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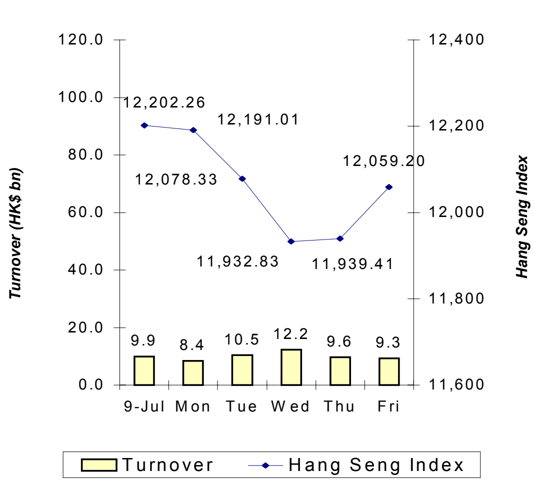
HONG KONG RESEARCH

Restricted circulation **Weekly Report**

Analyst: Louis Chan 17th July 2004

China plays pace index gains on Friday

HSI Weekly Movement



Weekly Market Statistics

Week ended	16/07/2004	09/07/2004	Change	%
Hang Seng Index	12,059.20	12,202.26	-143.06	-1.2%
HS Red Chip Index	1,312.05	1,344.68	-32.63	-2.4%
HS China Enterprises Index	4,292.55	4,315.30	-22.75	-0.5%
HS Composite Index	1,547.82	1,566.95	-19.13	-1.2%
HS HK Composite Index	1,639.94	1,656.16	-16.22	-1.0%
HS Mainland Composite Index	1,371.68	1,398.00	-26.32	-1.9%
S&P/HKEx GEM Index	1,050.49	1,077.54	-27.05	-2.5%
Avg Daily Turnover (HK$ bn)	10.01	12.21	-2.20	-18.0%
Sectoral Indices				
Finance	24,623.96	24,819.59	-195.63	-0.8%
Utilities	27,577.15	27,385.43	+191.72	+0.7%
Properties	14,403.40	14,680.46	-277.06	-1.9%
Comm & Ind	5,044.77	5,132.61	-87.84	-1.7%

Review & Outlook of Market Performance

Hong Kong stocks headed lower earlier in the week with the benchmark HSI once closing below the critical 12,000 mark, following weaknesses in telecom and tech stocks. Nevertheless, as hopes for some better local corporate earnings gradually built up while the mainland's recent tightening measures seemed to have worked well, investors stacked up domestic stocks on Friday and helped the blue-chip index recoup some of its earlier losses. The HSI closed Friday, which was indeed cut short by the typhoon, at 12,059.20, down 143.06 points or 1.2% on week. Average daily turnover of the week was HK$10.01 billion.

Property stocks were largely softer this week, as the HS Properties Sub-index underperformed the wider market with a 1.9% dip. Hang Lung Properties led the mark as it fell 3.3% on week to HK$10.25, followed by Henderson Land (HK$33.00) which dropped 2.65% while Cheung Kong (HK$57.25) was down 1.25%. Meanwhile, some weaker-than-expected sales at Intel and hence a lower profit forecast induced a sell-off in local semiconductor counters early in the week. Telecom stocks also took the beating afterwards, with China Unicom (HK$5.90, -7.1% w-o-w) and China Mobile (HK$22.30, -3.9% w-o-w) falling heavily.

Following Yanzhou Coal (HK$9.40, +5.0% w-o-w)'s placement last week, China shares started this week on a generally-weaker note. Major H shares (except those petrochemical counters) recorded losses for the whole week, although a GDP report on Friday showed that Beijing's tightening measures seemed to have worked well to cool off the mainland's economy. Over the week, Chalco (HK$4.075) lost 4.7% while Anhui Conch Cement (HK$8.30) even dived 9.3%. Huaneng Power (HK$6.15) went down 7.5% and China Life Insurance (HK$4.275) was knocked off 6.6%.

China reported that its GDP increased 9.6% y-o-y in Q2 which was lower than the widely-expected numbers, indicating a possible economic soft-landing. Further cooling measures may therefore be shelved or mitigated a bit. On Friday, China-related shares did react positively to the news and the momentum may well carry over into the next few days. Looking forward into next week, investors should also watch out for the local unemployment figure (April-June) and the quarterly reports of several US tech giants (Motorola, Sun Microsystems and Texas Instruments), to be released on Tuesday. With a better sentiment towards China stocks, we expect the HSI to have a good support at 12,000.

