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China NPC conference: More reforms on the way

The Fourth Session of the 12th National People's Congress (NPC) is scheduled to be convened in Beijing on March 5, 2016. The year of 2016 is the first year of the 13th Five-year Plan (2016-2020), and the forthcoming NPC will deliberate on major issues pivotal to China's reform and economic development in the next five years. We believe the annual government report will address strategic economic topics and provide guidance for future policy orientation. Entering a "new normal" of slower and sustainable growth, China will target medium to high economic growth while ensuring proper economic transformation and sustainable development. To develop a "moderately prosperous society" by 2020, the government will proceed with economic rebalancing; much emphasis will be placed on China's Belt and Road initiative, promoting greater sophistication in the industrial sector, ensuring proper population policy, deepening reforms in state-owned enterprises (SOE), and strengthening environmental protection.

Balanced and sustainable economic growth is prioritized. NPC will continue to support the government's effort to cultivate a consumption-led economy and diversify economic structure. Maintaining a medium to high economic growth in the next five years and enlarging contribution of consumption to the economy are crucial in developing a "moderately prosperous society" in 2020. Services sectors for consumers such as e-commerce, medical and health, insurance, tourism, and entertainment will gain from various policy changes and outperform China's overall growth. We believe companies including **Alibaba Pictures (1060 HK)**, **Fosun Pharma (2196 HK)**, **Haichang Ocean Park (2255 HK)**, **IMAX China (1970 HK)**, **Ping An Insurance (2318 HK)**, **Shanghai Jin Jiang (2006 HK)**, **SMI Holdings (198 HK)**, and **Tencent (700 HK)** will benefit.

Pushing forward China's Belt and Road Initiative. The Belt and Road Initiative aims to revive ancient trade routes between China and the West with the creation of the land-based Silk Road Economic Belt and oceanic 21st Century Maritime Silk Road. These are the major infrastructure and investment schemes to widen China's global economic connections. Major infrastructure projects in railways, roads, energy, information technology, and industrial parks will commence in the coming years, favoring companies such as **China Communications Construction Co Ltd (1800 HK)**, **China Railway Construction Corp.(1186 HK)** **China Railway Group (390 HK)**, **China Machinery Engineering Corp.(1829 HK)**, and **Zoomlion (1157 HK)**. Surging demand for construction materials will benefit companies such as **Angang Steel (347 HK)**, **CHALCO (2600 HK)**, **CNBM(3323 HK)**, **CR Cement (1313 HK)**, and **Maanshan Iron (323 HK)**.

"Internet-Plus" and "China Manufacturing 2025" initiative to enhance innovation. China will further implement the "Internet Plus" action plan, upgrading manufacturing capabilities by incorporating Internet and automation technologies into manufacturing and businesses. The initiative entails the integration of mobile Internet,



cloud computing, big data, Internet of Things, and automation with modern manufacturing to foster new industries and business development in e-commerce, industrial Internet and Internet finance. Our stock picks include **Tencent (700 HK)**, **ZTE (763 HK)**, **China Smartpay (8325 HK)**, **Kingsoft (3888 HK)**, **Kingdee International (268 HK)**, **Haier (1169 HK)** and **AviChina (2357 HK)**.

Proper population policy to tackle aging issue. China's potential working population between the age of 16 and 59 peaked in 2011 and has been declining since then. At the same time, the number of actual working population has been falling. To reverse the shrinking size of workforce and sustain China's economic growth, relaxation of the "One-child" policy becomes necessary. We believe the changes in population policy will increase demand for milk products and baby products, favoring companies such as **China Mengniu Dairy (2319 HK)**, **Yashili (1230 HK)**, **Hengan (1044 HK)**, **Goodbaby International (1086 HK)**, and **Miko (1247 HK)**.

SOE reform to enhance efficiency and competitiveness. Direction of SOE reform will be better clarified after the NPC. We believe major changes would include increased utilization of private capital in industries conventionally dominated by SOE, loosening of government control in certain industries, and reform within the SOE to promote economic efficiency and competitiveness of local companies. SOEs including **China Argi-industries Holdings (606 HK)**, **China Foods (506 HK)**, **CNBM (3323 HK)**, **Joy City Property (207 HK)**, and **Sinopharm Group (1099 HK)** will benefit from such reform.

Strengthening environmental protection. The session will continue to address multiple issues arising from the severe pollution in the country resulted from years of pursuit in high economic growth. China will implement a more efficient environmental protection system in the next five years by accelerating the development of renewable energy, water treatment, and solid waste treatment. For renewable energy sector, we favor **CGN Power (1816 HK)**, **China Singyes Solar (750 HK)**, **Huaneng Renewables (958 HK)**, and **Longyuan Power (916 HK)**. For water treatment and solid waste sectors, we prefer **Beijing Enterprises Water (371 HK)** and **China Everbright International (257 HK)**.



