korea have suffered an average loss of ...% since the FOMC announcement on June 19. The challenge that is commonly faced by countries in the region now is to find ways to replenish the liquidity and restore investor confidence. We expect that government officials will conduct more loosened monetary policies and make it easier for local companies to obtain credit.

Aside from the market turmoil caused by the Fed announcement, the region is still a bright spot in global economy. On the one hand, since the inflation risk subsided recently, with a record low of 4.89% since 2009, India has more room for further stimulus policies. Also, the Indian government is trying to bring in foreign capital to invest in more sectors to stimulate domestic economic growth. On the other hand, Southeast Asia, particularly the ASEAN, continues to attract investors with its growth potential. The region is undergoing



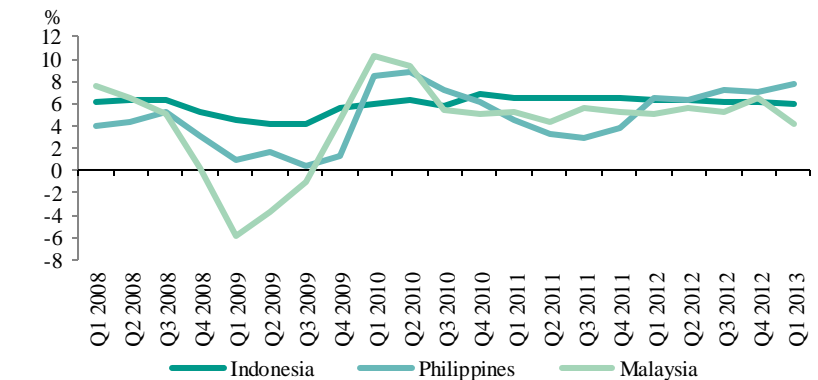
economic transition that will bring in growth opportunities in various sectors. Malaysia will see a new wave of investment projects after Prime Minister Najib Razak won the election. Philippine is undergoing economic reform that will help restructure the economy. Indonesia's commodity business will continue to be a strong backbone for its economy. We expect that the economy in the region will rebound in 2H2013.

Declining inflation gives India more flexibility for stimulus policy



Source: Bloomberg

Strong GDP growth potential in ASEAN countries



Source: Bloomberg



China economic outlook for 2H13

Approaching turning point of structural reforms

China's major economic indicators over 1H13 have shown clear signs of softening. China's economy failed to gain momentum in 1H13 but cyclical rebound in 2H13 is still likely to happen. With major GDP drivers softening and CPI month-to-month change stabilizing, we view the government will maintain accommodative policy stance broadly unchanged 2H13 with more emphasis on strengthening reform efforts in key policy areas and paying more attention to achieve sustainable economic growth. While the initial pick-up in momentum may be rather slow, we expect an overall stronger 2H13, with growth to be led by targeted fiscal and monetary measures. On balance, the current momentum points to the economic growth of 1H13 at 7.6%, with mild acceleration in 2H13 at 7.7%. Accordingly, we revise down our forecast of GDP growth in 2013 and 2014 to 7.6% to reflect the impact of structural reforms on economic growth and US's QE exit.

- **FAI growth remains healthy in 2H13.** Signaled by substantial deceleration of manufacturing FAI, total FAI have turned stagnant in 1H13. Although infrastructure and real estate investment were able to offset the slowdown, the deceleration raised concerns on further slowdown of economic growth. We believe continued government support for infrastructure development of China's rural and western regions, room for railway investment, the recovery of manufacturing FAI underpinned by local infrastructure and rural area projects and strong growth of new development in buildings for commercial business and economic housing will help restore healthy growth momentum of FAI in the remaining months of 2013.
- **Stagnant consumption growth continues until 4Q13.** Retail sales in China in the first five months of 2013 reached 9.2 trillion RMB, a year-on-year growth of 12.6%, but a 1.9% decline from a year ago, partly due to government's efforts to curb high-end spending as the government anti-graft policies reduced growth in retail sales of consumer goods. Weak retail sales data was also driven by a slowdown in automobile and property related consumption which accounted for 38% of total retail sales. We view slowing wage growth and lower inflation will contribute to the stagnation of consumption demand in 2H13. Retail sales are likely to have a rebound in 4Q13, underpinned by acceleration of urbanization which results in fundamental change in China's consumption types and volumes.
- **Moderated external trade recovery remains intact in 2H13.** China's exports are expected to enjoy moderated growth in 2H13. Although the strength of US and ASEAN countries demand for China's exports is able to partly offset the weakness in Europe, the visibility of trade outlook remains uncertain. Due to the



crackdown on misreporting of trade invoices, appreciation of renminbi and wage increase, we expect China's export growth to slow moderately in 2H13 but should be able to maintain at a high single-digit growth in 2013.

- **Mild inflation in 2H13.** After factoring in recent agricultural product prices and residential expense movements and slower-than-expected economic growth momentum, we expect CPI inflation will stay at the range between 2.5% and 3.0% in 2013. Meanwhile, we expect CPI to continue to surge mildly to 2.7% YoY in 2H13.

Economic forecasts for China

% (otherwise stated)	2011	2012	1Q 13	2Q 13F	2H13F	2013F	2014F
Real GDP	9.2	7.8	7.7	7.4	7.7	7.6	7.6
FAI(YTD)	23.8	20.6	20.9	20.2	21.0	21.0	18.0
Retail Sales	17.1	14.3	12.4	12.8	14.0	13.3	14.5
Exports	20.3	7.9	18.4	5.3	8.2	9.6	14.5
Imports	24.9	4.3	8.4	4.9	8.1	7.4	15.8
Trade Surplus (US bn)	155.1	231.1	43.1	74.1	176.5	294.2	311.5
CPI	5.4	2.6	2.4	2.2	2.5	2.5	3.0
PPI	6.1	-1.7	-1.7	-2.6	-2.1	-1.7	1.2
M2	13.6	13.8	15.7	15.6	15.4	14.5	14.3
1-year deposit rate	3.50	3.00	3.00	3.00	3.00	3.00	3.00
1-year lending rate	6.56	6.00	6.00	6.00	6.00	6.00	6.00
Deposit RRR	21.0	20.0	20.0	20.0	20.0	20.0	20.0
Exchange Rate (USD/RMB)	6.2950	6.2306	6.2102	6.1420	6.0748	6.0748	5.8926

Source: Bloomberg, ABCIS estimates



1. China policy outlook for 2H13

Premier Li Keqiang pledges to open China's economy to more market forces and strip power from the government as part of efforts to restructure growth. He takes pragmatic approaches in pushing reforms by identifying nine key objectives for 2013 during the State Council session in May. The range of market-oriented reforms aims at transitioning China into a quality-oriented economic model that achieves sustainable development and enhances growth potentials. In accordance with China's economic growth and structural adjustment objectives, we expect that the central government will implement economic policies characterized by accommodative monetary easing, aggressive fiscal expansion and liberalization of interest rate and exchange rate mechanism. In sum, China will continue to fine-tune the current accommodative macroeconomic policies to boost growth in 2H13.

Nine key reform objectives for 2013

1	Streamlining administrative approval procedures
2	Liberalizing interest rate and exchange rate mechanism
3	Reforming fiscal system
4	Planning railway construction financing
5	Reforming utility pricing system
6	Deepening healthcare reform
7	Devising long-term urbanization plan
8	Modernizing agricultural industry
9	Promoting IT innovation

Source: China's State Council

1) Monetary policy: prudent and accommodative liquidity management

Prudent liquidity management will continue to be a priority of monetary policy in 2H13. China will maintain a prudent monetary policy to highlight the quality and efficiency of economic expansion. Although the US disclosed the timeline of QE exit schedule, other developed and developing economies remain aggressive in releasing liquidity through credit loosening to accelerate economic growth. We believe that global liquidity will continue to flow into China, which would exert greater pressure on the PBOC to manage liquidity. In our view, monetary policy will be prudent to accommodate the market demand for liquidity and the PBOC would like to keep financial conditions accommodative for growth stabilization.

