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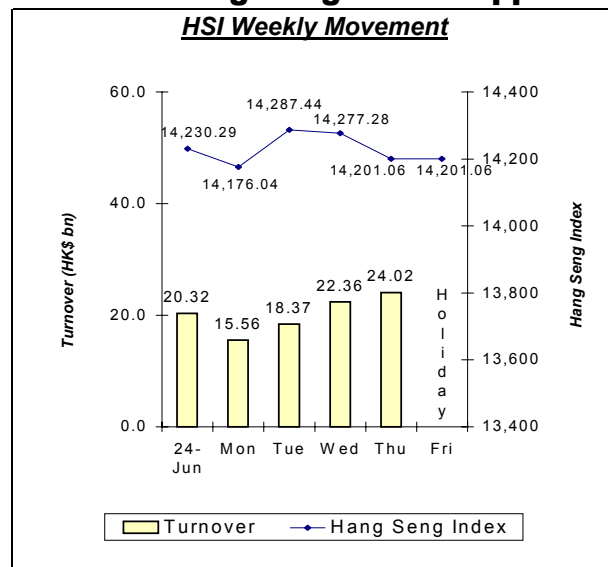
HONG KONG RESEARCH

Restricted circulation

Weekly Report

2nd July 2005

Hang Seng Index slipped ahead of FOMC announcement



| Weekly Market Statistics | | | | |
|---------------------------------|------------|------------|---------|-------|
| Week ended | 30/06/2005 | 24/06/2005 | Change | % |
| Hang Seng Index | 14,201.06 | 14,230.29 | -29.23 | -0.2% |
| HS Red Chip Index | 1,648.40 | 1,637.57 | +10.83 | +0.7% |
| HS China Enterprises Index | 4,861.87 | 4,842.97 | +18.90 | +0.4% |
| HS Composite Index | 1,835.45 | 1,839.98 | -4.53 | -0.2% |
| HS HK Composite Index | 1,924.49 | 1,932.90 | -8.41 | -0.4% |
| HS Mainland Composite Index | 1,666.43 | 1,662.97 | +3.46 | +0.2% |
| S&P/HKEx GEM Index | 898.58 | 901.47 | -2.89 | -0.3% |
| Avg Daily Turnover (HK\$ bn) | 20.08 | 20.32 | -0.24 | -1.2% |
| Sectoral Indices | | | | |
| Finance | 26,790.90 | 27,123.17 | -332.27 | -1.2% |
| Utilities | 30,589.33 | 30,647.93 | -58.60 | -0.2% |
| Properties | 17,572.03 | 17,511.45 | +60.58 | +0.3% |
| Comm & Ind | 6,451.44 | 6,410.76 | +40.68 | +0.6% |

Review & Outlook of Market Performance

Hang Seng Index surged to a fresh four-year high during the week. However, the blue-chip index failed to hold the gain, as investors squared some of their positions and stayed on the sideline ahead of the long holiday weekend and the FOMC rate decision after market close on Thursday. Over the week, the blue-chip index fell 29.23 points or 0.21% to 14,201.06, while average daily turnover slipped slightly to HK\$20.08 billion from HK\$20.32 billion a week earlier.

CNOOC, the 3rd largest oil producer in the PRC, jumped 8.77% w-o-w to HK\$4.275, after the company said it would finance its bid for US oil company Unocal by loans from its state-owned parent and ICBC, a major state bank. Market watchers said the way of financing showed Beijing's support on the bid for Unocal and it should help lower the overall funding costs. Meanwhile, the MTR Corporation touched a fresh all-time high at HK\$15.10 before closing up 3.09% w-o-w at HK\$15.00, as investors applauded the subway operator's effort in exploring overseas market and decent sales revenue from the property projects atop its MTR stations.

Shares of China COSCO Holdings (1919) debuted trading on Thursday and closed at HK\$3.825, 10.0% below its offer price of HK\$4.25, after failing to attract enough orders for the retail tranche of its HK\$9.5 billion share offer. Another newly listed share, Jolimark, also ended flat on its first day of trading, after receiving lukewarm response on its IPO. It is in deep contrast to the red-hot demand for Bank of Communications' share offer, which shows investors become more and more selective in picking IPOs.

Local banks are expected raise their respective prime rates and savings rates following the FOMC's rate hike decision of 25 basis points. We see any higher-than-expected rate moves by local banks would trigger a sell off next week. The Hang Seng Index has surged 4.9% from recent low near 13,500 set in mid-May, giving investors a good excuse to take profit. Moreover, as the blue-chip index has reached the ceiling of the trading range during the first half of 2005, rally in the stock market should slow down next week before any fresh catalysts kick in.

