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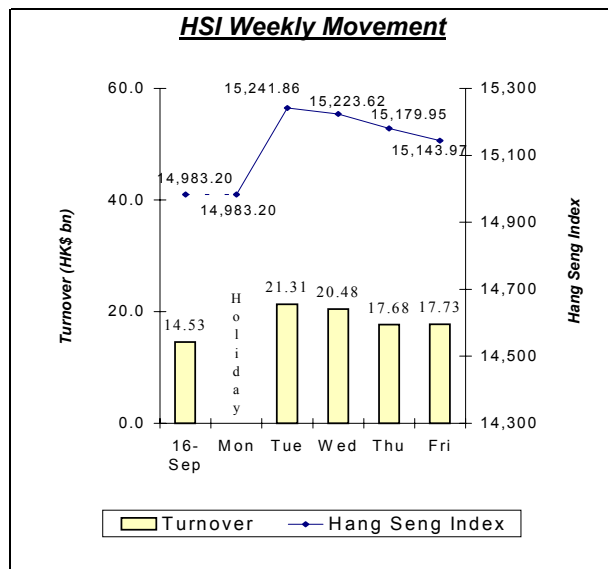
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HONG KONG RESEARCH

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Weekly Report
24th September 2005

HSI lost steam after aggressive rate hike



Weekly Market Statistics				
Week ended	23/09/2005	16/09/2005	Change	%
Hang Seng Index	15,143.97	14,983.20	+160.77	+1.1%
HS Red Chip Index	1,951.57	1,891.52	+60.05	+3.2%
HS China Enterprises Index	5,012.22	5,062.21	-49.99	-1.0%
HS Composite Index	1,941.84	1,933.51	+8.33	+0.4%
HS HK Composite Index	1,984.78	1,988.43	-3.65	-0.2%
HS Mainland Composite Index	1,868.53	1,836.29	+32.24	+1.8%
S&P/HKEx GEM Index	990.63	967.79	+22.84	+2.4%
Avg Daily Turnover (HK\$ bn)	19.30	15.07	+4.23	+28.1%
Sectoral Indices				
Finance	26,823.47	26,989.21	-165.74	-0.6%
Utilities	31,403.09	31,545.90	-142.81	-0.5%
Properties	19,008.78	18,658.37	+350.41	+1.9%
Comm & Ind	7,291.42	7,110.33	+181.09	+2.5%

Review & Outlook of Market Performance

Hang Seng Index opened the week with a strong 1.7% rally after the long Mid-Autumn Festival weekend, thanks to a surge in bellwether China Mobile and Hutchison Whampoa. Nonetheless, a greater-than-expected rate hike by local banks triggered some profit taking and capped the upside. Over the week, HSI gained 160.77 points or 1.07% to 15,143.97. Trading resumed normal after the long weekend with average daily turnover at HK\$19.3 billion, against HK\$15.1 billion in the previous week.

Share performances during the week were largely news-driven. China Mobile jumped 5.65% w-o-w to HK\$36.45, after the mobile carrier said it added 3.65 million subscribers last month – the strongest pace in more than two years. Hutchison Whampoa rallied 5.22% w-o-w to HK\$79.55, after the conglomerate said it plans to spin off its Italian 3G unit before the year-end. Meanwhile, Esprit was the top HSI loser with a 6.00% plunge to HK\$56.40 over the week, as its FY2004/05 final results failed to impress investors. Property developers with abundant land bank outperformed amid rising rates, with Sino Land up 2.81% w-o-w at HK\$9.15 and SHKP 1.44% higher at HK\$81.25.

As widely expected, the US Fed hiked fed funds rate by 25 bps to 3.75% after its FOMC meeting on 20th September. What surprised the market is the decision being made by a 9-to-1 vote – the first dissent since June 2003. The Fed said the impact of *Hurricane Katrina* on the US economy would be short-lived hitting that the rate hike cycle would continue. In Hong Kong, banks followed suite to raise their respective prime lending rates but at different magnitudes. HSBC, Hang Seng Bank and BOC HK raised their prime rates by 25 bps to 7%, while rivals like Standard Chartered and the Bank of East Asia lifted their prime by 50 bps to 7.25%.

Next week, the stock market is expected to stay event-driven, as investors would keep close eyes on the land auction scheduled next Tuesday. It is the first land auction triggered by property developers after the government introduced the “minimum guaranteed bid” arrangements in June. Despite small size of the land pieces in the auction, the result should give guidance on the property market outlook. Meanwhile, lower crude prices and China’s move to widen the trading band of RMB against foreign currencies should lend support to the blue-chip index.