The PBOC specially vowed caution against future inflation risks in the 1Q13 report. Surging capital inflows into the country complicated

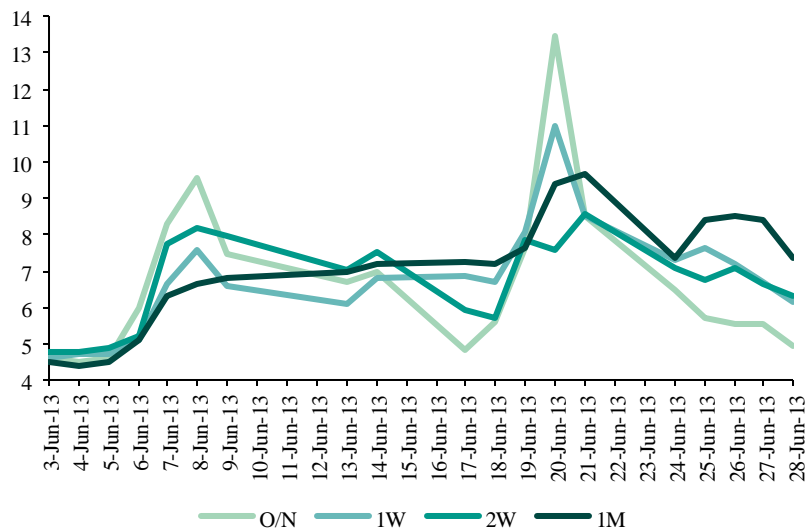


the PBOC's task in guarding against any flare-up in inflation. The PBOC resumed issuance of bills in May for the first time since 2011 to drain cash from the financial system as accelerating renminbi gains spur capital inflows. In addition, utility pricing reforms by loosening government control over utilities and resources may lead to higher inflation in 2H13, thus further alerting the PBOC to pursue a prudent monetary policy to keep prices stable. We expect the PBOC will further push forward interest-rate liberalization and reform of mechanisms for forming the renminbi exchange rate.

No hopes of monetary adjustment through interest rate or RRR.

The sharp spikes in SHIBOR in June without accommodative monetary easing from the PBOC reflected that the PBOC did not intend to cause structural abnormality in the money market as the short term liquidity crunch was tentative before half-year end or month end. In sum, preserving a stable level of liquidity in the banking system will be the ultimate target of the PBOC in 2H13. Liquidity management through repurchase agreement and issuance of bills continues to be the major flexible tools to accommodate the demand for capital in 2H13 as global financial markets remain volatile. Accordingly, we expect the annual new bank loans target will be between RMB9.0t and RMB 9.2t in 2013 from RMB8.2t in 2012 while M2 growth will be close to 14.5% in 2013.

SHIBOR surged due to short-term liquidity squeeze



Source: Bloomberg

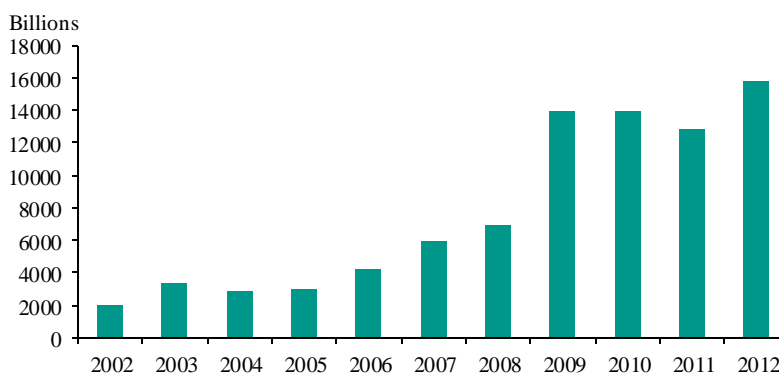


PBOC maintains prudent liquidity management for the rest of 2013

	Inflation (target) (%)	Inflation (Actual) (%)	Over /Under the target	Monetary policy stance
2007	3	4.8	Over	Prudent + liquidity management
2008	5	5.9	Over	Tightening
2009	4	(0.7)	Under	Moderately loose
2010	3	3.2	Over	Moderately loose
2011	4	5.5	Over	Tightening
2012	3	2.6	Under	Prudent + liquidity management
2013F	3.5	2.5	Under	Prudent + liquidity management

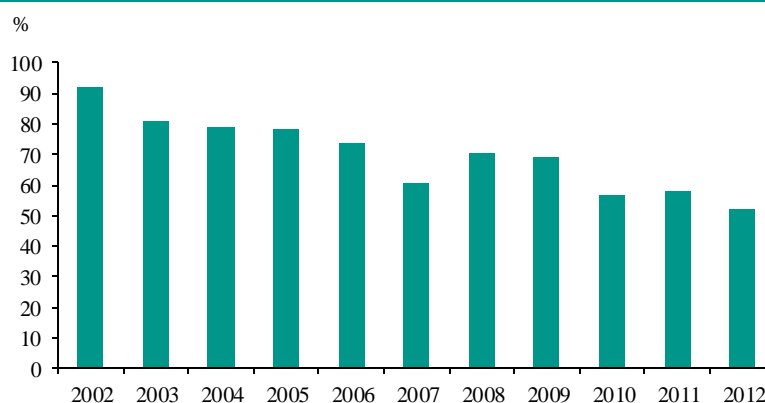
Source: ABCIS research

The rise of total social financing accelerated since 2008



Source: Bloomberg,

Share of new loans within total social financing was diminishing



Source: Bloomberg

2) Fiscal policy: boosting FAI and consumption to support growth momentum

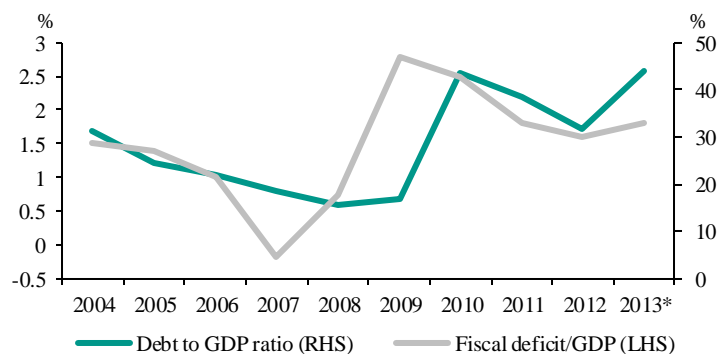
Weak economic data in 1H13 continued to stoke fears that as China slows down, it will exacerbate the cooling of the global economy. But we believe China will maintain a healthy growth rate in 2H13 through structural economic reforms. China will continue to adopt expansionary fiscal policy to boost FAI investment as such a move would be consistent with its objective of transforming the nation's



industrial structure over the medium term. We expect the industrial output will rebound in 2H13 on the back of a fiscal stimulus plan. In our view, a big chunk of economic growth comes from plans announced by China's National Development and Reform Commission (NDRC), which unveiled a slew of subway and highway projects in 2H13. Power stations, wind farms, airports, water supply, sewage treatment, and waste incineration power plant projects have also been announced, worth together more than one trillion RMB. These projects take an average of four to five years to complete and are normally started with a five to six month lag due to arrangement of financing. In addition, the central government will continue to monitor the construction of subsidized housing partly funded by local governments. We also expect the government to provide more subsidies and raise average income for low-income communities through minimum wage adjustment, aiming to establish salary and social welfare adjustment mechanisms linked to economic growth and CPI movement.

Fiscal stimulus remains intact in 2H13. In order to further facilitate the recovery of economy, we expect more stimulative packages to emerge in a more aggressive manner in 2H13, such as: (1) acceleration in approvals for infrastructure and construction projects; (2) additional subsidies on energy-efficient consumer products; (3) encouraging private capital to flow into large industrial sectors that normally dominated by state firms with high entry barriers; (4) tax reform to support the service sector. Stimulus is no replacement for longer-run structural reforms that will point China's economy toward internal consumption and sustainability, but in the short-run it should fuel growth.

China fiscal position is still healthy



*IMF forecast

Source: Bloomberg, IMF

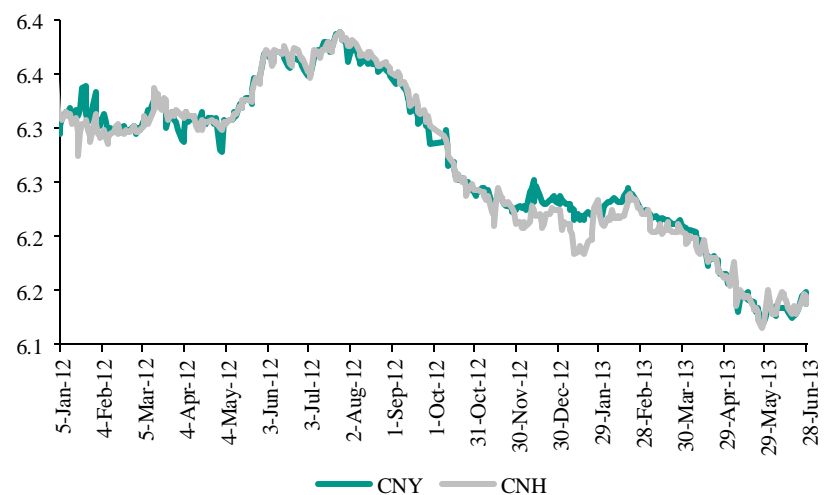
3) Accelerating renminbi and capital-account convertibility in 2H13.

