新鴻基金融集團
SUN HUNG KAI FINANCIAL

[For Immediate Release]

Sun Hung Kai Financial cautiously optimistic as corporate earnings growth weakens

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"Hong Kong and PRC Market Outlook for 2H 2008"

Highlights:

- **HSI fair value estimated at 23,500**
- **HSI and HSCEI earnings growth to moderate to 10% and 26% respectively**
- **China GDP growth to slow from 11.9% to 9.5%**
- **Key China growth sectors include selected oil services, property and consumer stocks**

Hong Kong, 26 June 2008 – Sun Hung Kai Financial ("SHKF"), Hong Kong's leading non-bank financial institution, is cautious on the growth potential of the Hong Kong and PRC markets in the second half of 2008, amidst growing concerns over a deceleration in corporate earnings growth in Hong Kong, China and the United States.

After the Hang Seng Index (HSI) reached an historic high of 31,958 on 30 October 2007, investors have since witnessed a significant market correction, which saw the index plunge to a year-low of 20,573 on 18 March. Following a 25% rebound up to early May, the HSI closed at 22,635 on 25 June 2008, down 18.6% from its 1 January close.

While the HSI and HSCEI displayed robust year-on-year earnings growth of approximately 15% and 36% respectively over 2007, SHKF expects that growth to moderate to 10% and 26% respectively over 2008, differing slightly from January's forecast of 13% and 20% respectively. Contributing factors to this corporate earnings deceleration include a slow-down in global economic growth, rising borrowing and production costs, and the absence of investment gains and investment-related income that contributed to earnings growth last year.

Based on this most recent earnings growth forecast, SHKF maintains that the fair value estimate for the HSI stands at 23,500, revised downward from 25,500 in January 2008 as a result of the challenging macroeconomic environment and a withdrawal of liquidity from markets globally.

Mr. Joseph Tong, Executive Director and CEO, Wealth Management, Capital Markets & Brokerage, SHKF, said: "As the world continues to come to grips with the widening credit crunch, and with the Federal Reserve unlikely to further cut interest rates in the foreseeable future, short-term volatility is expected to remain high. However, with a significant amount of liquidity waiting on the sidelines, there is a possibility of some liquidity re-entering the Hong Kong equities market over the next six months as investors seek to capitalise on undervalued stocks and sectors."

The U.S., one of China's largest export customers, has yet to face the full economic impact of the sub-prime crisis, which is a key factor fueling global market volatility. While credit spreads have recently moderated they remain abnormally wide, with higher borrowing costs, slower loan growth, weak U.S. consumer spending and rising prices all expected to impact U.S. corporate earnings growth and equity returns.

The risks to China's growth story have also risen. While the mainland's 2007 momentum has sustained current growth levels, China will not escape the consequences of a U.S. recession, with China's GDP growth rate likely to moderate to 9.5%, down slightly on SHKF's January forecast of 10%. However, this external sector weakness will be balanced by solid growth in domestic spending and incremental demand arising from post-earthquake rebuilding efforts.

Mr. Alvin Chong, Head of Research, SHKF, said: "Equity indices will remain volatile and directionless for most of 2008, and risks to our fair value index estimates are high. Interest rates are heading higher, economic and corporate earnings growth is heading lower, and earnings visibility is poorer due to high inflation and energy and commodity prices. However, while we have entered an 'early cycle slowdown' phase globally, there remain positive trends and growth sectors which give us cause for optimism over the next six months."

"There are opportunities for investors who focus on 'investing in businesses', rather than the 'business of investing'. Our Buy stocks are market leaders in their respective competitive fields which have expected earnings growth superior to market earnings growth. They demonstrate superior returns on equity compared against nominal GDP growth; produce earnings multiples below market multiples; have high profit margins relative to industry peers; have relatively high earnings visibility and enjoy relatively high free cash flow yields," Mr. Chong added.

"These include China oil service providers and equipment manufacturers; stocks with exposure to China's fast-growing mobile telephony sector; China property developers with strong financial positions that are trading below their net asset values and China consumer stocks that are not subject to price controls, do not suffer directly and significantly from raw material price rises and are not affected by China's rising rental rates," he said.

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

With its foundation dating back to 1969, Sun Hung Kai & Co. Limited, which operates under the name Sun Hung Kai Financial, is the leading non-bank financial institution in Hong Kong. The Group currently has over HK$60 billion in assets under management, custody and/or advice, and more than HK$12 billion of attributable equity. Its core areas of focus include wealth management and brokerage, asset management, corporate finance, consumer finance as well as principal investments. Listed on the HKEx (stock code: 86), the Group is currently capitalised at approximately HK$13 billion (as at 28 May 2008). It employs over 1,500 dedicated financial professionals and has an extensive branch and office network in over 60 locations in Hong Kong, Macau, China and Singapore.

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