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**HONG KONG RESEARCH**

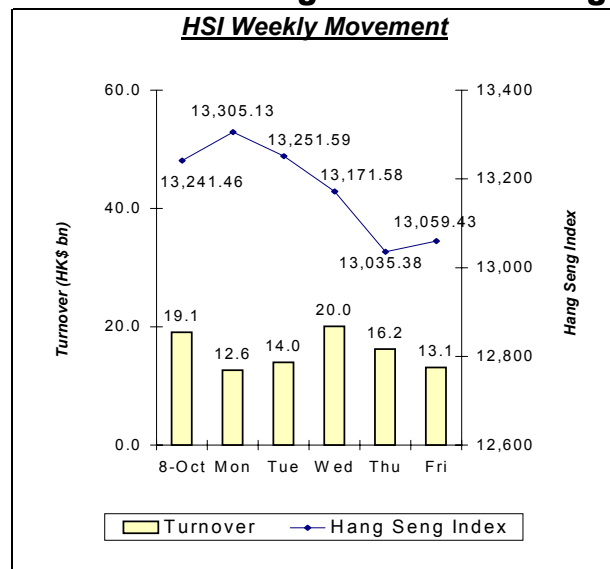
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**Weekly Report**

16<sup>th</sup> October 2004

## High land costs weighed on property stocks



<b>Weekly Market Statistics</b>				
Week ended	15/10/2004	08/10/2004	Change	%
Hang Seng Index	13,059.43	13,241.46	-182.03	-1.4%
HS Red Chip Index	1,415.78	1,455.07	-39.29	-2.7%
HS China Enterprises Index	4,585.09	4,770.79	-185.70	-3.9%
HS Composite Index	1,679.41	1,705.59	-26.18	-1.5%
HS HK Composite Index	1,784.45	1,803.52	-19.07	-1.1%
HS Mainland Composite Index	1,474.62	1,516.73	-42.11	-2.8%
S&P/HKEx GEM Index	994.62	995.97	-1.35	-0.1%
Avg Daily Turnover (HK\$ bn)	15.20	16.95	-1.75	-10.3%
<b>Sectoral Indices</b>				
Finance	26,505.48	26,733.19	-227.71	-0.9%
Utilities	29,474.66	29,939.23	-464.57	-1.6%
Properties	16,489.94	16,640.29	-150.35	-0.9%
Comm & Ind	5,419.79	5,534.97	-115.18	-2.1%

## Review & Outlook of Market Performance

The land auction on Tuesday ended in claps and the two sites were sold at stunning prices. However, the results failed to impress the equities market, as high land costs were claimed to impose additional risk to property developers. The HS property sub-index dropped 0.9% w-o-w, while the HSI ended down by 182.03 points or 1.4% during the week.

Cheung Kong (0001) won the Ho Man Tin site for HK\$9.42 billion or HK\$5,476 psf, 88% above the guaranteed bid and more than 40% above the consensus forecast. SHK Properties (0016) won the other site in San Po Kong for HK\$4.7 billion or HK\$3,844 psf, 57% higher than the guaranteed bid and 31% higher than the consensus forecast. The auction results, along with aggressive bidding from developers, showed not only the industry's optimism but also their eagerness for lands. However, even the result is positive to property prices and home-buyers' sentiments, it failed to impress the stock market. Property stocks slipped sharply after the auction, as investors perceived that high land costs would eat into developer's future profit margins as well as mount the burden for future land acquisitions. Accordingly, Cheung Kong fell 1.87% w-o-w to HK\$65.75 while SHK PPT slipped 1.67% w-o-w to HK\$73.50.

HSCEI ended down 3.9% w-o-w with metal plays plunging sharply during the week. Investors dumped PRC metal stocks after Chinese copper and aluminium futures dropped their daily trading limits on Thursday. Selling in Chinese metal futures was triggered by a 10% slide in overseas metal prices, as speculators unwound their positions after recent rally. Over the week, Chalco tumbled 11.32% to HK\$4.70 while Jiangxi Copper dived 11.22% to HK\$4.35.

A streak of share placing has also dampened investors' sentiments. Yue Yuen Industrial (0551) fell 6.01% w-o-w, after its major shareholder, the Tsai family, sold a 3.09% stake in the company at a discount of 3.37% against market level. Hutchison Telecommunications International (HTIL) (2332) and China Power (2380) debuted trading on Friday. HTIL ended at HK\$5.85, 2.7% below its offer price, while CP closed 16.6% above its offer price at HK\$2.95.

There are only four trading days next week, with the Chung Yeung Festival holiday on Friday. Investors would focus on the jobs and CPI data to see whether the economy stays on track of recovery. Besides, the market should eye on H shares as they will reveal their Q3 results. It is too early to say whether Hong Kong stocks have finished their consolidation after rally in Q3. But we expect that select long-term buying should help HSI sustaining above 13,000.