The State Council said that a plan to make the currency convertible under the capital account will be proposed this year, indicating that a blueprint for the long-discussed reform is in place. It is a part of measures to loosen control over its currency and interest rates. The



plan may include the creation of a mechanism that allows overseas investments by individuals and expansion of daily trading band limit of renminbi. Renminbi convertibility under the capital account will hinge on the further liberalization of interest rates and exchange rates, as the distorted price of capital may misguide money flows. We expect the government will also focus on expanding existing programs, including the Qualified Foreign Institutional Investors (QFII), RMB Qualified Institutional Investors (RQFII) and Qualified Domestic Institutional Investors (QDII) programs, to encourage inbound and outbound capital flows. In sum, China pledges to steadily roll out financial reforms to liberalize interest rate and exchange rate regimes and we expect exchange rate reforms and measures to open capital account will encourage more frequent capital flows in and out of the country and renminbi will be more volatile and market-based in the future. The acceleration of renminbi internationalization will lead to 2.5% renminbi appreciation by the end of 2013.

CNY vs CNH



Source: Bloomberg



2. Five economic themes for 2H13

The continuity of economic recovery in 2H13 relies on policy and investment initiatives under the new leadership. The highlighted areas of future growth areas including urbanization, industrial upgrade, agricultural and information modernization and environmental protection are of paramount importance in sustaining growth momentum on the economic rebalancing side. The new growth engines will be on incremental basis to provide growth momentum to the economy through economic reforms.

1) **Stable investment growth underpinned by infrastructure and real estate investment**

Although we have been worrying about FAI growth deceleration since early 1Q13, investment growth is still the key instrument to sustain economic growth in 2H13. We attribute stable FAI growth to both rebounds in government initiated infrastructure investments and stronger-than-expected real estate investments. We estimate that FAI is likely to grow by 21.0% for 2013.

➤ **Robust infrastructure investment in 2H13**

The acceleration of urbanization will provide support for additional investment in urban and rural public infrastructure projects. State budget funds allocated for FAI grew by 21% YTD in May which was in line with expected FAI growth in 2013. We view this will drive an infrastructure investment rebound in 2H13 as these projects should be able to obtain sufficient funding from the central government, local governments and banks. It will gain momentum in the coming months. In sum, sufficient funding and a surge in total social financing suggest sufficient capital will be available in 2H13 to maintain a stable growth in FAI.

➤ **Real estate investment driven by stronger growth of office buildings and buildings for commercial business**

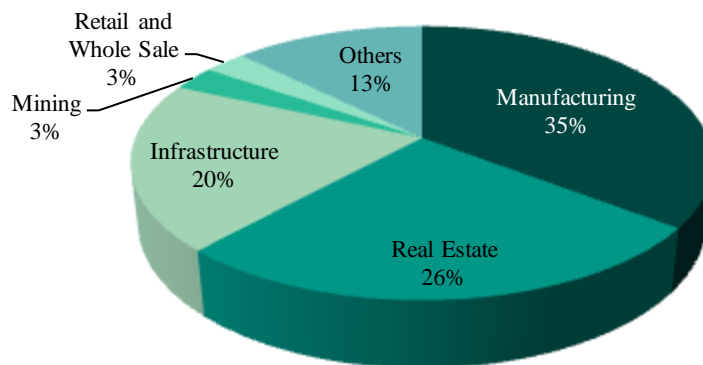
Real estate investments performed better than expected by growing 20.6% in May, driven mainly by office buildings and buildings for commercial business. China's commitment to property tightening means a substantial change in real estate investment is unlikely in the near term, in our view. Although residential property development sees signs of slowing growth, new development of office buildings and buildings for commercial business demonstrates strong growth momentum to offset slowing residential market. Real estate investment is unlikely to suddenly take a dive and we expect it will continue to support China's investment growth.

Another driving factor for real estate investments is accelerating construction of indemnificatory apartments for low-earned communities. Given that the development of economic apartments



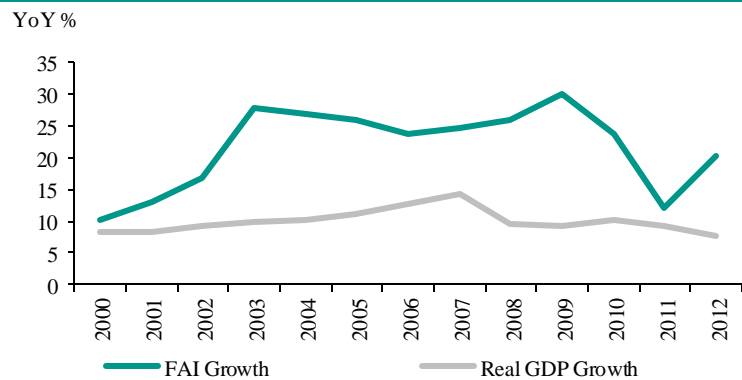
has been assigned to local governments as one of their key performance indicators, we expect that such developments will speed up in 2H13 under the guidance of the central government. Should the above investment plans be completed in 2013, we estimate the growth of real estate investments will remain at the range of 15% to 22% YoY in 2H13, which would lead to 20% YoY growth for 2013.

May FAI (YTD) breakdown by sector



Source: National Bureau of Statistics of China

FAI growth maintains above 20%



*2013 Forecast GDP and FAI are 7.6% and 21% respectively.

Source: Bloomberg

2) Consumption growth driven by staples and services

YTD retail sales growth up to May stood at 12.6%, up slightly from 12.4% in 1Q13. The mild improvement was aided by strong sales growth in gold, silver and jewelry amid the recent gold price drop. However, revenue from restaurants continued to show weakness as evidenced by YoY growth of 8.5%. In sum, we expect retail sales show mild growth recovery in 2H13.

➤ Strong growth in consumer staples consumption

Historically, China's retail sales have negatively correlated with

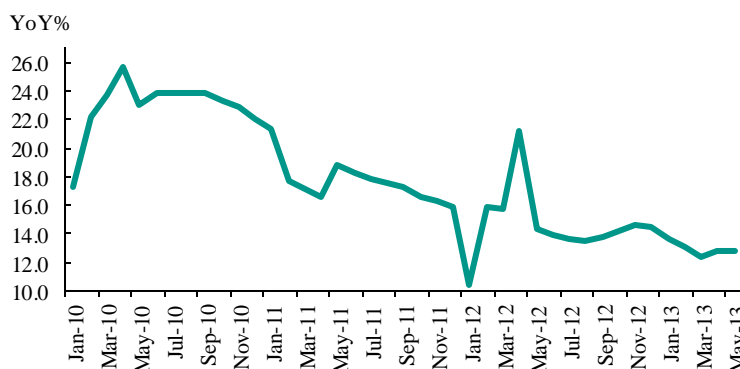


real deposit rates. When real deposit rates stayed at low levels, retail sales realized strong growth. Although we estimate that CPI inflation will have mild upbeat in the remaining months of 2013, we expect it to stay at 2.5% YoY for the full year of 2013, which means real deposit rates will remain low level for coming quarters. On the other hand, average wage increases for low-earned communities will also aid to improve consumption inclination over the medium term. We forecast that retail sales of consumer staples will see 15% growth YoY in 2H13.

➤ Service consumption to be a new driver in the medium term

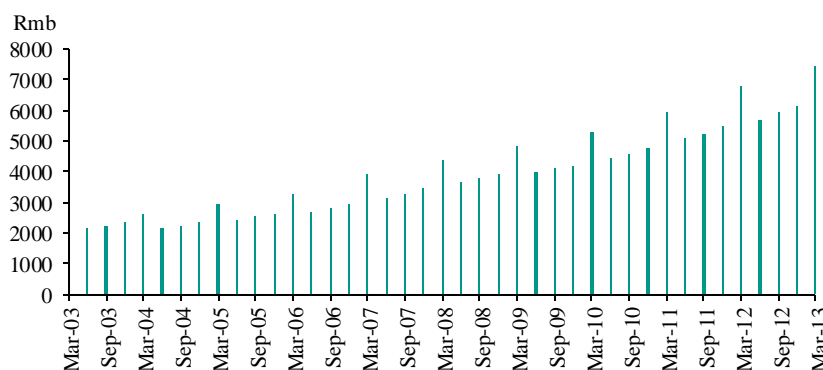
Along with sustained residential disposable income growth and average household wealth increase, we believe that service consumption, primarily consumer spending on medical services, education, entertainment, tourism, household services and financial services, will act as the main driving force of urban consumption growth.

3MA retail sales growth demonstrated stabilizing trend



Source: Bloomberg, ABCIS

Stable growth of personal disposable income of urban household



Source: Bloomberg

3) Stable inflation in 2H13

During the first five months of 2013, the CPI inflation fluctuated



between 2% and 3.2%, with the YTD CPI inflation reaching 2.4%. Mild CPI hikes during this period were attributed to base effect and agricultural product price inflation caused by the extraordinary weather in Southern provinces and speculations. As the base effect has subsided and weather conditions improved, we believe that agricultural product price inflation should moderate in 2H13, which in turn will keep inflation within the 3.5% YoY threshold for the full year of 2013. We estimate that the CPI will rise to 2.5% YoY in 2013.

➤ **Food price hike only on seasonal basis**

Food prices rose by 3.8% during the first five months of 2013, driven by inflation of grain and vegetables. Based on the recent public information, we estimate that grain production will decrease slightly (2-5%) in autumn harvest from last year and, thus, overall grain product prices are likely to continue to increase at a reasonable pace of 5% to 10% YoY in 2H13.

