



Aberdeen

China/Hong Kong Update

Market Overview

- China and Hong Kong equities fell in April as Beijing outlined new plans to contain rising house prices, which included higher downpayment requirements and mortgage rates as well as curbs on loans for third-home purchases. The stringent measures heightened fears that growth could slow, given the economy's reliance on the property sector.
- Concerns about bank fundraising and further monetary tightening also buffeted sentiment. Lenders were told to re-examine their risk exposures amid worries that loans made to local governments could result in future bad debts. China's central bank also resumed selling three-year bonds to absorb excess liquidity and restrain inflation.
- The stockmarkets' lacklustre performance contrasted with buoyant economic data. China's GDP accelerated to the fastest pace in almost three years in the first quarter, driven largely by domestic demand, while inflation declined. In Hong Kong, the unemployment rate fell as exports continued to improve.
- Meanwhile, the US Treasury delayed a report on whether China manipulates its currency. Despite intensifying pressure for the yuan to rise, we do not expect a dramatic appreciation this year. Any advance is likely to be gradual, in light of uncertainties over the global recovery and increasing costs, which are already putting pressure on China's critical export sector.
- The prospect of further tightening is likely to keep markets volatile. Chinese lenders' plans to sell new shares could also test investor appetite. Aside from anxiety about bad debts after last year's unparalleled credit expansion, there is growing concern that local government borrowings could further burden the financial system.
- Adding to the uncertainty is the debt crisis in Greece and its potential impact on Europe, China's key export market. Against such a backdrop, we will remain watchful over our holdings and continue to apply our proven investment philosophy and approach.

Model Portfolio News

There were no major changes to the portfolio in April.

Corporate News

Our holdings' results attest to the continued strength of their businesses. **Wing Hang Bank's** solid profit growth was aided by lower provisions. **China Merchants Bank** benefited from robust lending. Both lenders remain well capitalised, while the latter's balance sheet will be further bolstered via a rights issue. Oil and gas companies **XinAo Gas**, **PetroChina** and **CNOOC** were supported by buoyant demand and should gain from the government's price reforms. Resilient domestic spending boosted retailer **Li Ning's** order book. **China Mobile** also reported satisfactory results despite rising competition.

In other news, **CLP** will sell its 70% stake in a power station in Guizhou as it pursues clean energy projects.

We hold all the companies highlighted.

Key Economic Numbers

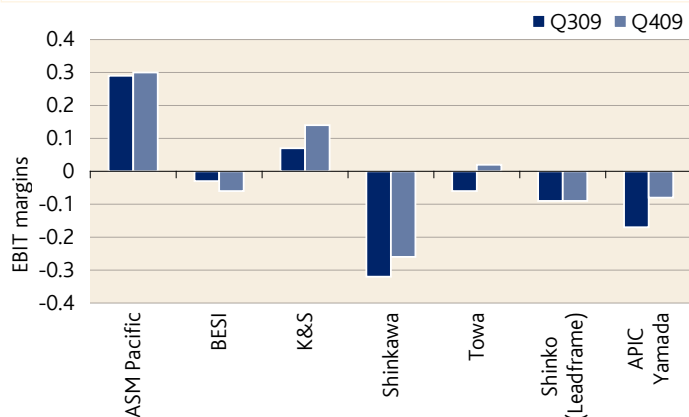
11.9% China's economy grew 11.9% year-on-year in the first quarter, deepening fears of overheating which in turn strengthened the case for more tightening measures. Still, Beijing could hesitate to hike interest rates in view of the relatively subdued rise in March's consumer price index.

US\$7.24 billion The mainland posted its first trade deficit in six years in March, which may alleviate pressure to revise its currency policy. Exports grew modestly, while imports jumped, resulting in a US\$7.24 billion shortfall. The development, however, was largely due to seasonal factors and is unlikely to be sustained.

11.7% Despite Beijing's earlier efforts to cool the real estate sector, property prices accelerated at a brisk 11.7% in March from a year earlier. Policymakers continue to face the delicate challenge of reining in excessive price rises, while ensuring property is still affordable for the masses.

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Focus – ASM Pacific Technology: A clear leader in its field



Source: Company data, Nomura Singapore, Apr 10

Semiconductor equipment maker ASM Pacific Technology has been achieving impressive quarterly profits, revenues and bookings, highlighting both its resilience and agility in navigating the global recession. Thanks to successful cost cutting and demand recovery, its business returned to profit in the second quarter of 2009. The company's broad customer base and wide product range have lent stability to its revenue base, while its superior profitability has cemented its leadership in the industry. With a huge order backlog of US\$365 million, ASM's outlook appears bright.

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