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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 | | | | | | | |
| 1st July | 10,303.40 | 2,057.37 | 11,630.13 | 2,209.95 | 894.02 | 675.50 | 6,272.14 |
| 24th June | 10,297.84 | 2,053.27 | 11,537.03 | 2,223.72 | 898.08 | 690.25 | 6,340.69 |
| Change | +5.56 | +4.10 | +93.10 | -13.77 | -4.06 | -14.75 | -68.55 |
| % | +0.1% | +0.2% | +0.8% | -0.6% | -0.5% | -2.1% | -1.1% |

Major Changes in Index Constituent Stocks (Week ended 1st July 2005)**Hang Seng Index (HSI)**

| Stock | Stock Code | Closing Price @30/06/05 | W-O-W Change | | Remarks / Comments |
|-------|---------------|-------------------------------|--------------|--------|--|
| | | | Absolute | % | |
| CNOOC | 0883 | HK\$4.65 | +HK\$0.375 | +8.77% | The stock rallied on new record-high oil prices. It also gained on the news that its bid for Unocal would be financed by loans from its state-owned parent and ICBC. Market watchers said it should lower the risk of the deal by relying on state-backed lending. |

Hang Seng China Enterprises Index (HSCEI)

| Stock | Stock Code | Closing Price @30/06/05 | W-O-W Change | | Remarks / Comments |
|-----------------|---------------|-------------------------------|--------------|--------|--|
| | | | Absolute | % | |
| Angang Newsteel | 0347 | HK\$3.75 | -HK\$0.10 | -2.60% | The Chinese ministry of finance said it would re-impose a 17% VAT on all high-end steel export products, in order to cool down the rapid growth in steel export. |

Hang Seng China-Affiliated Corporation Index (HSCCI)

| Stock | Stock Code | Closing Price @30/06/05 | W-O-W Change | | Remarks / Comments |
|-----------------|---------------|-------------------------------|--------------|--------|---|
| | | | Absolute | % | |
| CITIC Resources | 1205 | HK\$1.10 | +HK\$0.07 | +6.80% | The stock rebounded from a 9-month low set last week, after the company said it plans to acquire a controlling stake in Thai Petrochemical Industry (TPI), operator of Asia's biggest petrochemical complex, for US\$900 million. |



Summary of US Economic News

| Indicator | Change/Index | Comments |
|--|--------------|--|
| Consumer confidence – June | 105.8 | US consumer confidence index rose to 105.8, a fresh three-year high, in June from 103.1 in May, beating consensus forecast of a fall to 102.2. Conference Board said it indicates that business activity and labour market would continue to pick up in the next several months. |
| GDP – Q1 2005 (final) | +3.8% | The US Commerce Department further revised up the 1Q2005 GDP growth to 3.8% from 3.5%, exceeding consensus forecast of a 3.7% rise. The stronger-than-expected GDP in Q1 was mainly due to robust home building and exports. |
| Initial jobless claims – the week ended 25 th June 2005 | -6,000 | Initial jobless claims fell 6,000 last week to 310,000, rather than an expected rise to 325,000, bringing the number to the lowest level since mid-April. |
| Personal income – May | +0.2% | Personal income rose 0.2% in May, slightly lower than consensus forecast of 0.3%. Meanwhile, consumer spending was flat, against expectation of a 0.1% rise. |
| FOMC meeting | +25 bps | FOMC hiked fed fund rates target by 25 bps as expected. And the central bank said it would keep raising rates at a “measured” pace, hinting another rate hike during the next meeting on 9 th August 2005. |

Forthcoming Important Announcements / Events

| | | | |
|---------------------------------------|----|---|--|
| 4 th July 2005 (Monday) | HK | : | CITIC 21 CN (0241) – final results InterChina Holdings (0202) – final results |
| | US | : | Independence Day – Market holiday |
| 5 th July 2005 (Tuesday) | HK | : | Associated International Hotels (0105) – final results Bossini International (0592) – final results Hung Lung Printing (0450) – final results Tian Teck Land (0266) – final results Veeco International (1173) – final results |
| | US | : | Vitasoy International (0345) – final results Factory orders – May 2005 |
| 6 th July 2005 (Wednesday) | HK | : | Bauhaus International (0483) – final results Wai Yuen Tong (0897) – final results Wang On Group (1222) – final results |
| | US | : | ISM non-manufacturing index – June 2005 |
| 7 th July 2005 (Thursday) | HK | : | Mobicon Group (1213) – final results Winfair Investment (0287) – final results Retail sales – May 2005 |
| | US | : | Initial jobless claims – week ended 1 st July 2005 Alcoa Inc – FY05 Q2 results |
| 8 th July 2005 (Friday) | HK | : | ABC Communications (0030) – final results China Gas (0384) – final results Eagle Nice (2368) – final results Hsin Chong Construction (0404) – final results King Fook Holdings (0280) – final results Long Far Pharmaceutical (2898) – final results Quam (0952) – final results Tysan Holdings (0687) – final results United Power (0674) – final results |
| | US | : | Non-farm payrolls – June 2005 Unemployment rate – June 2005 Wholesale trade – May 2005 |