Pork prices have been moderating since the beginning of 2013. Given increasing pork consumption in autumn, we view pork prices could further rebound by 5% to 10% in 2H13. However, increasing pork supply helps slow down the pricing pressure of pork in the market.

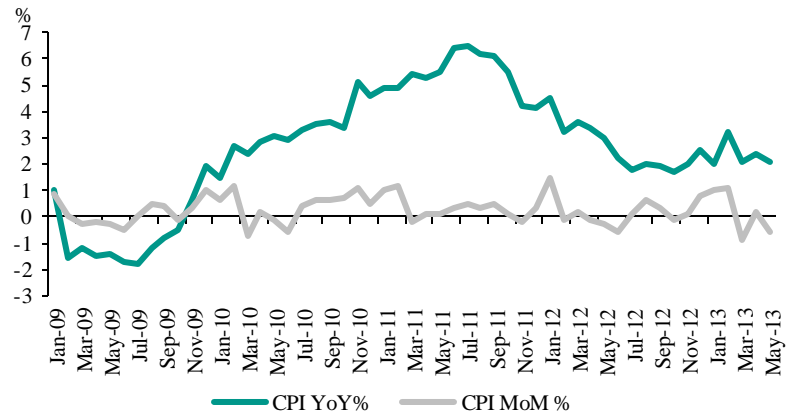
Vegetable price movements have demonstrated strong seasonality historically. Along with improvement of weather conditions in most Southern provinces, we expect vegetable price hikes to subside in coming months. In sum, we forecast that food prices will increase by 5.5% YoY in 2013 on the combined effect of grain, pork and vegetable price movements.

➤ **PPI decline to sustain in 2H13**

China's PPI has been declining since March 2012 due to moderation of international commodity prices and weakness in domestic demand. Based on the global economic recovery outlook in the near term and 2013, we expect international commodity prices are less likely to inflate substantially from the current level. Meanwhile, we expect growth of China's FAI and industrial production will maintain stable growth momentum, which should not cause rebound of domestic industrial goods prices. Therefore, we forecast PPI will turn stronger in 2H13 and arrive at -1.7% YoY for the full year of 2013. In this regard, weakness of PPI won't be a CPI driver in the foreseeable future.

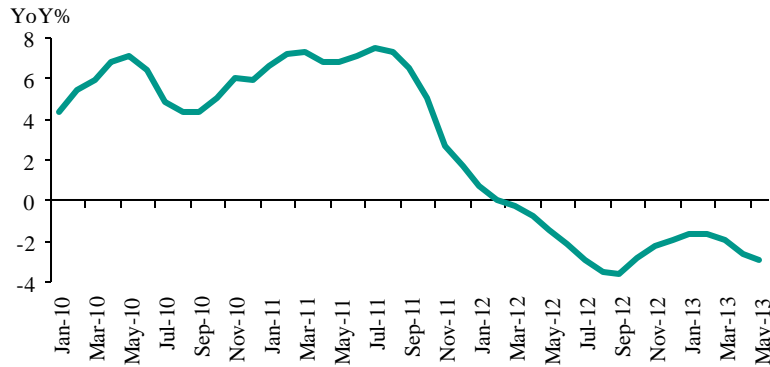


The trend of CPI inflation becomes stable



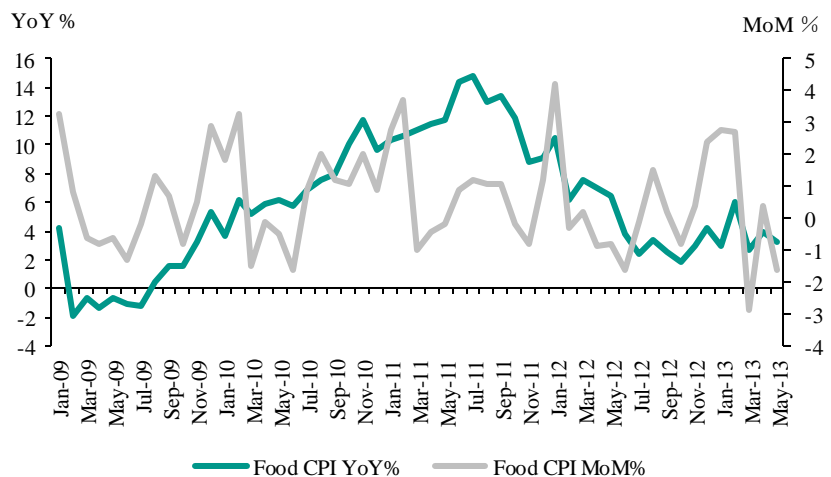
Source: Bloomberg, ABCIS

PPI is trending down



Source: Bloomberg, ABCIS

Food inflation turns stable



Source: Bloomberg, ABCIS

4) Moderated external trade recovery

Although the strength of US and ASEAN countries demand is able to



partially offset the stagnation in Europe and Japan, the visibility of trade outlook remains uncertain as reflected by contraction of new export orders in the latest PMI figure. We expect China's export growth to slow moderately and should be able to maintain at high single-digit growth in 2H13 on continued recovery of developed nations' demand for Chinese exports, leading to aggregate export growth of 9.6% YoY in 2013.

➤ **Exports to the US will remain stable amid the US economic recovery**

Recent key economic indicators in the US suggest that fears that the US economy is heading to economic stagnation are likely to recede further in the remaining months of 2013. We expect US GDP growth to accelerate slightly from 2.4% in 1Q13 to around 2.5% in 2Q13. The US economic recovery has been largely attributed to recovery of consumer confidence and property market while unemployment rate continue to point south. Based on the outlook of US economic recovery in 2H13, we estimate that China's exports to the US will continue to grow steadily at 8.5% YoY in 2H13 and 6.0% YoY in 2013.

➤ **Trade recovery in selected areas only**

From January to May, China's trade with the US and ASEAN countries maintained strong growth momentum while Japan and EU still experienced negative trade growth with China. The data confirmed that trade recovery process remains intact with momentum of growth depending on pace of global economic recovery. With Japan's new QE pledge and EU's monetary easing, we expect the trade growth between China and major trading partners will gradually improve in coming months.

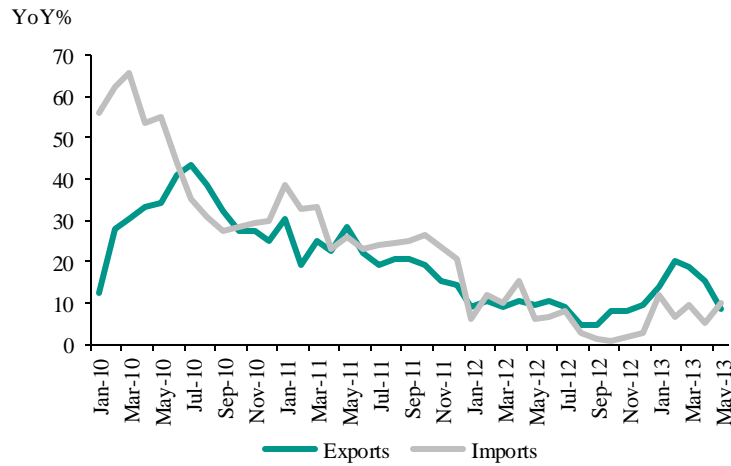
➤ **Import strength is likely to pick up further in 2H13**

Chinese YTD imports up to May rose 8.2% YoY, bringing smiles to exporters of iron ore, crude oil and other commodities, as well as Asian suppliers of industrial components and western producers of factory equipment and consumer goods. Current lower import prices resulted from continued falling commodity prices should be able to attract consumption demand, in our view. We expect import growth will accelerate in 2H13. Given the negative impact of renminbi appreciation on Chinese shipments and slow global economic recovery, China's export growth may turn out to miss the target. In order to meet 8% total trade growth target in 2013, China is now turning to emphasize more on the expansion of imports. To achieve this, the government can opt to implement preferential charging policies, scrutinize import charges and encourage domestic corporates to participate in import-related businesses. Enterprises can make use of better hi-tech equipment imports from the developed countries to upgrade industrial structures. All these are the effective policies that China may assume in the future to



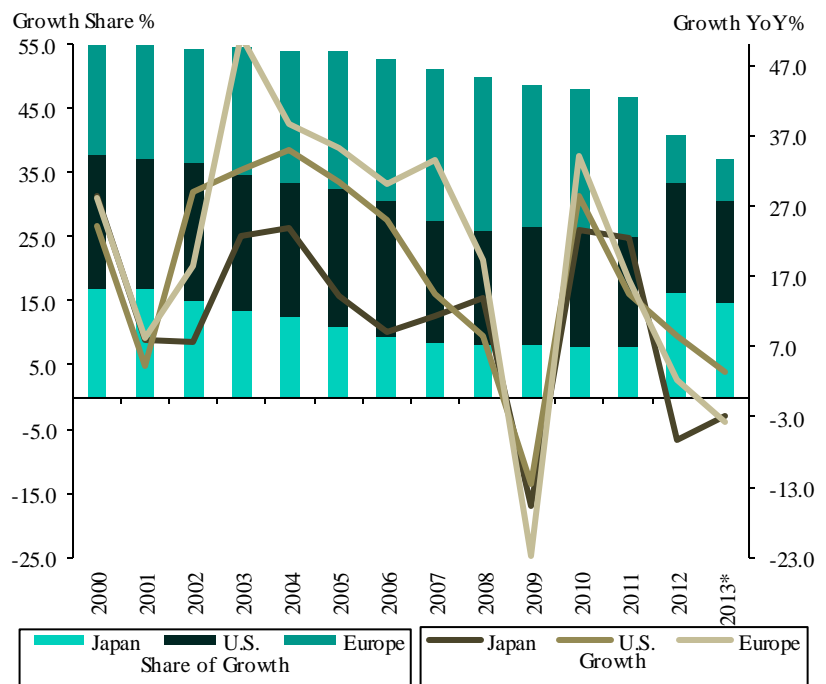
boost domestic demand and strengthen economic rebalancing.