US & Regional Markets Weekly Update

Date	US Dow Jones	US NASDAQ	JAPAN Nikkei Avg	SINGAPORE STI	MALAYSIA KLSE Index	BANGKOK SET Index	TAIPEI Weighted Index
Week to							
16th July	10,139.78	1,883.15	11,436.00	1,871.47	842.65	646.11	5,502.14
9th July	10,213.22	1,946.33	11,423.53	1,862.03	854.06	666.59	5,777.72
Change	-73.44	-63.18	+12.47	+9.44	-11.41	-20.48	-275.58
%	-0.7%	-3.2%	+0.1%	+0.5%	-1.3%	-3.1%	-4.8%

Major Changes in Index Constituent Stocks (Week ended 16th July 2004)

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @16/07/04	W-O-W Change		Remarks / Comments
			Absolute	%	
Beijing Yanhua	0325	HK$2.700	+HK$0.125	+4.9%	Bucking the trend this week, shares of these companies were buoyed by their parent's rosy profit forecast. Sinopec said earlier its 1st-half net profit was likely to have risen by more than half on year due to strong demand both at home and abroad.
Shanghai Petrochemical	0338	HK$2.75	+HK$0.10	+3.8%	
Yizheng Chemical	1033	HK$1.39	+HK$0.01	+0.7%	
Zhenhai Refining & Chemical	1128	HK$7.85	+HK$0.15	+2.0%	
China Shipping Development	1138	HK$5.25	+HK$0.65	+14.1%	Shares of the company surged higher on hopes of a net-profit growth of 50% on year for the 1st half, due to higher freight rates.

Summary of US Economic News

Indicator	Change/Index	Comments
Trade balance - May	US$46.0-billion deficit	Trade deficit narrowed unexpectedly to US$46.0 billion in May. This was the 1st narrowing in 6 months.
Retail sales - June	-1.1% m-o-m	Retail sales fell 1.1% in June, weaker than expected. The decline followed an increase in May, when sales rose a revised 1.4%.
Business inventories - May	+0.4% m-o-m	Business inventories rose 0.4% in May to US$1.22 trillion, versus an upwardly-revised gain of 0.7% in April.
Producer price index - June	-0.3% m-o-m	Producer price index fell 0.3% in June after rising 0.8% in May. The core PPI rose 0.2% after rising 0.3% in May.
Industrial production - June	-0.3% m-o-m	Industrial production fell a worse-than-expected 0.3% in June after a downwardly-revised 0.9% increase in May.
Consumer price index - June	+0.3% m-o-m	CPI rose 0.3% in June, compared with a gain of 0.6% in May. June's core CPI edged up 0.1%, compared with May's rise of 0.2%.

Forthcoming Important Announcements / Events

19th July 2004 (Monday)	**HK**	**:**	Asia Orient (0214) – final results Beijing North Star (0588) – H1 results Chun Wo (0711) – final results Kingmaker Footwear (1170) – final results Ming Pao Enterprise (0685) – final results YGM Trading (0375) – final results
	US	**:**	3M – Q2 results American Standard – Q2 results Boston Scientific – Q2 results Lexmark International – Q2 results
20th July 2004 (Tuesday)	**HK**	**:**	Unemployment rate – April-June Four Seas Mercantile (0374) – final results Ocean Grand Chemicals (2882) – final results
	US	**:**	Housing starts – June E*Trade Financial Corp – Q2 results **Ford Motor – Q2 results** Inco – Q2 results **Mellon Financial – Q2 results** **Motorola – Q2 results** **Sun Microsystems – Q4 results** **Texas Instruments – Q2 results** **Wells Fargo – Q2 results**
21st July 2004 (Wednesday)	**HK**	**:**	Kwoon Chung Bus (0306) – final results Oriental Watch (0398) – final results
	US	**:**	Merck – Q2 results
22nd July 2004 (Thursday)	**HK**	**:**	Culturecom (0343) – final results Far East Hotels & Entertainment (0037) – final results Hang Fung Gold Technology (0870) – final results Pacific Century Premium Developments (0432) – final results
	US	**:**	Leading indicators – June Amazon.Com – Q2 results
23rd July 2004 (Friday)	**HK**	**:**	Consumer price index – June **Asia Commercial (0104) – final results** Dickson Group (0313) – final results Gay Giano International (0686) – final results Hanny (0275) – final results Luk Fook (0590) – final results New Century (0234) – final results Paul Y-ITC Construction (0498) – final results Sun Media (0307) – final results