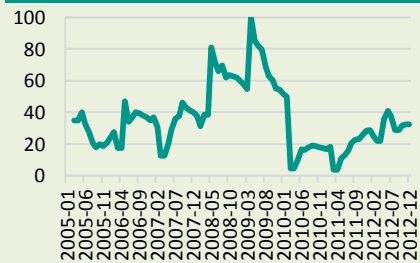




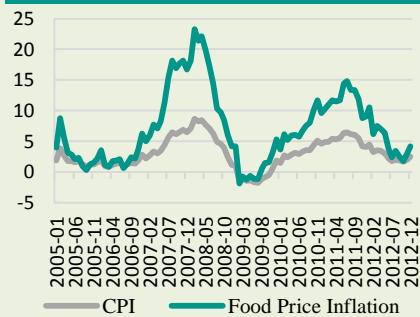
Economics Weekly

Agriculture, Livestock, Forestry, and Fishery Monthly YTD FAI Growth YoY%



Source: National Bureau of Statistics of China, Bloomberg

Surging CPI Inflation & Food Price Inflation



Source: National Bureau of Statistics of China, Bloomberg

Support for the agriculture industry

The No.1 Central Document targeting to boost agriculture innovation will be released soon. It focuses on the agricultural reform of three major tasks including modernization of the agricultural practices, the reform of agricultural management system and integration of urban and rural public service. In order to further support the development of agriculture industry, China would continue to increase investment and subsidies in an effort to stabilize food production. As China's agricultural production growth lags behind the overall economic growth, we are of the view that No.1 Central Document will be a key catalyst to boost the investments in the sector and primary sector in China will turn to be a major growth driver in the next 5 years.

- **China's economy needs the support of a modern agriculture industry.** In recent years, the food price hike has been a social issue and the government stressed the importance of rapidly developing the agriculture sector through supportive policies. Modernization of agricultural practices to enable large scale production can alleviate the shortage of food supply and surging prices. We believe the government will give high priority to this endeavor.
- **Agricultural management system transformation is underway.** Developing the rural areas with the emphasis on economic system reform, integration of urban and rural public service and innovation in rural social management system is of paramount importance to sustain economic growth. We believe transformation will unleash huge economic potentials that will contribute to the economic growth.
- **Expect a positive market reaction from the release of the Document.** As mentioned in our 2013 Market Outlook of 20 December 2012 ("New growth model, New opportunities"), the China's new leadership aims at 'Four New Modernizations' of the economy in 2013 and agriculture modernization will have significant impacts on equity investment. We believe the demand for fertilizers will be strong in 2013 due to planting acreage expansion and improving affordability on elevated crop prices. The increasing usage of fertilizer to enhance agricultural productivity will benefit **Sinofert (297 HK)** and **China Agrotech (1073 HK)**. In addition, one main goal of agriculture modernization is to foster large and modern agriculture groups and we believe an increase in water irrigation investment will strengthen the agriculture sector's ability to cope with severe weather conditions and ensure stable production. Companies engaged in the water irrigation business and equipment providers, such as **Tianye Water (840 HK)**, will benefit from expanding fiscal investment in these areas. **First Tractor (38 HK)** will benefit from improving automation in agricultural production.

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China Economic Indicators

	2012											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Real GDP (YoY%)	---	---	8.1	---	---	7.6	---	---	7.4	---	---	7.9
Export Growth (YoY%)	-0.50	18.40	8.90	4.90	15.30	11.10	1.00	2.70	9.90	11.60	2.90	14.1
Import Growth (YoY%)	-15.30	39.60	5.30	0.30	12.70	6.30	4.70	-2.60	2.40	2.40	0.00	6.0
Trade Balance (USD/Bn)	27.08	-31.98	5.18	18.53	18.13	31.91	25.28	26.43	27.45	32.11	19.63	31.6
Retail Sales Growth (YoY%)	---	14.7	15.20	14.10	13.80	13.70	13.10	13.20	14.20	14.50	14.90	15.2
Industrial Production (YoY%)		11.4	11.9	9.3	9.6	9.5	9.2	8.9	9.2	9.6	10.1	10.3
PMI	50.5	51	53.1	53.3	50.4	50.2	50.1	49.2	49.8	50.2	50.6	50.6
FAI(YTD) (YoY%)	---	21.5	20.9	20.2	20.1	20.4	20.4	20.2	20.5	20.7	20.7	20.6
CPI (YoY%)	4.5	3.2	3.6	3.4	3	2.2	1.8	2	1.9	1.7	2	2.4
PPI (YoY%)	0.7	0.0	-0.3	-0.7	-1.4	-2.1	-2.9	-3.5	-3.6	-2.8	-2.2	-1.9
M2 (YoY%)	12.4	13	13.4	12.8	13.2	13.6	13.9	13.5	14.8	14.1	13.9	13.8
New Lending (CNY/Bn)	738.1	710.7	1011.44	681.8	793.23	919.83	540.1	703.9	623.2	505.2	522.9	454.3