Moderation of 3MA export growth trend



Source: Bloomberg, ABCIS

Growth of China export to US, Europe and Japan



*Jan. – May aggregate

Source: Bloomberg, ABCIS estimates

5) Renminbi convertibility on top of financial reform agenda

In May, the State Council meeting signaled that it will propose plans in 2013 to allow freer flows of capital in and out of China as part of measures to loosen control over renminbi and interest rate. It vowed to unveil an operational plan for RMB convertibility in 2013. The plan



on capital-account convertibility will also include a way to let individuals make overseas investments.

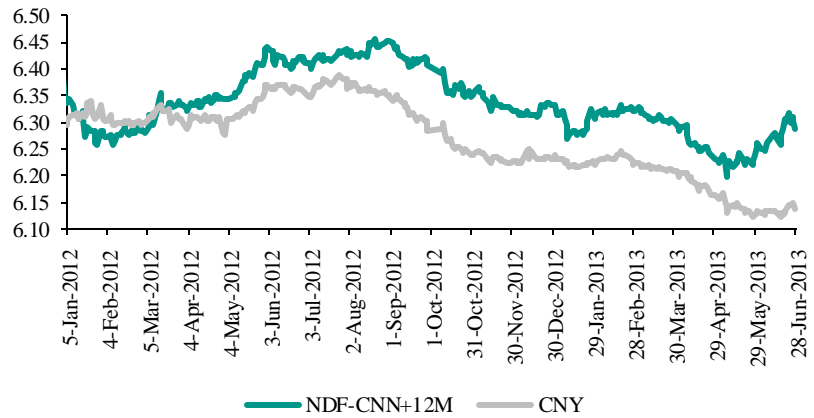
As China integrates further into the global economy with domestic capital seeking fresh markets and foreign funds gravitating to the mainland, an open capital account would facilitate capital flow and investments. Liberalization of the capital account would allow businesses or individuals from home and abroad to freely convert their currencies to buy assets and equities across the border. We expect the followings to happen in 2H13:

- ❖ Expansion of existing QFII, QDII and RQFII programmes;
- ❖ Capital account convertibility and RMB internationalisation will develop further as a number of Chinese cities, including Shanghai, Tianjin and Beijing, are preparing to launch pilot programmes that will allow their residents to exchange currency freely and invest abroad.
- ❖ China will further liberalize interest rates market and develop a fully functioning bond market in preparation of full convertibility of renminbi.
 - ◆ **Bond Market.** Policymakers have begun to speed up the development of the bond market, introducing pilot programs for municipal and high-yield bonds. We expect the Chinese benchmark yield curve will be made for facilitating the arbitrage activities driven by freer flows of capital and investment. Corporate bond issuance has also been on the rise. We expect the expansion of municipal and corporate bonds to double the size of the domestic bond markets in the coming five years.
 - ◆ **Interest rate liberalization.** Further expanding the floating band for lending and deposit rates contribute to enhance the operational efficiency of bond market which help set up indicative yield curve. It is one of the goals set out in the government's 12th five-year plan. It also helps enhancing the role of the Shanghai interbank offer rate (SHIBOR) as a pricing benchmark.

Reforming China's financial sector looks to be a top priority for China's new leadership as financial reforms are high on the central government's agenda. The reforms allow market forces to play a greater role in capital allocation. When China's onshore financial markets are in order and ready to become more open to foreign investors, moves to full convertibility of the renminbi will gradually achieve capital account convertibility. We foresee that renminbi will become fully convertible in three years in international market.

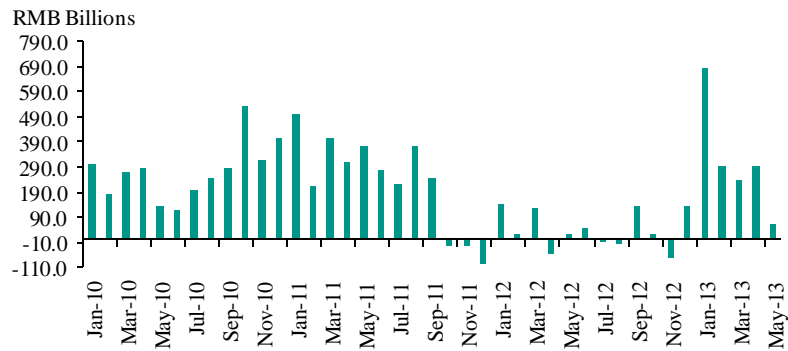


CNY and NDF-12 months



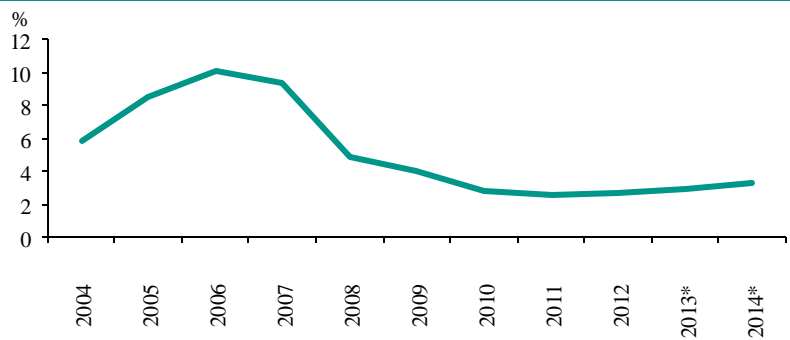
Source: Bloomberg

Position for ForEx purchase



Source: Bloomberg

Balance on current account (% of GDP)

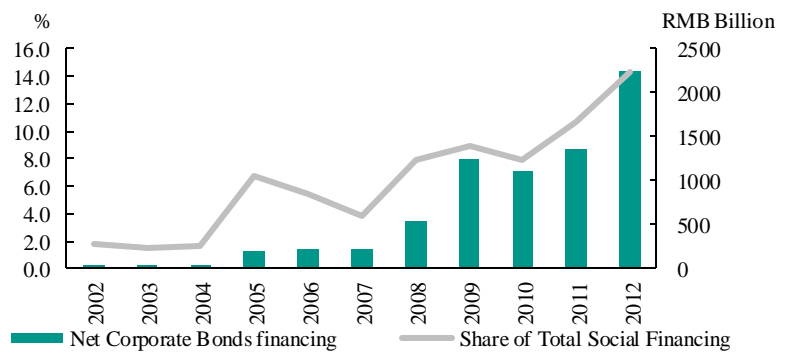


* forecast

Source: Bloomberg, ABCIS estimates



Net corporate bonds financing is increasing



Source: Bloomberg



Hong Kong economic outlook for 2H13

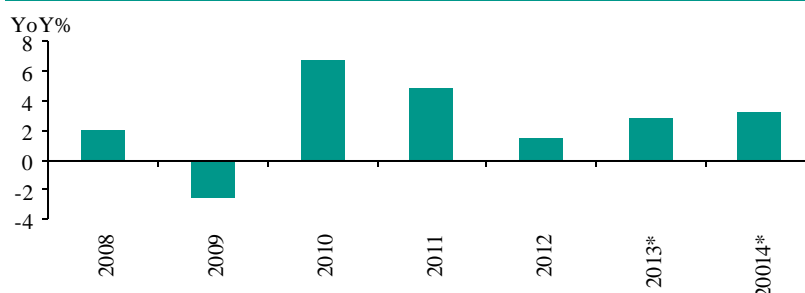
A solid growth of private consumption at 7.0% YoY boosted by the continued strong labor market, the wealth effects from high housing prices and strong tourist spending sustained HK economic growth momentum at 2.8% YoY in 1Q13. HK's external trade sector remained a drag on growth as the US's QE exit may have negative impact on global trade. Meanwhile, Mainland tourist spending and demand for business services from Mainland companies will continue to provide support to the domestic economy. Domestic consumption still displays resilience and becomes the prime mover of the recovery. Key headwinds affecting HK economic recovery include surging inflation and faster-than-expected slowdown of property market due to tightening measures. In sum, we expect to see moderate economic recovery of Hong Kong economy in 2H13 with GDP forecasts at 2.8% and 3.3% for 2013 and 2014, respectively.

