1. China’s economy under the “New Normal”
A summary of China’s 2014 economy would be “weak investments, stable consumption and an enlarged trade surplus”. After nearly 30 years of high growth, the Chinese economy has started to slow down and enter a stage of “New Normal”. What does this mean for China going forward and what should investors look out for?

2. Stock in Focus: Hanergy Thin Film Power (00566.HK)
We take an in-depth look at Hanergy: the largest thin-film solar enterprise in China. At the end of 2014, the market value of Hanergy surpassed the HKD 100 billion mark, and the company is committed to the continued acquisition of advanced technology, expansion in the overseas market, and high-growth in the clean energy sector.

The Shanghai Composite Index (SHCI) rose 36.78% while the Shenzhen Component Index (SZCI) rose 42.94% during the period Nov. 2014 to Feb. 2015. We review recent market movements for the start of 2015.
1. China’s economy under the “New Normal”

After nearly 30 years of high growth, the Chinese economy has started to slow down and enter a “New Normal” phase. According to official statistics released on January 20th, 2015, the Q4 GDP growth rate for 2014 was 7.3% while annual GDP growth was 7.4%. This was lower than the 7.7% recorded in both 2012 and 2013. The main driver behind this growth was the services industry, but in 2014 the tertiary industry constituted 51.6% of GDP (the secondary industry constituted 43.2%; see chart below). Overall, the tertiary industry grew by 8.1% and secondary industry by 7.3%. In addition, although economic growth slowed in 2014, overproduction in manufacturing and the real estate sectors is gradually improving and the economic structure as a whole has become more balanced.

Looking at the composition of GDP, the 15.7% increase in long-term investment in 2014 is far lower than that of 2013 (19.6%). If one takes a closer look at the figures, capital investment was stable while manufacturing and real estate investment dropped significantly. For consumption, annual retail sales growth were stable, while total imports and exports increased by 3.4%. Thus, we can summarise last year’s Chinese economy as one of “weak investments, stable consumption and an enlarged trade surplus”.

(*Note: The New Normal—Under the background of a gear change within the economy, the pain brought on by structural change, and the 4 trillion Yuan stimulus policies coming to fruition, China has to carry forward reforms in spite of the risks faced.)

“One Belt and One Road”

Chairman Xi Jinping proposed the strategic concept of “One Belt and One Road” in 2013, also known as the “Silk Road Economic Belt” or “21st Century Maritime Silk Road” concept. “One Belt” refers to the Silk Road economic belt from China to Russia by way of Central Asia, while “One Road” refers to the 21st century maritime Silk Road to show China’s strength in trade. A detailed timetable for this strategy was unveiled in 2014.

At the APEC meeting held in Beijing last November, Chairman Xi said that China would invest $40 billion into the Silk Road Fund to finance infrastructure projects, resource development and industrial cooperation along the Silk Road. The concept of “One Belt and One Road” has gradually been implemented, from Chinese VIPs visiting neighboring countries, to the set-up of the Asian Infrastructure Investment Bank and the Silk Road Fund Corporation. Furthermore, local governments have mentioned the concept in their respective government work reports during provincial political sessions. For example, the provinces plan to speed up infrastructure construction of railways, roads and airports.

The government would like to see exports of steel and construction materials to neighboring countries along the “One Belt and One Road” to ease domestic overproduction. We expect there will also be increasing numbers of Chinese companies going abroad to provide developing countries with long-term financing and infrastructure services during their industrialisation process.

The deprecating RMB

The RMB has been depreciating against the US dollar since the middle of last November. Most analysts believe the ECB’s QE and the relatively high US dollar interest rates have put downward pressure on the RMB. As indicated by the fall in GDP growth, the Chinese economy has also suffered from overproduction and economic restructuring. The RMB’s depreciation will affect the overall economy in the following ways: firstly, it will affect exports, and secondly, it will affect capital markets. However, though the RMB is depreciating against the US dollar, it has been appreciating against the Euro, Japanese yen and the Australian dollar making it unfavorable for exports. In addition, in a world of uncertainty, the US has proposed a “manufacturing renaissance” to revive its industrial power, which may be deemed a threat to Chinese exporters in the long-term.

(*Note: The RMB exchange rate to other currencies is derived indirectly by formulas such as (RMB/USD)*(USD/JPY) = RMB/JPY.)
According to foreign currency settlement data by the State Administration of Foreign Exchange (SAFE), capital has been flowing out of China since the latter half of 2014. Guan Tao, director of the SAFE’s Balance of Payments Department said in an open conference on January 22nd that the current account surplus and capital account deficit is expected to normalise and the RMB’s exchange rate will converge to an equilibrium. Therefore, the outflow of capital has been within expectations. In summary, based on the data and official explanation, it is quite possible for the capital outflow to rise in the short term. And as a result, the market may see a liquidity shortfall with borrowing costs rising accordingly, which in turn may cause the stock market to fall.