World Economic/Financial Indicators

Equity Index				Global Commodities				Bond Yields & Key Interest Rates				
	Closing price	Weekly Chng. (%)	P/E		Unit/Currency	Price	Weekly Chng. (%)	Volume(5-day average)		Yield (%)	Weekly Chng. (%)	
US												
DJIA	13712.21	0.46	13.39						US Fed Fund Rate	0.25	0.00	
S&P 500	1492.56	0.44	14.81	Energy	NYMEX WTI	USD/bbl	96.62	1.11	164891.40	US Prime Rate	3.25	0.00
NASDAQ	3143.18	0.27	23.57		ICE	USD/bbl	112.26	0.33	138186.40	US Discount Window	0.75	0.00
MSCI US	1426.42	0.46	15.08		Brent					US Treasury (1 Month)	0.0253	-16.78
Europe					NYMEX	USD/MM	3.59	0.64	156723.80	US Treasury (10 Yr)	1.8294	-0.66
FTSE 100	6188.05	0.55	15.75		Natural Gas	Btu				US Treasury (30 Yr)	3.0165	-0.41
DAX	7706.45	0.05	14.90	Basic Metals	LME Aluminum Cash	USD/MT	2038.50	1.59	15784.40	Japan 10-Yr Government Bond	0.7350	-2.52
CAC40	3735.21	-0.17	12.75			LME Primary Aluminum ³ Month Rolling Forward	USD/MT	2075.50	1.64	26471.00	China 10-Yr Government Bond	3.5800
IBEX 35	8598.70	-0.06	N/A		CMX Copper Active Contract	USD/lb.	370.10	0.60	49517.40	ECB Interest Rate (Refinancing)	0.7500	0.00
MSCI UK	1830.91	0.39	15.76		LME Copper ³ Month Rolling Forward	USD/MT	8133.00	0.89	22785.40	1-Month LIBOR	0.2047	0.00
MSCI France	104.42	-0.02	15.98		TSI Iron Ore Fines 62% Fe Spot CFR China Index	USD	145.90	0.55	N/A	3-Month LIBOR	0.3020	0.00
MSCI Germany	108.33	-0.05	14.57							3-Month SHIBOR	3.8800	-0.36
MSCI Italy	52.65	0.92	N/A							3-Month HIBOR	0.3864	-0.18
Asia										Corporate Bonds (Moody's Seasoned)		
NIKKEI 225	10486.99	-3.91	27.02							Aaa	3.75	-0.27
HSI	23635.10	0.14	12.12							Baa	4.69	0
HSCEI	12166.70	0.50	10.10									
CSI300	2607.46	0.46	13.07									
SSE Composite	2320.91	0.17	12.81									
SZSE Composite	930.40	-0.57	27.00									
MSCI China	66.10	0.50	11.55									
MSCI Hong Kong	11918.52	0.51	12.65									
MSCI Japan	556.60	-1.31	28.66									

Note:

1. Data source: Bloomberg, Federal Reserve Bank, National Bureau of Statistics of China, ABCIS
2. US Discount Window, Corporate Bond Aaa and Corporate Bond Baa are as of January 18th, 2013.
3. Data related to U.S. is as of January 22th, 2013. Other data is as of January 23th, 2013

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	USD/CNY NDF 12 Month
Spot Exchange Rate	1.3314	1.5858	1.0565	88.31	0.9296	0.9908	6.2185	7.7534	6.2831
Weekly Chng. (%)	-0.05	-0.08	0.52	2.03	0.49	0.09	-0.01	-0.01	-0.03

**Disclosures**

We, Lam Chiu Kei, Banny, and PAN Hongxing, Paul, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company (ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company (ies) covered in this report.

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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