Economic forecasts for Hong Kong

Year	2011	2012	2013F	2014F
Real GDP	4.9	1.5	2.8	3.3
Consumption	9.0	3.2	5.9	6.2
Investment	10.2	9.4	3.9	5.0
Government Consumption	2.5	3.7	2.7	3.0
Exports	3.7	1.8	6.3	6.4
Imports	4.6	2.8	7.7	7.4
Unemployment Rate	3.4	3.3	3.5	3.4
Inflation	5.3	4.7	5.0	4.5

Source: Bloomberg, ABCIS estimates

HK's GDP growth forecast



*ABCIS forecast

Source: Bloomberg, ABCIS estimates

Inflation pickup

Inflation will be a key theme for HK's economy in 2H13. Inflation risk tilts to the upside as higher imported food prices from China due



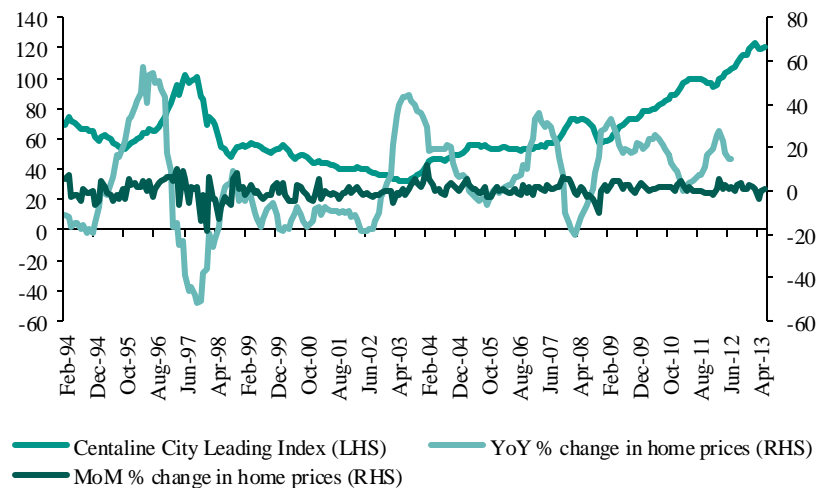
to the strengthening renminbi and higher residential rents. We expect CPI inflation to be 5.0% YoY in 2013. The government may launch various one-off subsidies to suppress headline CPI, but that would so little to divert the uptrend in the underlying inflation rate.

High inflation will turn the real interest rate even more negative, pushing Hong Kong's deposit base into the asset markets, in particular the property market. Without the ability to change Hong Kong's monetary policy, the government is expected to maintain the tightening measures to cool the red-hot property market.

1. Property market's correction up to 10%

While the economy will see a smoother ride in 2013, the same cannot be said for the property market. The market is fuelled by historically low interest rates and housing supply, as well as capital inflows from the Mainland. Alarmed by sharp increases in property prices, the HKSAR government has introduced a range of new measures to stabilize the property market since October, 2012. Decelerating transaction volumes and price correction show signs of effectiveness of the measures. The government's tightening measures will remain intact in 2H13 and continue to cool down the sentiment and lower transaction volumes. We expect the property prices are likely to have correction between 5% and 10%.

Hong Kong property price continues to rise



Source: Bloomberg, CENTADATA

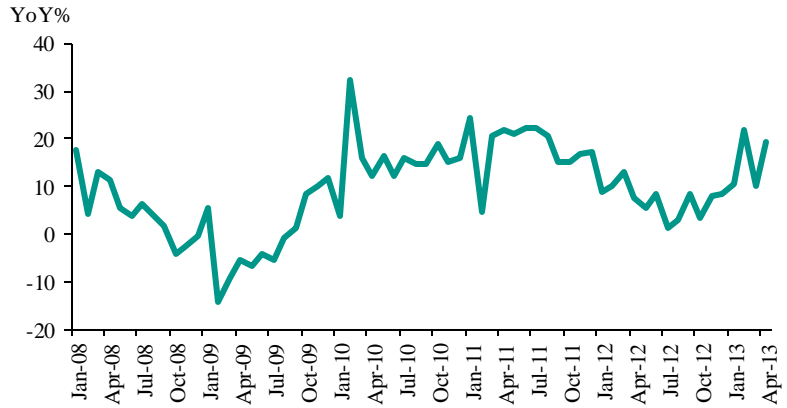
2. Robust consumption growth

Private consumption expenditure posted a strong growth of 7.0% YoY in 1Q13 against 3.2% in 2012. Private consumption in HK is largely underpinned by domestic consumption and tourist spending from mainland China. HK's unemployment has remained low and labor market conditions remain supportive of retail sales growth. Amid the recovery of China's economic momentum and appreciation of the



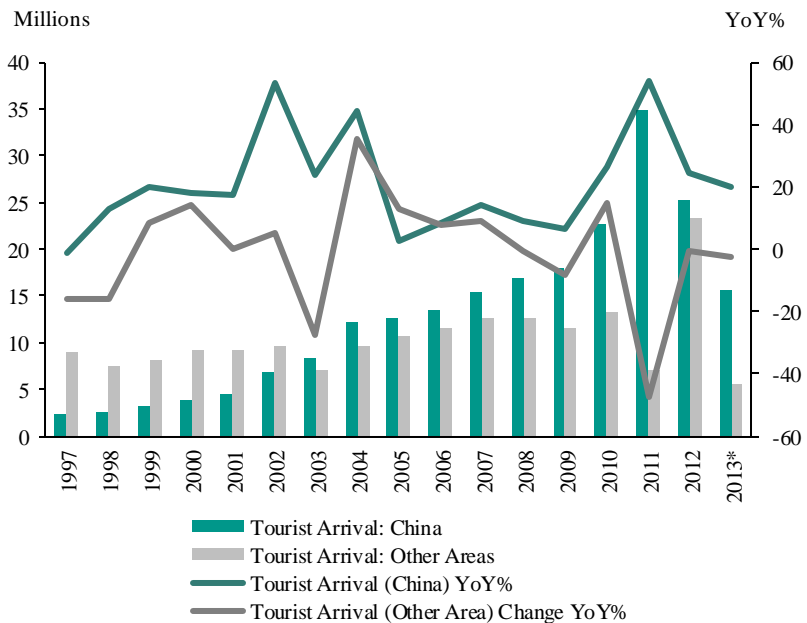
renminbi, we expect Hong Kong retail sales will remain resilient in 2H13, which help boost the GDP growth.

HK retail sales growth remains robust



Source: Hong Kong Census

Tourists arrival from China remain stable



*Jan. - May

Source: Hong Kong Census

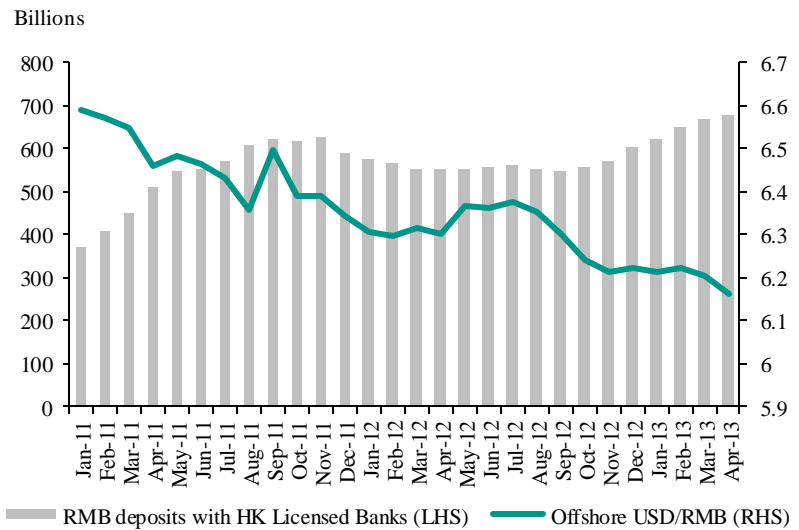
3. Hong Kong' role for liberalization of China's capital account

China has prepared to unveil plans in 2H13 to allow freer flows of capital in and out of China as part of measures to loosen control over renminbi and interest rate. It also will unveil an operational plan for RMB convertibility in 2013. HK, as a China's renminbi offshore



