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HONG KONG RESEARCH

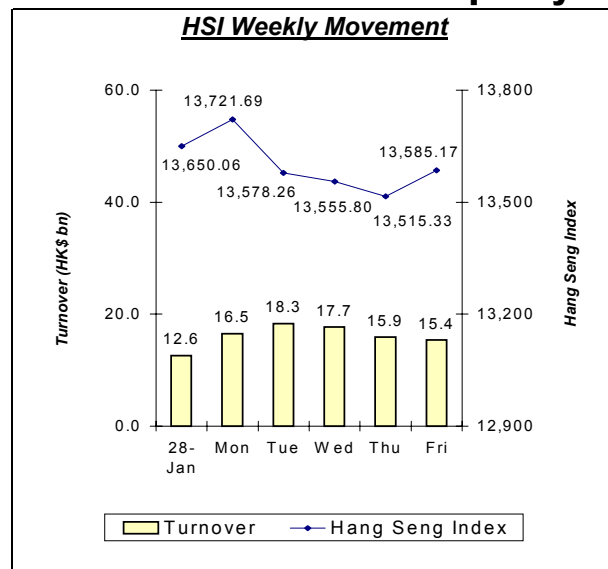
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Weekly Report

5th February 2005

Concerns over liquidity outflow pressured blue chips



Weekly Market Statistics				
Week ended	04/02/2005	28/01/2005	Change	%
Hang Seng Index	13,585.17	13,650.06	-64.89	-0.5%
HS Red Chip Index	1,476.89	1,483.11	-6.22	-0.4%
HS China Enterprises Index	4,750.72	4,711.88	+38.84	+0.8%
HS Composite Index	1,763.17	1,764.52	-1.35	-0.1%
HS HK Composite Index	1,874.91	1,879.46	-4.55	-0.2%
HS Mainland Composite Index	1,544.84	1,539.22	+5.62	+0.4%
S&P/HKEx GEM Index	998.54	968.12	+30.42	+3.1%
Avg Daily Turnover (HK\$ bn)	16.76	16.56	+0.20	+1.2%
Sectoral Indices				
Finance	27,294.30	27,367.41	-73.11	-0.3%
Utilities	30,143.50	30,406.72	-263.22	-0.9%
Properties	16,641.98	16,811.80	-169.82	-1.0%
Comm & Ind	5,772.75	5,800.57	-27.82	-0.5%

Review & Outlook of Market Performance

Hong Kong blue chips traded downward on fears of liquidity outflow over a weaker Hong Kong dollar. The Hong Kong Monetary Authority has bought a total of HK\$6.536 billion since Monday to support the pegging currency. Property plays such as Henderson Land and Cheung Kong were among the laggards. The HSI closed down 64.89 points, or 0.48% w-o-w, at 13,585.17. Average daily turnover was HK\$16.76 billion.

The US Federal Reserve raised the fed funds rate by a quarter percentage point to 2.5% on Wednesday overnight and retained its pledge to raise rates at a measured pace. Major local lenders once again refrained from following the US rate hike and left their prime lending rates unchanged. Banking stocks made a mild rebound on Friday sparked by the Bank of East Asia's higher-than-expected earnings announcement, which raised hopes of positive earnings reports for the rest of the sector.

CLP Holdings and Hongkong Electric slid 0.68% and 0.29% respectively over the week after the Hong Kong government launched a public consultation on the scheme of control that currently applies to the 2 power companies. It is widely believed that the government would trim their guaranteed returns after the current scheme expires in 2008.

China-related shares were firmer in anticipation of robust earnings propelled by an impressive GDP growth. Power stocks were in demand after domestic shares of Huadian Power made a decent debut on the Shanghai Stock Exchange on Thursday. The mainland's telecommunication stocks were also in focus. China Unicom jumped 4.80% w-o-w to HK\$6.55 on news that China Telecom has applied to regulators to jointly acquire one of the two China Unicom's cellular networks with China Netcom Group. Meanwhile, China Telecom added 2.59% w-o-w to HK\$2.975 and China Netcom was up 6.31% w-o-w at HK\$11.8.

The Hong Kong stock market will be open on Monday and for half a day on Tuesday. Trading activities are expected to be subdued, as investors will stay sidelined in the run-up to the Lunar New Year holidays. The HSI is likely to hover between 13,400 and 13,700, with more upside potential following Wall Street's gains on Friday.

