



Aberdeen

China/Hong Kong Update

Market Overview

- China and Hong Kong equities slumped in May amid anxiety that authorities may introduce more aggressive measures to rein in property prices. Further unsettling markets were the Eurozone fiscal crisis and heightened political tensions between the two Koreas. The Shanghai Composite Index fell more than 20% from its November high.
- The poor market environment saw several companies shelve their initial public offerings. Among them was the cancellation of our holding Swire Pacific's listing of its property unit, which reflected both the company's financial strength as well as the management's prudence in avoiding a compromise on price.
- Economic data, meanwhile, continued to support China's growth prospects. Accelerating inflation, however, fuelled overheating fears, leading the central bank to raise lenders' reserve ratios for the third time this year. In Hong Kong, first-quarter growth expanded impressively, aided by rebounding exports. Policymakers will also supply more land to cool the housing sector.
- Looking ahead, investor caution is likely to prevail as nervousness about government policy and its impact on growth lingers. New share issues, most notably from banks, are also likely to undermine markets.
- In addition, there are concerns over rising minimum wage in several Chinese provinces, which may worsen inflation. But these wage hikes, which are partly the result of growing labour disputes and a spate of worker suicides, could eventually boost domestic consumption and create a more balanced economy.

Model Portfolio News

There were no major changes to the portfolio in May.

Corporate News

Our holdings continued to post generally favourable quarterly results. Strong consumer sentiment boosted **China Resources Enterprise**, **Hongkong and Shanghai Hotels** and **Giordano**. **Yanlord's** property sales met expectations and average selling prices rose, despite the government's tightening measures. Conversely, unfavourable weather conditions hurt **Li Ning's** performance, though the retailer remains confident of achieving its full-year sales growth target of 10%.

In other news, **CNOOC** bought a 63% stake in an Iraqi oilfield, which it will jointly develop with Turkish Petroleum Corporation. **CNPC**, the parent of **PetroChina**, agreed to acquire a 35% stake in Shell's oil and gas unit in Syria. Separately, PetroChina is expected to incur higher taxes in Xinjiang, following Beijing's introduction of a 5% resource tax there. The impact on the oil company's overall earnings, however, will be limited.

We hold all the companies highlighted.

Key Economic Numbers

12.8% Property prices in China continued to defy Beijing's efforts to stem excessive gains, rising at a record pace of 12.8% in April. Still, prices may start declining soon as new policies – launched in mid-April – start to take effect.

6.8% China's producer-price index jumped 6.8% in April, up from 5.9% in March. Higher costs may feed through to consumers, which could translate to higher consumer-price inflation ahead.

8.2% Hong Kong's economy grew at a faster-than-expected 8.2% year-on-year in the first quarter. Even so, the prevailing uncertainties in the global environment could still threaten the territory's export-led recovery.

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Focus – Standard Chartered: In good shape



Source: Company data, May 10

A core holding, Standard Chartered has been reporting consistently solid results, and was one of a handful of banks to emerge relatively unscathed from the recent financial crisis. Not only did the lender deliver outstanding full-year profits in a difficult 2009, but it also started 2010 with an impressive first-quarter performance – thanks primarily to the resilience of its main markets in Asia, Africa and the Middle East. With an ever stronger balance sheet and a large exposure to rapidly growing emerging markets, Standard Chartered is well positioned to meet new challenges and opportunities.

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