2. **Stock in Focus: Hanergy Thin Film Power (00566.HK)**

**① Company Profile**

A leader in thin-film solar technology and photovoltaic industry. As a private corporation, Hanergy Thin Film Power Group (HTFP) entered the photovoltaic market in 2009 and has become the largest thin-film solar enterprise in China. The company is incorporated in Bermuda and its shares are listed on the main board of the Hong Kong Stock Exchange. It is also one of the component stocks of the Hang Seng Composite Midcap Index, MSCI China Index, FTSE Hong Kong Index and FTSE China 50 Index.

Its parent company Hanergy Holding Group (HHDG) set up the wholly-owned subsidiaries of Hanergy Investment Limited, Hanergy Option Limited and GL Wind Farm Investment Limited to hold 60% of HTFP’s shares. HHDG is engaged mainly in hydropower, wind power and thin film power.

**② Core business**

HTFP made its transition to the photovoltaic market by choosing CIGS technology instead of traditional polysilicons for their core business. By 2012, the company’s construction capacity of PV modules totaled 3GW, and the company had become the world’s largest in thin film power production. Core businesses include:

- Equipment to produce silicon-based, thin film power modules and the whole production line
- R&D in CIGS thin film power production lines and production
- Construction and sale of ground and roof-top power stations
- R&D in thin film power application products

**Image of thin-film PV production**

The company also has Hanergy Advanced Integrated Systems Group and Hanergy Global Solar Power & Applications Group as its subsidiaries. They are engaged in upstream PV equipment production and downstream applications in automobiles and construction, respectively.

**Financial Highlights and Operations**

Table 1. Performance Review of HTFP (2011-2014)

<table>
<thead>
<tr>
<th>Financial Period</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014 Interim</th>
<th>2014 Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance indicators</strong></td>
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</table>

(HKD million)

Source: www.hanergy.com

Note: As 2014 financial results have not been announced, we forecast these annual figures based on interim results.
Thanks to its pioneer status in the PV industry, HTFP has expanded its sales of PV equipment and has seen substantial growth in performance over the last few years. The company had a good first half of 2014. It’s expected that the 2014 annual sales will be 2.5 times, and net profit to be 4.8 times that of 2011. With the launch of Shanghai-Hong Kong Stock Connect, the company’s shares have become investable through cross trades. Its share price rose rapidly from 1.2 last June to 4.5 this February, benefiting from good financial results and an enlarged trading volume (Picture 2). At the end of 2014, the market capitalisation of Hanergy surpassed HKD 100 billion and it became twice as large as Solar City of the U.S. In the latest edition of the 2015 Forbes World’s Billionaires’ list, CEO Li Hejun ranked after Jack Ma of Alibaba and Jianlin Wang of Wanda Group as the third richest man in mainland China, with a net worth of USD 21.1 billion.

![Picture 2. HTFP- Share price movement](July 2014-February 2015)

On the other hand, the company is facing a problem of overreliance on its parent company. According to the 2013 annual report, the parent company HHDG was its only client. Industry insiders also point out that, as shown by the interim report, HKD 3.16 billion (accounting for 98% of total revenue) came from the parent company. To solve this problem, HTFP has begun to pursue new customers since the latter half of 2014. Last December it sold 5 PV power stations to Beijing Hongsheng Fund and made a profit of nearly 0.78 billion Yuan. According to the quick announcement on March 3rd 2015, downstream sales to non-related parties for fiscal year 2014 have increased substantially and accounted for over 35% of total annual revenue. In addition, annual net profit rose 55% compared to the previous year. At the end of February 2015, HTFP entered into a service contract with Macrolink New Resources, whereby it agreed to sell production line equipment for Business Integrated Photovoltaic Business (BIPV) and to provide technical services with respect to its production line equipment under a total contract amount of USD 0.66 billion.

3 The Three Features of HTFP  
Leading Technology  
Thin film technology has the advantage of being soft and thin compared to traditional amorphous silicon technology. EuPD Research forecasted that by the year 2020, thin film power would occupy 30% of the solar power industry market share. As a result, HTFP completed a series of acquisitions of leading technology firms from 2012 to 2014. For example, it acquired the German company Solibro, in Sept. 2012, and the U.S. companies MiaSolé (January 2013), Global Solar Energy (July 2013) and finally Alta Devices, which has the world’s highest conversion of 30.8% in 2014.