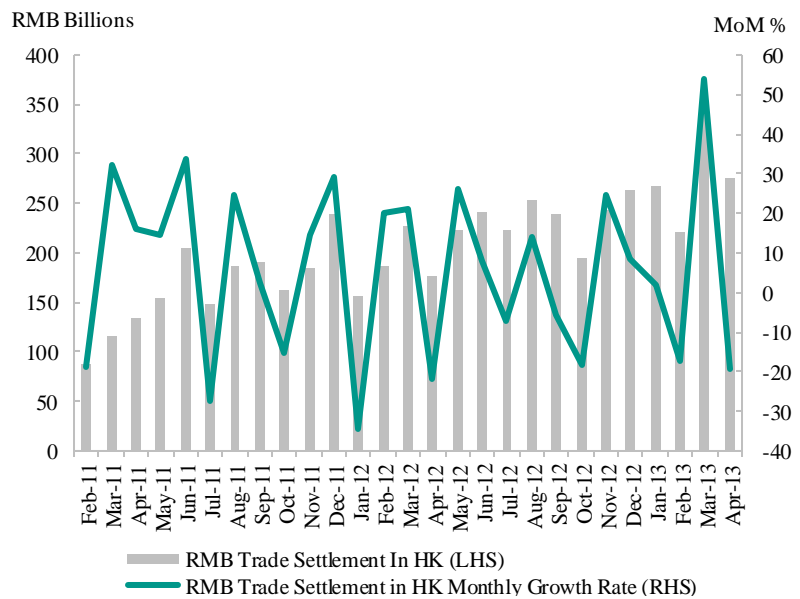
center, plays a key role in liberalizing China's capital account. Widening the scope of QDII and QFII/RQFII, liberalizing interest rate, expanding trading band of renminbi and strengthening financial sector reforms will facilitate the flow of capital and promote the full convertibility of renminbi, thus benefiting local economy as HK has the premier offshore renminbi financial platform for international investors.

RMB deposits and offshore USD/RMB



Source: Bloomberg, HKMA

RMB trade settlement & monthly growth rate



Source: Bloomberg, HKMA



2H13 Investment Strategy

By 1H13 investors began to wake up to the reality that the US economy, which outperformed many developing markets, was able to maintain its pace of recovery. The announcement of the expected timing of QE's exit further confirmed that the US economy is able to maintain growth momentum in 2H13. The relative resilience of the US economy suggests that the gradual pullback from extreme liquidity provision could cause capital flows to head back to the US economy, pushing the dollar higher and further damaging the prospects of countries in Asia. Capital flows will likely be volatile in the near term and the higher risk premium assigned to the Fed's tapering QE has caused sell-off in Asian capital markets.

China's financial markets were in turmoil when getting closer to the end of 1H13. Besides the external headwind from the US's QE exit and China's slower-than-expected economic recovery, tight liquidity conditions in China's banking system resulted in SHIBOR turbulence in June with which overnight SHIBOR rose from 4% in the beginning of June to as high as 13%. As the PBOC refuses to inject additional liquidity into the market, the credit crunch has been further intensified, thus elevating the equity market volatility. Since the beginning of June, HSI and HSCEI has dropped by 7.10% and 12.15% respectively

The recent hikes in SHIBOR tend to be tentative due to half-year end effect, corporate tax payment and mid-year assessment by regulators. These factors have exaggerated the demand for capital within the banking system. We expect market fears on credit crunch will soften starting from 3Q13 and banks will better manage their liquidity position in coming quarters. In sum, although China's economic growth is slower-than-expected in 1H13 with tight credit conditions due to structural adjustments in economic structure, we expect investors would likely increase their optimism on the pace of China economic recovery in 2H13 with the normalization of SHIBOR. We stay positive despite mounting near-term headwinds. The preferred stock ideas rest on the reasonable valuation with growth potentials driven by corporates' earning growth, favorable government policies and economic environment of structural reforms.

1. Attractive returns for Hong Kong/China equity markets

With the PB of HSI and HSCEI reaching the lowest level since the last two market corrections, there exists potentially attractive returns from investing in Hong Kong and China market. Slow pace of China's economic recovery of China and the US's exit of the QE program were the major barriers to lift the HSI in 1H13. By 2H13, these concerns had largely passed. Investors should take advantage of any dip in the market to accumulate equities in Hong Kong and China. Should the market concerns abate and corporate earnings gaining

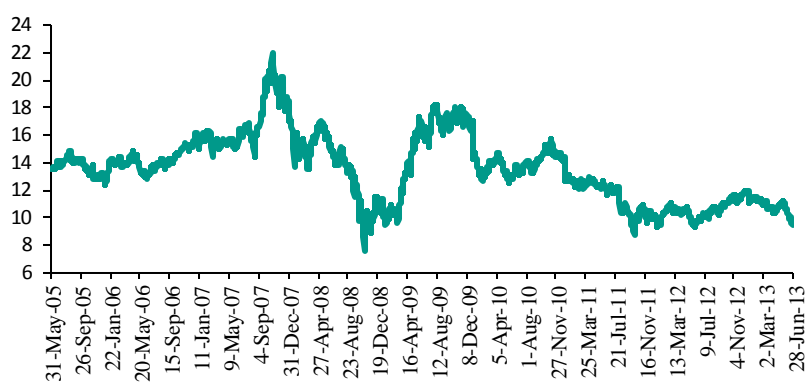


momentum, we estimate the HSI and HSCEI to reach around 23,000 and 11,500 by end-2013, equivalent to a 2013F PER of 11 and 8.5, respectively.

2. Increase portfolio beta in 2H13

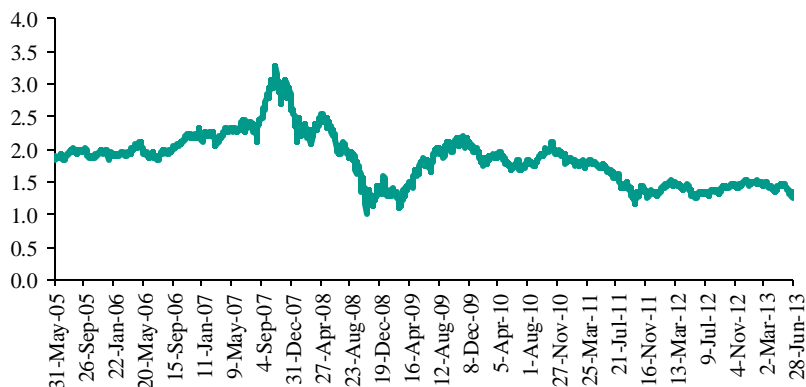
With the increasing fund flows into the equity market, liquid and high beta stocks are expected to outperform the market. We expect stocks in the sectors including China banks, securities, property, dairy, railway construction and engineering, environmental protection and HK property investor.

HSI forward P/E multiple



Source: Bloomberg

HSI P/B multiple



Source: Bloomberg



HSCEI forward P/E multiple



Source: Bloomberg

HSCEI P/B multiple



Source: Bloomberg



3. Investment themes for 2H2013 – Top picks

Investment Theme	ABCIS's Picks	Ticker
Service sector ready to benefit from urbanization	Zoomlion	1157 HK
	China Railway Construction	1186 HK
	Kunlun Energy	135 HK
	Country Garden	2007 HK
	Sinopharm	1099 HK
Roadmap of financial reforms	ICBC	1398 HK
	CCB	939 HK
	ABC	1288 HK
	China Galaxy Securities	6881 HK
	CITIC Securities	6030 HK
	BOC Hong Kong	2388 HK
	Hang Seng Bank	11 HK
Government support for China dairy products	Mengniu Dairy	2319 HK
	China Modern Dairy	1117 HK
New strategic industries of 12th Five-Year plan	China Everbright International	257 HK
	Beijing Enterprise Water	371 HK
	Tencent	700 HK
	Kingsoft	3888 HK
	AviChina	2357 HK
Stable growth momentum of China's property market	Greentown China	3900 HK
	Kaisa Group	1638 HK
	COLI	688 HK
	CR Land	1109 HK
Qianhai development	BOC Hong Kong	2388 HK
	CITIC Securities	6030 HK
	Haitong Securities	6837 HK
	Guotai Junan	1788 HK
	Shenyin Wanguo	218 HK
Hong Kong property investors being defensive picks	SHK Properties	16 HK
	Wharf Holdings	4 HK
	Hysan Development	14 HK

Source: Bloomberg, ABCI Securities estimates



Investment themes for 2H13

1) Service sector ready to benefit from urbanization

Accelerating the pace of urbanization is of paramount importance in driving economic growth of China. In the next ten years, we expect China's urbanization rate will reach 55% from 51.3% in 2011, which will be a major driving force for China's future development. With over half of China's population now living in cities, China needs to improve conditions in its urban centers by paying more attention to people's quality of life, the balance of urban and rural development, benefits for migrant workers and protection of natural and cultural resources.

Urbanization should pay more attention to the interests of the 260 million migrant workers through the reform of income distribution system, household registration system, land system, central and local fiscal and taxation systems, college entrance examination and pension system in order to enable the workers to benefit from equal public services.

