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HONG KONG RESEARCH**Restricted circulation**

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Weekly Report3rd July 2004**US Fed ups rates by 25 bps**

<u>HSI Weekly Movement</u>					<u>Weekly Market Statistics</u>				
Week ended	02/07/2004	25/06/2004	Change	%	Week ended	02/07/2004	25/06/2004	Change	%
Hang Seng Index	12,220.13	12,185.52	+34.61	+0.3%	Hang Seng Index	12,220.13	12,185.52	+34.61	+0.3%
HS Red Chip Index	1,361.26	1,355.74	+5.52	+0.4%	HS Red Chip Index	1,361.26	1,355.74	+5.52	+0.4%
HS China Enterprises Index	4,314.16	4,223.56	+90.60	+2.1%	HS China Enterprises Index	4,314.16	4,223.56	+90.60	+2.1%
HS Composite Index	1,564.09	1,552.12	+11.97	+0.8%	HS Composite Index	1,564.09	1,552.12	+11.97	+0.8%
HS HK Composite Index	1,648.59	1,637.85	+10.74	+0.7%	HS HK Composite Index	1,648.59	1,637.85	+10.74	+0.7%
HS Mainland Composite Index	1,405.94	1,390.87	+15.07	+1.1%	HS Mainland Composite Index	1,405.94	1,390.87	+15.07	+1.1%
S&P/HKEx GEM Index	1,071.94	1,058.07	+13.87	+1.3%	S&P/HKEx GEM Index	1,071.94	1,058.07	+13.87	+1.3%
Avg Daily Turnover (HK\$ bn)	12.11	13.04	-0.93	-7.1%	Avg Daily Turnover (HK\$ bn)	12.11	13.04	-0.93	-7.1%
Sectoral Indices					Sectoral Indices				
Finance	24,863.82	24,919.54	-55.72	-0.2%	Finance	24,863.82	24,919.54	-55.72	-0.2%
Utilities	27,243.98	27,586.44	-342.46	-1.2%	Utilities	27,243.98	27,586.44	-342.46	-1.2%
Properties	14,421.02	14,207.46	+213.56	+1.5%	Properties	14,421.02	14,207.46	+213.56	+1.5%
Comm & Ind	5,173.58	5,134.12	+39.46	+0.8%	Comm & Ind	5,173.58	5,134.12	+39.46	+0.8%

Review & Outlook of Market Performance

Hong Kong stocks closed slightly higher this week, when investors' attention was on the US interest-rate rise during the week, while the locals took their time off and joined the hours-long march on the SAR Establishment Day holiday. In fact, the benchmark HSI did quite well earlier in the week after reaching a near-3-week high on Wednesday but only managed to reap in 34.61 points or 0.3% over the whole week to close at 12,220.13, with an average daily turnover of HK\$12.11 billion.

The FOMC raised the US interest rate by 25 bps on Thursday but major banks in Hong Kong did not follow suit. The Bank of East Asia (HK\$22.35, +0.9% w-o-w), HSBC (HK\$116.00, -0.4% w-o-w) and Hang Seng Bank (HK\$100.00, +0.3% w-o-w) all announced that they would leave their benchmark deposit and lending rates unchanged. This was not a surprise at all as the local banks did keep their rates unchanged in June 2003, when the US federal-funds rate was cut by 25 bps. Meanwhile, other banks like BOC Hong Kong (HK\$13.20, +0.8% w-o-w) and Standard Chartered (HK\$126.00, unchanged w-o-w) also decided to keep the rates unchanged.

Local property stocks continued to trend up this week as investors believed that Hong Kong's property market might benefit from the better US economy, with the city's economic growth rate likely to outpace the increase in mortgage rates. The HS Properties Sub-index gained 1.5% this week, with support coming from major players like Cheung Kong (HK\$57.75, +2.2% w-o-w), Henderson Land (HK\$33.30, +3.1% w-o-w) and SHK Properties (HK\$63.75, +1.2% w-o-w). Elsewhere, the H shares outshone the blue chips, with the HSCEI 2.1% higher this week on hopes that details would be unveiled soon regarding mainland institutional funds being allowed to invest overseas through the QDII scheme. Supporting the better sentiment were China Southern Airlines (HK\$3.075, +7.0% w-o-w), Chalco (HK\$4.225, +5.0% w-o-w), Angang New Steel (HK\$2.875, +8.5% w-o-w) and Anhui Conch Cement (HK\$8.80, +5.4% w-o-w).

