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## **REBOUND IN CHINESE SHARES TO CONTINUE IN YEAR OF THE TIGER, SAYS MANAGER OF HSBC CHINESE EQUITY FUND**

Domestic consumption will remain a key driver for the economy in the Chinese New Year of the Tiger, according to Richard Wong of Halbis, the active management specialist of HSBC Global Asset Management.

Wong, who manages the HSBC Chinese Equity fund for Canadian investors, also believes that despite the market rally of 60 per cent (in USD terms) during 2009, China has further growth potential. In 2009, the performance of China lagged that of the other large emerging markets such as Brazil (121%), Russia (100%) and India (101%)<sup>1</sup>. As such, the China market offers further upside potential and could catch up with the gains of other BRIC markets this year, he believes.

Trading at around 13.5 times forecast 2010 price-to-earnings ratio and offering a projected earnings growth of about 20 per cent for this year, the valuation of H shares and red chips (i.e. China companies listed in Hong Kong) remain attractive, Wong adds. Meanwhile, economic growth remains strong, with Wong expecting more than 8 per cent GDP growth in 2010.

In terms of domestic consumption remaining a key theme, Wong cites the Chinese government's stimulus measures on the economy as having a major impact. These include the reduction on tax for vehicles with engines of 1.6 litres or below and the extension of the 10 per cent subsidy on the scheme to trade in old appliances for new in both the rural and urban areas.

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“Such schemes should continue to drive robust growth in domestic consumption this year. Last year, China achieved roughly 15 per cent retail sales growth and this year we expect this will continue,” Wong said.

Another area that Wong considers promising is export related sectors. He expects these will benefit from a continuing rebound in overseas sales. Additionally, after weathering such a tough year in 2009, manufacturers that have survived have become leaner and have gained market share from those that have closed, and hence should be able to improve their margins in 2010.

He is less enthusiastic in the short term about the property market in China. “Following a phenomenal rise in sales prices last year, especially between March and September, the government is keen to maintain market stability by tightening regulations, which we expect to increase for a while. In addition, interest rate increases are on the horizon for the second half of the year.

Longer term however, the outlook for property remains positive given this sector is a beneficiary of the expected appreciation of the renminbi. Also, valuations of property stocks are not expensive following the recent correction. “But over the short term, (i.e. the next three months) the performance of property stocks is likely to continue to be affected by the overhand from tightening measures, so we will remain on the sideline and will look to buy back these stocks on further weakness.”

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### **Notes to editors:**

**1. Source:** MSCI. All in US Dollars.

**2. Photo available upon request**

**3. HSBC Global Asset Management:** HSBC Global Asset Management comprises four specialist investment businesses: Halbis, Sinopia, Multimanager and Liquidity. HSBC Global Asset Management acts as the global representative of its specialist investment businesses and manages assets totalling US\$416.25 billion (as at end September 2009). As one of the world's leading emerging markets asset management businesses, through its network of offices in over 20 countries around the world, HSBC Global Asset Management has strong relationships with corporates, institutions and financial intermediaries of all sizes and types. HSBC Global Asset Management is part of HSBC Global Banking and Markets, a division of HSBC Holdings plc. HSBC Global Asset Management (Canada) Limited is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada. HSBC Global Asset Management (Canada) Limited provides services in all provinces of Canada except Prince Edward Island.

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**5. HSBC Bank Canada:** HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 260 offices, including over 140 bank branches and is the leading international bank in Canada. With around 8,500 offices in 86 countries and territories and assets of US\$2,422 billion at 30 June 2009, the HSBC Group is one of the world's largest banking and financial services organisations.