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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 15th October	9,933.38	1,911.50	10,982.95	1,962.54	851.29	648.45	5,820.82
8th October	10,055.20	1,919.97	11,349.35	2,004.30	861.08	676.15	6,102.16
Change	-121.82	-8.47	-366.40	-41.76	-9.79	-27.70	-281.34
%	-1.2%	-0.4%	-3.2%	-2.1%	-1.1%	-4.1%	-4.6%

## Major Changes in Index Constituent Stocks (Week ended 15<sup>th</sup> October 2004)

### Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @15/10/04	W-O-W Change		Remarks / Comments
			Absolute	%	
Yue Yuen Industrial	0551	HK\$19.55	-HK\$1.25	-6.01%	The Tsai Family, major shareholder of Yue Yuen, sold 50 million shares at HK\$20.1 each for HK\$1 billion. After the disposal, the Tsai Family's stake in Yue Yuen dropped to 16.63% from 19.72%.

### Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @15/10/04	W-O-W Change		Remarks / Comments
			Absolute	%	
Chalco	2600	HK\$4.70	-HK\$0.60	-11.32%	Investors dumped metal plays last week after Chinese metal futures fell their daily limits on Thursday. The serious sell-off in Chinese metal futures was mainly triggered by sharply lowered base metal prices in LME as well as in NYMEX. For reference, NY benchmark December copper tumbled more than 15% in a single trading day on Wednesday.
Jiangxi Copper	0358	HK\$4.35	-HK\$0.55	-11.22%	
Angang Newsteel	0347	HK\$3.40	-HK\$0.40	-10.53%	

### Hang Seng China-Affiliated Corporation Index (HSCCI)

Stock	Stock Code	Closing Price @15/10/04	W-O-W Change		Remarks / Comments
			Absolute	%	
Lenovo Group	0992	HK\$2.65	+HK\$0.00	+0.00%	Lenovo Group bucked the general market downward trend over the week, after the China's top PC maker said it has signed an MOU to market high-performance computers made by Bull of France. The tie-up could serve to provide Lenovo with a partner for its overseas expansion plan.



### Summary of US Economic News

Indicator	Change/Index	Comments
Trade Balance – August	-US\$54 billion	US trade gap rose nearly 7% m-o-m in August, amid higher oil imports and a record imports from China. US trade gap hit a record of US\$55 billion in June
Initial jobless claims – the week ended 9 <sup>th</sup> October	+15,000	Initial jobless claims rose 15,000 to 352,000 in the week ended 9 <sup>th</sup> October. Market consensus had forecast 340,000 claims during the week.
Retail sales – September	+1.5%	Thank to a jump in auto sales, US retail sales rose 1.5% m-o-m in September, beating consensus forecast of a rise of 0.7%.
Producer price index – September	+0.1%	September producer prices, held by a drop of energy prices, rose just 0.1% as expected.
Industrial production – September	+0.1%	IP rose 0.1% m-o-m, weaker than the consensus of a 0.3% rise.
University of Michigan consumer sentiment – October	87.5	Consumer sentiment index fell to a preliminary reading of 87.5 in October from 94.2 in September, a drop bigger than the market expectation of just inching down to 94.0.

### Forthcoming Important Announcements / Events

18 <sup>th</sup> October 2004 (Monday)	HK	:	Daqing Petroleum and Chemical Group (0362) – Final results Guo Xin Group (1215) – Final results Heng Tai Consumables Group (0197) – Final results
	US	:	Minnesota Mining & Manufacturing Co (3M) – Q3 results
19 <sup>th</sup> October 2004 (Tuesday)	HK	:	Chaoda Modern Agriculture (0800) – Final results <b>Unemployment statistics – Jul-Sep 04</b>
	US	:	Ford Motor Co. – Q3 results <b>Motorola Inc. – Q3 results</b> <b>Wells Fargo &amp; Co. – Q3 results</b> Housing starts – Sep 04 CPI & core CPI – Sep 04
20 <sup>th</sup> October 2004 (Wednesday)	HK	:	China Golden Development Holdings (0162) – Final results
	US	:	Amgen Inc. – Q3 results eBay Inc. – Q3 results <b>JPMorgan Chase &amp; Co – Q3 results</b> <b>Lucent Technologies Inc. – FY04</b>
21 <sup>st</sup> October 2004 (Thursday)	HK	:	<b>Aeon Holdings (0984) – Interim results</b> Kantone Holdings (1059) – Final results Leroi Holdings (0221) – Final results Tong Ren Tang (8069) – Q3 results CPI – Sep 04
	US	:	<b>Amazon.com – Q3 results</b> <b>American International Group (AIG) – Q3 results</b> <b>AT&amp;T – Q3 results</b> <b>Caterpillar Inc. – Q3 results</b> <b>Coca Cola Co. – Q3 results</b> <b>Microsoft Corp. – Q1 results</b> Initial jobless claims – the week ended 16 <sup>th</sup> October Index of leading indicators – Sep 04
22 <sup>nd</sup> October 2004 (Friday)	HK	:	Chung Yeung Festival Holiday
	US	:	<b>Pfizer Inc – Q3 results</b>