Next Monday is the Independence Day holiday in the US. However, a couple of economic figures will be released later in the week. Investors will also keep an eye on tech bellwether Yahoo!, which will release its quarterly results on next Wednesday. Meanwhile in Hong Kong, the local bourse has begun the 2nd half of 2004 on a slightly-sour note and we expect it to be range-trade between 11,800 to 12,500 in the near term, with investors still wary about another US rate hike in August.

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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							
2nd July	10,282.83	2,006.66	11,721.49	1,839.33	830.68	647.57	5,746.70
25th June	10,371.84	2,025.47	11,780.40	1,805.54	824.23	644.00	5,802.55
Change	-89.01	-18.81	-58.91	+33.79	+6.45	+3.57	-55.85
%	-0.9%	-0.9%	-0.5%	+1.9%	+0.8%	+0.6%	-1.0%

Major Changes in Index Constituent Stocks (Week ended 2nd July 2004)
Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @02/07/04	W-O-W Change		Remarks / Comments
			Absolute	%	
Esprit	0330	HK\$35.00	+HK\$1.90	+5.7%	Esprit turned out as the biggest % blue-chip gainer this week, as buying in the counter was keen on hopes that the improving global economy will boost its top line.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @02/07/04	W-O-W Change		Remarks / Comments
			Absolute	%	
China Southern Airlines	1055	HK\$3.075	+HK\$0.200	+7.0%	The Guangzhou-based airline looks set to benefit from the imminent opening of the city's new Baiyun Airport in August.

Summary of US Economic News

Indicator	Change/Index	Comments
Personal income - May	+0.6% m-o-m	Personal spending rose 1.0% in May, the biggest jump since October 2001, following a revised 0.2% increase in April. The big rise in May's spending came amid a 0.5% rise in prices in the month. Personal income gained 0.6% in May, in line with the rise posted in April.
Personal spending - May	+1.0% m-o-m	
Consumer confidence - June	101.9	Consumer confidence rose to 101.9 in June, its highest level in 2 years, outstripping forecasts, as labour-market conditions improved while gasoline prices eased.
Construction spending - May	+0.3% m-o-m	Construction spending rose a smaller-than-expected 0.3% in May after a downwardly-revised 1.2% gain in April.
ISM manufacturing index - June	61.1	The ISM manufacturing index came in at a lower-than-expected 61.1 for June, down from the 62.8 reading in May.
Unemployment rate - June	5.6%	The June report showed that employers added just 112,000 jobs to their payrolls in June, less than half the 250,000 jobs expected. Meanwhile, the unemployment rate in the month was held steady at 5.6% as expected.
Factory orders - May	-0.3% m-o-m	Factory orders dipped by a better-than-expected 0.3% in May, after falling a downwardly-revised 1.1% in April.

**Forthcoming Important Announcements / Events**

5 th July 2004 (Monday)	HK	:	Huabao International (0336) – final results Mobicon (1213) – final results Vision Tech International (0922) – H1 results
	US	:	Holiday after Independence Day
6 th July 2004 (Tuesday)	HK	:	Allan International (0684) – final results Associated International Hotels (0105) – final results Emperor (China Concept) Investments (0296) – final results Hung Hing Printing (0450) – final results Lee & Man (0746) – final results Lee & Man Paper Manufacturing (2314) – final results
	US	:	ISM services index – June
7 th July 2004 (Wednesday)	HK	:	AMS Public Transport (0077) – final results Shenzhen Mingwah Aohan High Technology (8301) – trading debut
	US	:	Yahoo! – Q2 results Alcoa – Q2 results
8 th July 2004 (Thursday)	HK	:	Retail sales – May Fortune Telecom (0110) – final results Hong Kong Catering Management (0668) – final results Peace Mark (0304) – final results Quam (0952) – final results Saint Honore (0192) – final results
	US	:	Consumer credit – May
9 th July 2004 (Friday)	HK	:	Hsin Chong Construction (0404) – final results
	US	:	Wholesale inventories – May