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HONG KONG RESEARCH

Restricted circulation
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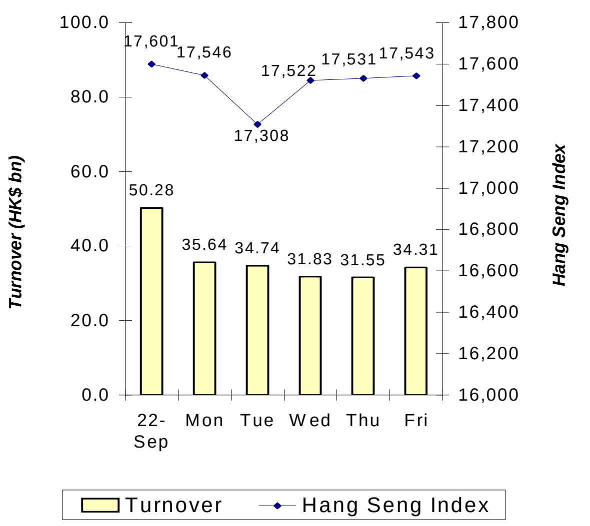
Weekly Report
29th September 2006

HSI experienced a volatile trading week amid expiry of index futures

HSI Weekly Movement



Weekly Market Statistics

Week ended	29/9/2006	22/9/2006	Change	%
Hang Seng Index	17,543	17,601	(58)	-0.3%
HS Red Chip Index	2,650	2,659	(9)	-0.3%
HS China Enterprises Index	7,097	7,106	(9)	-0.1%
HS Composite Index	2,335	2,341	(6)	-0.3%
HS HK Composite Index	2,266	2,271	(6)	-0.2%
HS Mainland Composite Index	2,456	2,463	(7)	-0.3%
S&P/HKEx GEM Index	1,103	1,102	1	+0.0%
Avg Daily Turnover (HK$ bn)	36.8	34.9	2	+5.4%
Sectoral Indices				
Finance	30,107	30,018	89	+0.3%
Utilities	33,061	33,520	(459)	-1.4%
Properties	20,809	21,083	(275)	-1.3%
Comm & Ind	8,875	8,915	(40)	-0.5%

Review & Outlook of Market Performance

Hong Kong equities were volatile, amid maturity of major index futures. Hang Seng Index hit 17,683.45 on Monday, a fresh high not seen since 2000, mainly driven by a strong gain in heavyweight China Mobile. However, the gain was short-lived, as there was market rumour that China Mobile and China Life may place new shares for funds after recent strong rally. Over the week, the blue-chip index dipped a mild 0.3% to 17,543.05, while the H-share index inched down 0.1% to 7,097.25, as window dressing activities re. end of 3Q lent support to the indexes. Average daily turnover was HK$36.8 billion, up slightly from HK$34.9 billion in the previous week, amid trading debuts of Jingkelong and BlueChemical.

China Mobile touched a fresh six-year high at HK$56.70 earlier in the week on continued buying interests following its encouraging August subscription number. However, the strong gain vanished after rumours of share placement and the mobile carrier ended down 1.08% w-o-w. Other blue chips were generally mixed. Hutchison Whampoa revisited lows so far this year on weak 3G outlook and closed 1.71% lower w-o-w, while its parent Cheung Kong (Holdings) was down by 2.45%. Cathay Pacific Airways gained 1.27% w-o-w, after its buyout of Dragon Airlines was completed.

HSCEI ended nearly flat over the week, but its constituents had shown much diverged performances. Mainland power producers were among winners in the H-share index, after Beijing ordered to raise power tariffs for several energy-sensitive industries in an attempt to boost efficiency and fight pollution. Datang Power jumped 8.53% w-o-w, while Huadian Power reaped a sharp 7.80% gain. Huaneng Power also performed well with a solid 5.24% gain. China Life fell 4.75% w-o-w on rumours of a share placement, while Chalco lost 3.51% after it cut product prices for the third time in two months.

