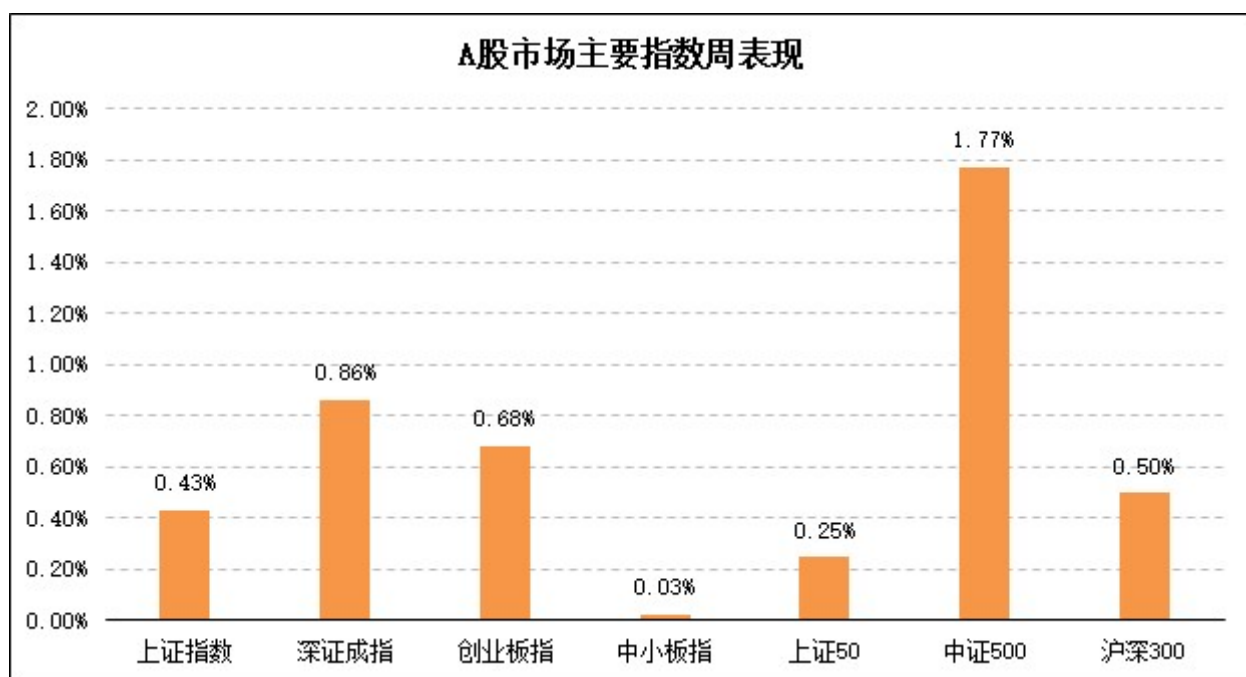


Continued A-share Sector Differentiation Favoring Uptrend In Manufacturing

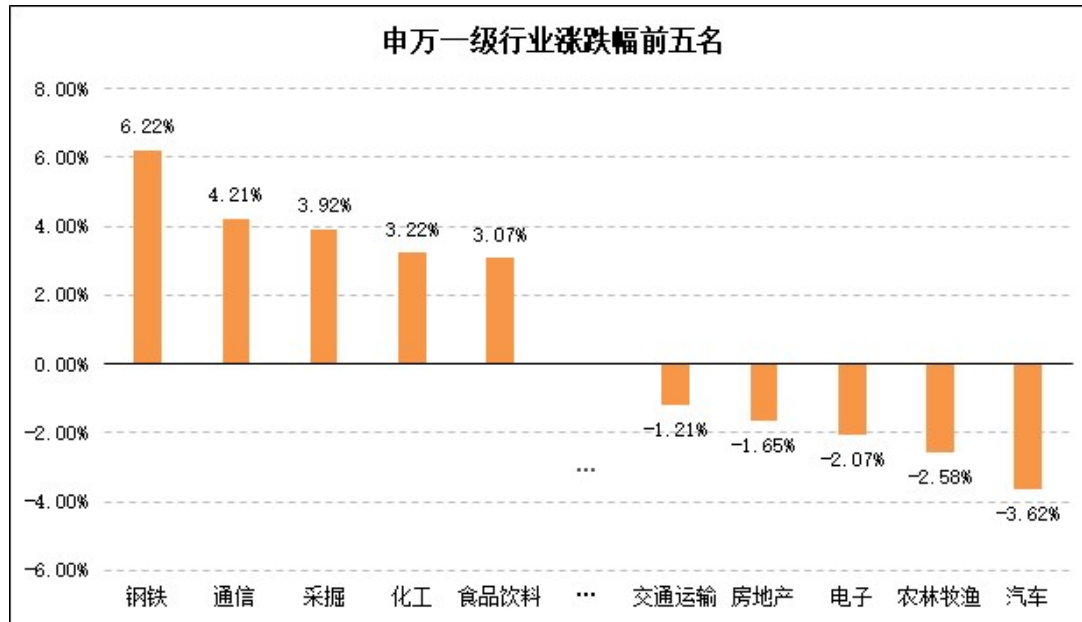
1. Market Review

Last week's A-share recovery continued structural differentiation with small- to mid-cap indices like CSI500, CSI000 outperforming large-cap indices like SSE50 and CSI300. For the week, SSE Composite Index was +0.43%, Shenzhen Component Index was +0.86%, GEI +0.68%, SSE50 was +0.25%, CSI300 was +0.50%, and CSI500 was +1.77%.

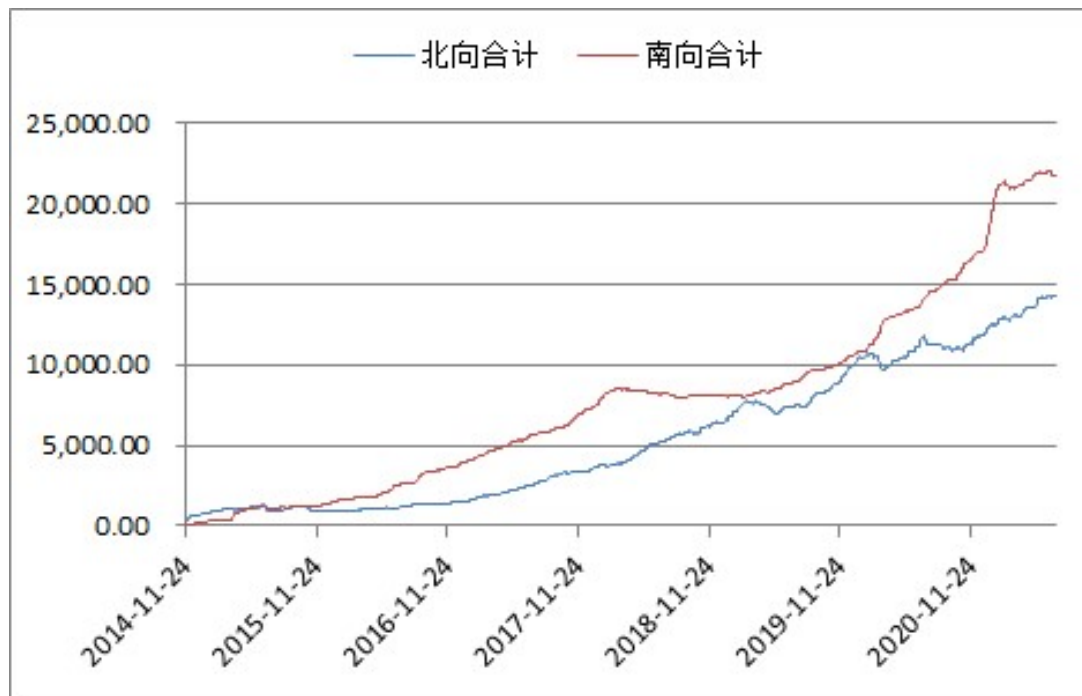




From industry perspective, 19 out of 28 ShenWan Primary industries rose last week led by steel, communications, mining, chemical, food & beverages industries.



Market turnover recovered slightly, with minor net purchases in both North-bound and South-bound flows:



2. Market Outlook

While second quarter industrial output slowed, the utilization rate went up to another high of 78.4%. The real estate sales growth rate is now slowing. Considering land purchases growth has turned negative since June, the land supply and demand equilibrium will remain elusive.

When there's supply and demand imbalance, it corresponds to high growth in corporate profit, and also requires relevant adjustment in the economy. For the domestic manufacturing industries, we are still relative confident that the accelerating improvement trend will continue. On one hand, the industrial corporate profits currently remain at high level, thus giving further impetus to capacity expansion and follow through investments; on the other hand, the current high utilization rate shows some industry's supply chains are facing bottleneck. Therefore, the necessity of increasing production capacity will increase. In addition, the current monetary policy also stressed support to manufacturing sector, with outstanding medium to long term loans at high levels.

Given such background, we expect manufacturing industry investments to maintain upward trend for the next two to four quarters. The PPI will slowly come off before 4Q. Meanwhile, there will be more stringent policies towards infrastructural or real estate sectors and credit risk management. We'd expect the structural differentiation trend in the A-share market to continue.

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