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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							
4th February	10,716.13	2,086.66	11,360.40	2,113.58	907.52	719.10	6,034.60
28th January	10,427.20	2,035.83	11,320.58	2,089.51	917.23	701.66	5,879.93
Change	+288.93	+50.83	+39.82	+24.07	-9.71	+17.44	+154.67
%	+2.8%	+2.5%	+0.4%	+1.2%	-1.1%	+2.5%	+2.6%

Major Changes in Index Constituent Stocks (Week ended 4th February 2005)

Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @04/02/05	W-O-W Change		Remarks / Comments
			Absolute	%	
The Bank of East Asia	0023	HK\$23.3	+HK\$0.05	+0.22%	The bank posted a record net profit of HK\$2.4 billion for 2004, up 26.1% from a year earlier.
CNOOC	0883	HK\$3.85	-HK\$0.275	-6.67%	CNOOC revised down its production growth rate for the next 5 years from between 8% and 12% to between 7% and 11% because of unforeseen production and geological difficulties.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @04/02/05	W-O-W Change		Remarks / Comments
			Absolute	%	
China Oilfield Services	2883	HK\$2.625	+HK\$0.125	+5.00%	The shares rose on expectations that demand for oilfield services would be strong in the coming years.
Huadian Power International	1071	HK\$2.4	+HK\$0.05	+2.13%	The Shanghai A shares of Huadian Power leapt 78.97% in their trading debut on Thursday.
China Life Insurance	2628	HK\$5.2	-HK\$0.15	-2.80%	Li Ka-shing sold half of his stake in the insurer for HK\$1.1 billion last week.

Hang Seng China-Affiliated Corporation Index (HSCCI)

Stock	Stock Code	Closing Price @04/02/05	W-O-W Change		Remarks / Comments
			Absolute	%	
China Insurance International Holdings	0966	HK\$3.525	+HK\$0.35	+11.02%	The company's life insurance arm Taiping Life Insurance saw premiums double last year to 6.6 billion yuan.
China Unicom	0762	HK\$6.55	+HK\$0.3	+4.80%	China Telecom has applied to regulators to jointly acquire one of the two China Unicom's cellular networks with China Netcom Group.



Summary of US Economic News

Indicator	Change/Index	Comments
Personal Income – December	+3.7% m-o-m	Personal income increased 3.7% in December, compared to a 0.4% rise in November.
Consumer Spending – December	+0.8% m-o-m	Consumer spending rose 0.8% in December after rising 0.4% in November.
New Home Sales – December	1.098 million	New home sales rose a lower-than-expected 0.1% in December to close out the strongest year on record.
Construction Spending – December	1.1% m-o-m	Construction spending rose 1.1% in December, topping expectations, as private residential spending jumped to a record high.
ISM Manufacturing Index – January	56.4	The index dropped to 56.4, the 2 nd straight month of decline, from 57.3 in December.
Fed Funds Rate	+25 bps	The Federal Reserve raised the fed funds rate by a quarter percentage point to 2.5%.
Initial Jobless Claims – 29 th January	316,000	Initial jobless claims narrowed by 9,000 last week, signalling healthy job growth.
Nonfarm Productivity – Q4	0.8% q-o-q	Business productivity rose at a 0.8% annual rate in Q4, the smallest advance in nearly 4 years.
Factory Orders – December	0.3% m-o-m	Factory orders rose a lower-than-expected 0.3% in December, as orders for transportation equipment reversed a strong gain of 1.2% in November.
ISM Non-Manufacturing Index – January	59.2	The index slid to 59.2 in January from 63.9 in December, and below forecasts of 61.3.
Nonfarm Payrolls – January	146,000	Nonfarm payrolls grew by 146,000 in January, up from 133,000 in December, but below forecasts of 200,000.
Unemployment Rate – January	5.2%	The unemployment rate fell to 5.2% in January from 5.4% in December, but that came mostly from a drop in the size of the labour force, not due to strong employment gains.

Forthcoming Important Announcements / Events

7 th February 2005 (Monday)	HK US	: : : :	Retail Sales – December Consumer Credit – December Biogen Idec – Q4 results Principal Financial Group – Q4 results
8 th February 2005 (Tuesday)	HK US	: : : : : :	Foreign Currency Reserves – January SW Kingsway Capital Holdings (0188) – Interim results Aon Corp – Q4 results Cisco Systems Inc – Q2 results Merriott International Inc – Q4 results Prudential Financial Inc – Q4 results
9 th February 2005 (Wednesday)	HK US	: : : : :	Lunar New Year holiday Wholesale Trade – December 2004 American International Group, Inc – Q4 results CIGNA Corp – Q4 results MetLife Inc – Q4 results
10 th February 2005 (Thursday)	HK US	: : : : : :	Lunar New Year holiday Initial Jobless Claims – 5 th February International Trade – December Aetna Inc – Q4 results Dell Inc – Q4 results
11 th February 2005 (Friday)	HK US	: :	Lunar New Year holiday No important announcements / events