Trading activities may take a breather next week amid the long Golden Week holiday in the Mainland. Investors may also set aside liquidity for the upcoming gigantic IPO of Industrial and Commercial Bank of China (ICBC). Hang Seng Index is expected to head south in thin trade but should see a good support near 17,000.

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							
29th September	11,718.45	2,270.02	16,127.58	2,568.86	967.55	686.10	6,883.05
22nd September	11,508.10	2,218.93	15,634.67	2,520.50	965.23	681.71	6,885.60
Change	+210.35	+51.09	+492.91	+48.36	+2.32	+4.39	-2.55
%	+1.8%	+2.3%	+3.2%	+1.9%	+0.2%	+0.6%	-0.0%

Remark (*): closing as of 28th September 2006

Major Changes in Index Constituent Stocks (Week ended 29th September 2006)

Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @29/9/06	W-O-W Change Absolute	W-O-W Change %	Remarks / Comments
HSBC Holdings	0005	HK$142.1	+HK$0.50	+0.35%	The banking giant generally outperformed during the week, after its HK arm said to cut mortgage rates in order to boost market share. Meanwhile, HSBC's chief information officer told analysts that the bank's capital spending on technology should start paying off in coming years.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @29/9/06	W-O-W Change Absolute	W-O-W Change %	Remarks / Comments
Datang Power	0991	HK$5.85	+HK$0.46	+8.53%	Mainland power producers were among the winners, after a circular from the National Development and Reform Commission revealed that Mainland authority has ordered higher power tariffs in eight energy-sensitive industries in order to speed up sector consolidation, curb over-investment and boost efficiency.
Huadian Power	1071	HK$2.21	+HK$0.16	+7.80%	
Huaneng Power	0902	HK$5.62	+HK$0.28	+5.24%	

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @29/9/06	W-O-W Change Absolute	W-O-W Change %	Remarks / Comments
China Mobile	0941	HK$55.05	-HK$0.60	-1.08%	China Mobile fell from a high at HK$56.70 during the week, as there was market rumours that the mobile carrier may sell shares for funds after recent rally.

Summary of US Economic News

Indicator	Change/Index	Comments
Consumer confidence index – September	104.5	US Conference Board said the index of consumer confidence surged to 104.5 in September from an upwardly revised 100.2 in August, stronger than consensus forecast of 102.3.
Durable goods orders – August	-0.5%	New orders for durable goods fell 0.5% m-o-m in August after a 2.7% decline in July, the second consecutive month of a drop. In fact, the figure was much weaker than market expectations, which had expected a 0.5% rise in orders in August.
New home sales – August	+4.0%	New home sales surged to an annual rate of 1.05 million units in August from 1.01 million units in July, slightly higher than forecast of 1.04 million units. The August figure marked the first gain in five months.
Initial jobless claims – the week ended 23rd September 2006	-6,000	Initial jobless claims fell 6,000 last week to 316,000 from an upwardly revised 322,000 in the previous week. The figure was slightly higher than consensus forecast of 315,000.
GDP (revised) – Q2 2006	+2.6%	The GDP growth for Q2 2006 was revised down to 2.6% from the preliminary 2.9%. US GDP grew 5.6% in the first quarter.

Forthcoming Important Announcements / Events

2nd October 2006 (Monday)	HK US	: :	Holiday - The Day following National Day Construction spending – August 2006 ISM manufacturing index – September 2006
3rd October 2006 (Tuesday)	HK US	: :	**Retail sales – August 2006** **Automobile sales – September 2006**
4th October 2006 (Wednesday)	HK US	: :	No important event/announcement Factory orders – August 2006 ISM non-manufacturing index – September 2006
5th October 2006 (Thursday)	HK US	: :	Hua Yi Copper (0559) – final results Initial jobless claims – week ended 30th September 2006
6th October 2006 (Friday)	HK US	: :	No important event/announcement **Non-farm payrolls – September 2006**

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