Urbanization also provides a platform for new industrial development. At the current stage of China's development, urbanization is a critical factor to support development in new industries which leads to sustainable growth of China. If urbanization boosts industrial development which helps create jobs and promotes entrepreneurship, new industrial development could meet newly released domestic demand from urbanization. The new trend of industrial development can offer more opportunities for service industries and also for new industries.

In sum, urbanization not only triggers the construction of satellite cities and infrastructure in large and first-tier municipalities benefiting construction and infrastructure sector and real estate developers, but also increases demand of services which will benefit medical care sector and logistic service providers. We prefer stocks such as **Zoomlion (1157 HK)**, **China railway construction (1186 HK)**, **Kunlun Energy (135 HK)**, **Country Garden (2007 HK)** and **Sinopharm (1099 HK)**.

2) Roadmap of financial reforms

The roadmap for China's financial reform is served as a guide to build robust and competitive financial institutions, innovative financial business, effective supervision and a favorable macro policy environment. The top of the list is to make renminbi more convertible in international financial markets which keep the value of the renminbi basically stable at a reasonable and equilibrium level. Expansion of renminbi trading band from 1% to 2% is expected to happen in 2H13. Other than currency reform, reform in interest rate mechanism plays a key role in balancing the flows of capital. Interest rate liberalization has kicked off in 2012 and we expect to have more



deregulation in 2H13, which allows China banks to have more flexibility to set market-oriented interest rates.

The financial reform also highlights the importance of a diversified financial market system, which integrates the capital market, monetary market, insurance market, forex market and financial derivatives. A mixed financial operation is necessary to sharpen the competitiveness of China's financial system. A mixed financial operation includes banking, securities and insurance services. We expect reforms towards stock market and bond market aim at expanding the size and turnover as well as enhancing the effectiveness of regulatory control.

Full liberalization of capital accounts will be followed after achieving the great progress in the reform of capital markets and renminbi. Domestic financial institutions and individuals will be more freely and encouraged to invest in overseas markets directly and indirectly while overseas investors will have easier access to China's capital market. The freer flows of capital are expected to achieve within the next five years.

China banks have suffered from contraction of NIM due to interest rate liberalization as reflected in 4Q12 and 1Q13 results. However, big banks are able to withstand the contraction pressure of NIM as they could explore the business opportunities created by mixed financial operations. In addition, big banks are net lender in interbank market with which surging SHIBOR in June boosted their profits. For this reason, we prefer big banks including **ICBC (1398 HK)** and **CCB (939 HK)** and **ABC (1288 HK)**.

Stock market and bond market are expected to go through a series of reforms in 2H13. Re-opening of A-share market for IPO and expansion of bond market to fit the needs for funding the urbanization over the two decade will trigger lots of business opportunities for financial institutions. We believe China securities sector will outperform and we like **Galaxy Securities (6881 HK)** and **Citic Securities (6030 HK)**

The widening range of financial products denominated in renminbi driven by renminbi internationalization will be positive to Hong Kong's capital markets, particularly financial institutions such as Hong Kong banks including **BOCHK (2388 HK)** and **HangSeng (11 HK)**.

3) Government support for China dairy products

China dairy sector suffered a major setback in 2008, after a decade of strong growth as domestically produced milk products contained the industrial chemical melamine. The scandal severely damaged consumer confidence and had a serious impact on the industry's momentum. During the State Council meeting in June, Premier Li Keqiang vowed to improve the quality of nation's dairy products and help establish domestic brands in an attempt to restore the consumer



confidence. The government will put extra efforts on addressing food and safety issues.

China's dairy sector has now entered a crucial stage, when customers must be assured of quality. Chinese dairy companies are making every effort to regain customer trust by imposing tighter quality and safety controls. They have upgraded their inspection facilities and implemented stricter quality control in their supply chain, transportation and all other production processes. In our view, government supports as well as the industry's development norm will favor large milk producers including **Mengniu (2319)** and **Modern Dairy (1117)**.

4) Don't forget new strategic industries of 12th Five-Year plan

China announced the details of its 12th Five-Year Development Plan (FYP) in 2011, with a broad spectrum of policies to be at the top of the list for boosting regional development, income redistribution and seven new strategic industries. The plan put priority on economic structural adjustments to sustain more balanced economic growth over the next five years. Income distribution reform and development of the seven new strategic industries remain cornerstones of the plan. The government is also expected to drive industrial structural optimization through the acceleration of traditional sector reorganization and consolidation (i.e. SOE reform) and the encouragement of the development of new strategic industries. Among other targets, contribution to GDP by the seven new strategic industries is set to increase to 8% by the end of 2015 from less than 2% currently. 2013 is the third year of the plan and we expect the new leadership will accelerate the pace of investment in new industries so as to meet the target set under the plan. We anticipate more investment projects within the seven new strategic industries identified by the 12th Five-year Plan will be implemented. These industries are expected to generate higher employment and productivity, and more value-added products, yet at the same time.

We expect strong growth momentum within the new strategic industries and expect the government to formulate supportive policies to boost investment growth in new energy, environmental protection, energy saving automobiles, information technology, advanced equipment manufacturing, biotechnology, and the new material sectors. A new round of investment projects will emerge in 2H13 as the third year of any China's Five-year Plan has normally been characterized by increasing fixed asset investment in industries that has lagged behind the plan. Ample investment opportunities will emerge, which will attract large amounts of liquidity to stocks associated with industries targeting by the government for special attention. Environmental protection stocks such as **China Everbright International (257 HK)** and **Beijing Enterprises Water Group (371 HK)**, information technology stocks such as **Tencent (700 HK)**, **Kingsoft (3888 HK)** and advanced equipment manufacturing stocks such as **AviChina (2357 HK)** will benefit.



5) Stable growth momentum of China's property market

Although government's property tightening measures remain intact for the rest of 2013, we expect rising income growth and urbanization are fueling demand for housing, which will drive up property prices mildly. Increasing housing prices and demand in second- and third-tier cities are expected to rise at a faster rate than in first-tier cities. Mid-cap players with strong sales performance like **Greentown (3900 HK)** and **Kaisa (1638 HK)** will benefit from these trends.

The increasing property sales will help improve the financial position of property developers and reduce solvency risk as well as lock in future development profits thereby alleviating some earnings risk. As more property preselling activities take place in 1H13, investors will regain their confidence in the developers. As the contract sales ratio (percentage of sales target achieved) rises, developers' future earnings will be secured. Among mainland developers, we recommend accumulating those developers with high potential to boost their contract sales ratios. Companies that come to mind include **COLI (688 HK)** and **CR Land (1109 HK)**

6) Qianhai development

The central government has unveiled plans for the development of a new business hub in Qianhai near Shenzhen, which will offer low corporate taxes, tax-free working, and a strong legal regime. The designation is more specialized than that of Shenzhen's "economic zone" as it emphasizes the development of high value-added industries which comes with the added benefit of fostering economic collaboration between China and Hong Kong and the industrial resurgence of the Pearl River Delta region. After a period of preparation, we believe enterprises registered in Qianhai will start operation in 2H13.

Qianhai focuses on financial, logistics and IT services and is set for completion in 2020. It will become a modern service industry cooperation zone and a pilot district for future cooperation between Hong Kong and the Chinese mainland. Eligible companies allowed to operate in the new zone will enjoy a 15 percent preferential corporate profit tax rate. China will also support Qianhai's development as an "experimental zone" for cross-border renminbi business which helps companies in Qianhai to issue renminbi bonds in Hong Kong and establish equity investment fund. Since China is targeting the gradual achievement of full renminbi convertibility, Qianhai should be a pioneer for the progress. In sum, Qianhai would be a platform for financial institutions to enter the mainland with which companies in Qianhai will be allowed to borrow money directly from Hong Kong banks, bringing greater opportunities for the banking and financial sector in Hong Kong. Increasing offshore renminbi loans and transactions will create more renminbi products while accelerated deregulations will strengthen Hong Kong as a renminbi offshore



center and benefit Hong Kong banks and financial institutions with extensive exposure to renminbi businesses. They include **BOC Hong Kong (2388 HK)** and Hong Kong-listed mainland brokers such as **CITIC Securities (6030 HK)**, **Haitong Securities (6837 HK)**, **Guotai Junan (1788 HK)** and **Shenyin Wanguo (218 HK)**.

7) Hong Kong property investors being defensive picks

The fast rising property prices in Hong Kong have not only aroused social dissatisfaction, but also urged the government to take active tightening measures to put a brake on surging prices. We expect HK property prices are likely to experience correction between 5% and 10% in 2H13. We also expect demand in the secondary market to shrink, which will affect property agencies' profits like those of **Midland Holdings (1200 HK)**. Developers may face slower sales and more cautious investment sentiment. Among the developers, we prefer those with a balance between rental and property development income like **SHK Properties (16 HK)** over companies like **Henderson Land (12 HK)**. Property investors are the preferred play within the property sector, underpinned by sharply rising rental rates and escalating occupancy rates. **Wharf Holdings (4 HK)** and **Hysan Development (14 HK)** will benefit from the trend.



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq 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 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ 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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