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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							
24th September	10,419.59	2,116.84	13,159.36	2,293.04	921.89	725.31	5,925.54
16th September	10,641.94	2,160.35	12,958.68	2,306.38	921.99	708.26	6,031.24
Change	-222.35	-43.51	+200.68	-13.34	-0.10	+17.05	-105.70
%	-2.1%	-2.0%	+1.5%	-0.6%	-0.0%	+2.4%	-1.8%

Major Changes in Index Constituent Stocks (Week ended 23rd September 2005)

Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @23/09/05	W-O-W Change		Remarks / Comments
			Absolute	%	
Hutchison Whampoa	0013	HK\$79.55	+HK\$3.95	+5.22%	Hutchison said it has filed a listing application in Italy to spin off its 91%-held Italian 3G unit. Hutchison plans to sell 25% of the 3G unit for 1.8 billion to 2.5 billion euros, which would value the unit at about 7 billion to 10 billion euros.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @23/09/05	W-O-W Change		Remarks / Comments
			Absolute	%	
BYD Company	1211	HK\$10.30	-HK\$2.05	-16.60%	The stock was the top HSCEI loser during the week after reporting a 48% y-o-y drop in 1H2005. BYD has dropped 50% so far this year, while its market capitalization now slashed to the lowest in the H-share index.

Hang Seng China-Affiliated Corporation Index (HSCCI)

Stock	Stock Code	Closing Price @23/09/05	W-O-W Change		Remarks / Comments
			Absolute	%	
Brilliance China	1114	-HK\$1.06	-HK\$0.14	-11.67%	Figures showed that car sales in the Mainland tumbled 8.8% m-o-m in August. Investors also worried that price war may heat up again after the successful discount sale of Shanghai Volkswagen last month. Meanwhile, the Group announced a loss of RMB299.49 million for 1H2005 Vs profit of RMB407.62 for 1H2004.



Summary of US Economic News

Indicator	Change/Index	Comments
Housing starts – August	-1.5%	Housing starts fell to an annual rate of 2.01 million in August from 2.04 million in July. It was lower than consensus forecast of 2.03 million.
Initial jobless claims – the week ended 17 th September 2005	+8,000	Initial jobless claims jumped to 432,000 from 424,000 in the previous week, largely due to the impact of Hurricane Katrina. However, the number was below consensus forecast of 450,000.
Index of leading economic indicators – August	-0.2%	Leading economic indicators fell 0.2% m-o-m in August, slightly better than consensus forecast of a 0.3% drop. However, market watchers said they are expecting a bigger drop in September, as Katrina has depressed sentiments.

Forthcoming Important Announcements / Events

26 th September 2005 (Monday)	HK	:	CATIC International (0232) – interim results China Glass Holdings (3300) – interim results Cosmos Machinery Enterprises (0118) – interim results Everbest Century Holdings (0578) – interim results Hong Kong Construction (Holdings) (0190) – interim results Orient Industries Holdings (0353) – interim results Poly Investments Holdings (0263) – interim results Sanyuan Group (0140) – interim results Tristate Holdings (0458) – interim results
	US	:	Existing home sales – August 2005 Micron Technology – 4Q2005 results
27 th September 2005 (Tuesday)	HK	:	External trade – August 2005 China Star Entertainment (0326) – interim results Luks Industrial (Group) (0366) – interim results South China Brokerage (0619) – interim results South China Holdings (0265) – interim results South China Industries (0413) – interim results Wah Yuen Holdings (2349) – interim results Xinyu Hengdeli Holdings (3389) – interim results
	US	:	Consumer confidence – September 2005 New home sales – August 2005
28 th September 2005 (Wednesday)	HK	:	Henderson Investment (0097) – final results Henderson Land (0012) – final results Karl Thomson (0007) – interim results Morning Star (0542) – interim results
	US	:	Durable goods orders – August 2005
29 th September 2005 (Thursday)	HK	:	Hua Yi Copper (0559) – final results Lifetec Group (1180) – interim results Tanrich Financial (0812) – final results
	US	:	Initial jobless claims – week ended 24 th September 2005 GDP (final) – 2Q2005 PepsiCo Inc. – 3Q2005 results
30 th September 2005 (Friday)	HK	:	Cheuk Nang Holdings (0131) – final results
	US	:	Consumer sentiment – September 2005 Personal income and spending – August 2005