China Economic Indicators

	2014			2015												2016
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Real GDP (YoY%)	---	---	7.3	---	---	7.0	---	---	7.0	---	---	6.9	---	---	6.8	---
Export Growth (YoY%)	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)	(2.5)	2.8	(8.3)	(5.5)	(3.7)	(6.9)	(6.8)	(1.4)	(11.2)
Import Growth (YoY%)	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)	(17.6)	(6.1)	(8.1)	(13.8)	(20.4)	(18.8)	(8.7)	(7.6)	(18.8)
Trade Balance (USD/bn)	45.4	54.5	49.6	60.0	60.6	3.1	34.1	59.49	46.6	43.0	60.2	60.3	61.6	54.1	60.9	63.3
Retail Sales Growth (YoY%)	11.5	11.7	11.9	10.7	10.2	10.0	10.1	10.6	10.5	10.8	10.9	11.0	11.2	11.1	11.1	---
Industrial Production (YoY%)	7.7	7.2	7.9	6.8	5.6	5.9	6.1	6.8	6.0	6.1	5.7	5.6	6.2	5.9	---	---
PMI - Manufacturing (%)	50.8	50.3	50.1	49.8	49.9	50.1	50.1	50.2	50.2	50.0	49.7	49.8	49.8	49.6	49.7	49.4
PMI - Non-manufacturing (%)	53.8	53.9	54.1	53.7	53.9	53.7	53.4	53.2	53.8	53.9	53.4	53.4	53.1	53.6	54.4	53.5
FAI(YTD) (YoY%)	15.9	15.8	15.7	13.9	13.5	12.0	11.4	11.4	11.2	10.9	10.3	10.2	10.2	10.0	---	---
CPI (YoY%)	1.6	1.4	1.5	0.8	1.4	1.4	1.5	1.2	1.4	1.6	2.0	1.6	1.3	1.5	1.6	1.8
PPI (YoY%)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)	(4.6)	(4.8)	(5.4)	(5.9)	(5.9)	(5.9)	(5.9)	(5.9)	(5.3)
M2(YoY%)	12.6	12.3	12.2	10.8	12.5	11.6	10.1	10.8	11.8	13.3	13.3	13.1	13.5	13.7	13.3	14.0
New Lending (RMB/bn)	548.3	852.7	697.3	1,470	1,020	1,180	707.9	900.8	1,280.6	1,480	809.6	1,050	513.6	708.9	597.8	2,510
Aggregate Financing (RMB bn)	662.7	1,146.3	1,690	2,047	1,356	1,241	1,056	1,236	1,833	742	1,082	1,300	476.7	1,020	1,815.1	3,420

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Rates		
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)		Yield (%)	Chg. WTD (Bps)
U.S.				Energy				US Fed Fund Rate		
DJIA	16,484.99	0.57	15.01	NYMEX WTI	USD/bbl	31.64	309,328	6.75	0.50	0.00
S&P 500	1,929.80	0.63	17.43	ICE Brent Oil	USD/bbl	33.79	307,320	2.36	3.50	0.00
NASDAQ	4,542.61	0.85	39.05	NYMEX Natural Gas	USD/MMBtu	1.74	88,820	(3.44)	1.00	0.00
MSCI US	1,831.70	0.63	17.95	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	61.80	N/A	N/A	0.2796	2.54
Europe				Basic Metals				US Treasury (1 Yr)		
FTSE 100	5,966.17	0.27	28.98	LME Aluminum Cash	USD/MT	1,577.25	12,345	0.93	0.2796	2.54
DAX	9,220.53	(1.78)	20.10	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,567.00	48,038	1.16	1.1847	(3.99)
CAC40	4,208.22	(0.35)	18.66	CMX Copper Active	USD/lb.	4,650.50	10,415	0.49	1.7226	(2.23)
IBEX 35	8,144.50	(0.61)	16.80	LME Copper 3- mth Rolling Fwd.	USD/MT	4,642.00	36,188	0.45	1.7226	(2.23)
FTSE MIB	16,992.35	0.49	58.58	Precious Metals				Japan 10-Yr Gov. Bond		
Stoxx 600	323.92	(0.75)	23.73	CMX Gold	USD/T. oz	1,236.70	197,213	0.48	(0.069)	(8.20)
MSCI UK	1,710.98	(1.35)	29.87	CMX Silver	USD/T. oz	15.33	29,998	(0.51)	2.8900	2.00
MSCI France	118.43	(1.49)	18.89	NYMEX Platinum	USD/T. oz	941.90	10,095	(0.39)	0.05	0.00
MSCI Germany	120.15	(2.44)	19.47	Agricultural Products				China 10-Yr Gov. Bond		
MSCI Italy	47.60	(0.85)	231.6	CBOT Corn	USD/bu	365.75	180,864	(0.95)	2.8900	2.00
Asia				CBOT Wheat	USD/bu	454.25	77,629	(2.68)	0.4358	0.23
NIKKEI 225	16,140.34	1.08	17.78	NYB-ICE Sugar	USD/lb.	13.73	88,920	8.37	0.6291	1.09
S&P/ASX 200	4,881.18	(1.45)	19.98	CBOT Soybeans	USD/bu.	874.00	115,289	(0.77)	2.0040	6.60
HSI	18,888.75	(2.06)	8.35					1-mth SHIBOR		
HSCEI	7,871.94	(2.97)	5.83					2.7570 (8.20)		
CSI300	2,918.75	(4.35)	12.32					3-mth HIBOR		
SSE Composite	2,741.25	(4.15)	14.46					0.5995 (3.63)		
SZSE Composite	1,738.67	(6.04)	40.13					Corporate Bonds (Moody's)		
MSCI China	51.33	(0.72)	9.02					Aaa 3.93 (3.00)		
MSCI Hong Kong	10,971.21	0.60	9.44					Baa 5.32 0.00		
MSCI Japan	778.71	(0.59)	13.81							

* As of 12:00 AM closing

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1011	1.3918	0.7176	112.20	0.9912	6.5340	7.7689	6.7835
Chg. WTD (%)	(1.07)	(3.39)	0.39	0.38	(0.08)	(0.18)	0.09	0.06

Note:

- Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
- Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey



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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 2009-2013

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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