新鴻基金融集團
SUN HUNG KAI FINANCIAL

[For Immediate Release]

SHKF expects non-trending market to present further stock-buying opportunities

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"Hong Kong and PRC Market Outlook for 2H 2011"

Highlights:

- China's GDP growth to slow to 8%-9%.
- Hong Kong equities to continue range-trading with high volatility in 2H 2011; buying opportunities to emerge for long term investors amid low valuations, with HSI and HSCEI at just 10.9X and 9.4X prospective forward P/E respectively.
- Fair value of HSI at 25,500, HSCEI at 14,500.
- Focus on valuation and long-term fundamentals rather than market timing; add market leaders and high-yielding stocks for capital preservation.
- Reduce exposure to commodities, energy and soft commodities, which have been proxies for global growth and beneficiaries of monetary easing.
- Reduce exposure to Euro – the single-currency model is unsustainable in its current form.
- Increase exposure to gold to hedge against the eroding value of money.

Hong Kong, 6 July 2011 – Sun Hung Kai Financial ("SHKF"), Hong Kong's leading non-bank financial institution, expects Hong Kong equities to continue range-trading with high volatility in 2H 2011, but with stock valuations well below historical averages, such a non-trending market should continue to present buying opportunities for long-term investors in the latter half of the year.

The macro outlook for major economies is rocky, as loose monetary policy over the past two years in developed markets has pushed up food and commodity prices, and resulted in rapid money supply and credit growth in emerging markets. Mr. Alvin Chong, Head of Research, Retail Brokerage, Sun Hung Kai Financial said, "We expect the latter half of 2011 will be characterised by a worldwide reversal of loose monetary policy, and tighter money supply and credit conditions, which will result in a slowdown in economic growth. As economies spend more of their incomes on food and commodities, discretionary demand should be further eroded."

SHKF expects the continued low interest rate environment in the U.S. to reduce investments and long-term growth rather than increase them because low interest rates send a strong signal to businesses that there is no growth. Meanwhile, QE2 has ended with fiscal expansion giving way to spending cuts – the price of raising the debt limit and avoiding a U.S. default – and this should further drag on the already weak economy. It is estimated that U.S. GDP growth should average less than 2.5% this year (2010: 2.9%) and less than 2.0% in 2012, which should be insufficient to bring down the unemployment rate.

In Europe, interest rates have started rising despite the weak euro zone economy. The belief that fiscal austerity will improve private-sector confidence and create jobs has proved to be incorrect. Instead, it has resulted in debtor nations suffering from further economic decline, a plunge in confidence, as well as deflation. We believe PIIGS voters are unlikely to commit to a decade of deflation characterised by falling wages and prices, as this is a painful process involving a prolonged economic slump and high unemployment. Also, we expect debt problems to be aggravated because incomes fall while the debt burden does not. As such, debt default is likely to be the only option for some debtor nations, and this will be an ongoing threat hanging over financial systems and have negative implications for the Euro.

Consequently, China, where monetary policies are tighter and with the slowing Europe and the U.S. as its largest export markets, is expected to see GDP growth slow in 2011, from a peak of 11.9% in the first quarter of 2010 to 8%-9% in 2011. Mr. Chong noted that high inflation, particularly in food prices and wages, remains a threat, while high commodity prices continue to exert upward pressure on producer prices.

However, we expect buying opportunities to continue to emerge amid low stock valuations, with the HSI and HSCEI's 12-month rolling prospective forward P/Es at two-year lows of just 10.9X and 9.4X respectively, and dividend yields at 3.5% and 3.3% respectively. Based on the earnings yield of Hong Kong stocks compared against U.S. bond yields, SHKF's prediction of fair value for 2011 for the HSI is 25,500, and for the HSCEI is 14,500, indicating that stocks are currently inexpensive.

Given the concerns of a euro zone economic and financial contagion, and the increased risk of a U.S. double-dip recession, many funds are likely to be high on cash and low on equities. Mr. Chong said, "Stocks are unlikely to sell off sharply at these levels on the back of mildly negative news, but may rally on good news or when a full recovery of the global economy is back in sight."

For Hong Kong equities, Mr. Chong recommends longer-term stock accumulation, focusing on valuation and long-term fundamentals rather than market timing. He added, "When a market is directionless and economic growth is decelerating, picking low valuation stocks may help avoid costly blunders." One such sector to accumulate is China property stocks, which in certain instances are trading at historically high discounts to NAV. We believe China's long-term housing demand is structurally strong and affordable housing accounts for only 5%-6% of total housing supply and therefore it will take years to ease the physical housing supply shortfall.

SHKF also recommends adding market leaders and high-yield stocks for capital preservation. Given the slowdown in economic growth and tighter monetary and credit conditions ahead, Mr. Chong recommends reducing exposure to commodities, energy and soft commodities, as these have been proxies for global growth and beneficiaries of monetary easing. Markets for these are generally thin in liquidity and have risen significantly since the U.S. QE programs began. Mr. Chong also recommends reducing exposure to the Euro, believing the single-currency model to be unsustainable in its current form, and increasing exposure to gold to hedge against the eroding value of money.

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About Sun Hung Kai & Co. Limited and Sun Hung Kai Financial

Sun Hung Kai & Co. Limited (the "Company") is the leading non-bank financial institution in Hong Kong. Founded in 1969 and listed on the Stock Exchange of Hong Kong Limited in 1983 (Stock Code: 86), the Company offers customised financial solutions to retail, corporate and institutional clients. Its core business areas consist of wealth management and brokerage, asset management, corporate finance, consumer finance, and principal investments. Operating under the brands of Sun Hung Kai Financial, SHK Private, SHK Direct, UA Finance and SHK Finance, with an extensive branch and office network of approximately 100 locations in Hong Kong, China, Macau and Singapore, the Company currently has over HK$70 billion* in assets under management, custody and/or advice and more than HK$11 billion* in shareholders equity. (*Figures as at 31 December 2010).

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 # This press release is based on the views and opinions presented by Sun Hung Kai Investment Services Limited's equities research team.