Overseas Development  
HTFP has been actively expanding in the overseas market. Its wholly-owned subsidiary, Hanergy Global Solar Power & Applications Group, has signed a strategic cooperation framework memorandum with Sojitz Machinery Corporation, a subsidiary of Sojitz Corporation, one of the largest general trading companies in Japan. The two will construct a long-term global strategic partnership in the field of solar thin-film power generation appliances. They plan to start the construction of a solar energy power station installed with CIGS assemblies produced by HTFP by this March. Last October, HTFP signed a contract with IKEA to promote HTFP’s products in their chain stores located in the UK, the Netherlands and Switzerland. In the auto sector, HTFP has cooperated with famous manufacturers such as Tesla and Aston Martin to co-develop thin-film power generation appliances such as charging posts.
Clean Energy

Today, the Chinese government and people are most concerned with environmental issues such as PM 2.5. During the latter half of 2014, the company’s series of ads began airing on China Central Television (CCTV) and Phoenix Television featuring “Bigger Hanergy, Less Smog”, which echoes the topic of reducing PM 2.5 and environmental pollution. The ads also made customers realise the importance of thin-film power generation technology as a substitute for traditional generation methods in reducing emissions of carbon dioxide, and raised the company’s public awareness. In addition, Cai Jing, a former CCTV journalist, produced a documentary under her own name recording the severe air pollution in China and released it online at the end of Feb. 2015. The documentary has raised concerns about environmental protection from all over the country. HTFP has become recognised by the government and potential customers as an innovative enterprise that is dedicated to solving environmental problems. The company is expected to maintain consistent growth as its market share of the clean energy business increases.

According to the China Renewable Energy Industry Development Report 2014, there was an increase of 36 million KW installed capacity and accumulated installed capacity of 132 million KW in the PV power generation market in 2013. Of that, China has seen an increase in installed capacity of 12.92 million KW (one-third of the increase globally) and ranks first globally. The accumulated installed capacity in China has been 19.42 million KW, which is second only to Germany’s 35 million KW. The enlarged installed capacity shows that China is experiencing rapid growth in the PV industry. In addition, in accordance with the applied study of PV power generation from China Wind, Solar and Bio-energy Roadmap 2050, China still has room for growth in the mid-to-long term.

Furthermore, the U.S.-led American and European regions have filed anti-dumping and countervailing duty petitions against Chinese solar enterprises since 2011, which did huge damage to related parties. However, HFTP’s thin-film products weren’t targeted or affected by the petitions.

Table 2. Environmental and Social Benefits from Solar Energy by 2050

<table>
<thead>
<tr>
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<th>2020</th>
<th>2030</th>
<th>2050</th>
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<tbody>
<tr>
<td></td>
<td>PV</td>
<td>CSP</td>
<td>SHC</td>
</tr>
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<td>Installed Capacity (PV, CSP: GW) (SHC: GWth)</td>
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<tr>
<td>Annual Power Generation (100 million kWh)</td>
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Note:

GW (Gigawatt) is a derived unit of power. 1 GW = 1,000 MW = 1,000,000 KW
PV: photovoltaic; CSP: concentrated solar power; SHC: solar heating and cooling.

“Basic” stands for a basic scenario (lower limit) and “Optimized” stands for a more aggressive scenario (upper limit).
The planned initial investment for the two scenarios is different (higher initial investment for the “optimized” scenario).

Source: China Wind, Solar and Bio-energy Roadmap 2050, page 13
3. Stock Market Review

As of the end of Feb., the Shanghai Composite Index (SHCI) stood at 3,310.30 and the Shenzhen Component Index (SZCI) recorded a 3-month high of 11,757.68. The SHCI rose 36.78% while the SZCI rose 42.94% from Nov. 2014 to Feb. 2015. Especially notable during the last two months of 2014 were A-shares, which showed strong upward momentum. The SHCI continued rising from 2,400 to 3,300, but has fluctuated between 3,100 and 3,400 since January 2015. The fall in the risk-free rate and concerns over falling home prices both contributed to the rally during the last two months of 2014. In addition, the introduction of the Shanghai-Hong Kong Stock Connect, relaxed IPO listing requirements (from an approval system to a registration system), and the relaxation of home mortgages all worked together to push up large-cap stocks in sectors such as non-bank finance, construction and real estate. These sectors have high weightings in large-cap stocks and have been key drivers of overall market recovery. However, due to the government’s strict supervision of security lending since 2015, along with fears of deflation, the stock market has entered a correction phase.

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Source: www.hanergy.com

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New policies for further reform are likely to be announced after political sessions held in March. Listed companies will also begin to release their annual reports. The slowdown in economic growth may have negative effects on financial results but we believe to tackle downside risks in the economy, easier policies should be taken. SuMi TRUST will monitor economic statistics to be announced in late-March and monitor improvement in fundamentals closely.

Shanghai Composite Index (Nov.2014—Feb. 2015)

Source: Great Wisdom database

Shenzhen Component Index (Nov.2014—Feb. 2015)

Source: Great Wisdom database

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