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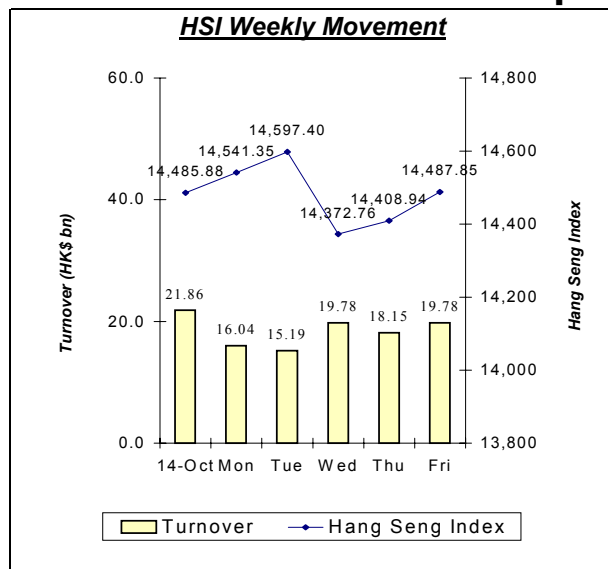
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HONG KONG RESEARCH

Restricted circulation

Weekly Report
21st October 2005

HSI ended flat despite restless rate-hike fear



Weekly Market Statistics				
Week ended	21/10/2005	14/10/2005	Change	%
Hang Seng Index	14,487.85	14,485.88	+1.97	+0.0%
HS Red Chip Index	1,832.28	1,811.64	+20.64	+1.1%
HS China Enterprises Index	4,877.51	4,941.78	-64.27	-1.3%
HS Composite Index	1,860.32	1,869.95	-9.63	-0.5%
HS HK Composite Index	1,908.96	1,925.08	-16.12	-0.8%
HS Mainland Composite Index	1,775.17	1,772.07	+3.10	+0.2%
S&P/HKEx GEM Index	960.65	953.61	+7.04	+0.7%
Avg Daily Turnover (HK\$ bn)	17.79	19.20	-1.41	-7.4%
Sectoral Indices				
Finance	25,916.08	26,128.87	-212.79	-0.8%
Utilities	31,061.50	31,270.41	-208.91	-0.7%
Properties	17,985.27	17,840.68	+144.59	+0.8%
Comm & Ind	6,905.54	6,862.25	+43.29	+0.6%

Review & Outlook of Market Performance

The negative tone in the Hong Kong stock market persisted, as investors stayed nervous about further interest rate tightening in the US as well as Hong Kong. Hang Seng Index tumbled more than two hundred points on Wednesday, after the US reported a sharp rise in September producer price index, triggering worries of more rate hikes by the Fed to curb inflation. Nonetheless, a rise in bellwether China Mobile, after the mobile carrier reported a 27.3% rise in Q3 earnings and a higher market share, helped reverse losses in the blue-chip index. Over the week, Hang Seng Index ended up two points at 14,487.85. The average daily turnover dropped to HK\$17.8 billion from HK\$19.2 billion a week earlier, as the gigantic share offer by China Construction Bank (CCB) had drawn some of the market liquidity.

China said its GDP grew a better-than-expected 9.4% in the third quarter and consumer prices surged a tame 0.9% in September. Besides, the newly released third-quarter results showed that corporate earnings remained sound among mainland companies. However, a drop in index heavyweights PetroChina and Sinopec amid sinking crude oil prices counteracted such good news and sent the H-share index lower. The two oil giants lost 3.39% and 2.26% w-o-w to HK\$5.70 and HK\$3.25, respectively, dragging the HSCEI 1.30% lower at 4,877.51. Zijin Mining was down a sharp 11.21% to HK\$2.375 during the week, following a retreat in bullion prices.

Meanwhile, shipping-related shares were under serious selling pressure, as investors feared the sector's current up-cycle has already peaked amid easing freight rates. China Merchants slashed 5.68% w-o-w at HK\$14.95, while China Shipping Container Lines tumbled 6.90% to HK\$2.70. PCCW was also down sharply during the week, as rising interest rates may turn to be wearisome for the debt-heavy fixed-line operator. PCCW plunged 5.70% w-o-w to end at HK\$4.55.

Next Friday would be the last trading day for major October index futures. Take-profit orders from futures bears as well as funds released from CCB's IPO should lend support to the stock market. However, the upside is seen subdued, as investors would stay on the sideline ahead of the FOMC meeting scheduled on 1st November 2005. The Fed is widely expected to hike rates by 25 bps after the meeting.

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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							
21st October	10,281.10	2,068.11	13,199.95	2,239.36	909.58	686.21	5,738.76
14th October	10,287.34	2,064.83	13,420.54	2,303.24	925.59	700.02	5,969.07
Change	-6.24	+3.28	-220.59	-63.88	-16.01	-13.81	-230.31
%	-0.1%	+0.2%	-1.6%	-2.8%	-1.7%	-2.0%	-3.9%

Remarks (*): Closing price as of 20th October 2005**Major Changes in Index Constituent Stocks (Week ended 21st October 2005)****Hang Seng Index (HSI)**

Stock	Stock Code	Closing Price @21/10/05	W-O-W Change		Remarks / Comments
			Absolute	%	
Denway Motors	0203	HK\$2.45	-HK\$0.25	-9.26%	Guangzhou Honda, the company's car making joint venture with Honda Motor, said car sales rose 15.6% y-o-y in September. However, it was lower than the industry growth of 31.1% last month. As a result, Denway's market share slipped to 6.5% in September from 9.3% in August.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @21/10/05	W-O-W Change		Remarks / Comments
			Absolute	%	
Zijin Mining	2899	HK\$2.375	-HK\$0.30	-11.21%	The stock was down on profit taking after recent strong rally, tracking a retreat in bullion prices.

Hang Seng China-Affiliated Corporation Index (HSCCI)

Stock	Stock Code	Closing Price @21/10/05	W-O-W Change		Remarks / Comments
			Absolute	%	
Beijing Enterprises	0392	HK\$12.40	-HK\$0.60	-4.62%	Investors dumped the stock, after a strong 28% share-price rally in September. The stock has lost more than 11.11% so far in October, after its parent sold a 6.43% stake in the company in early this month.
China Resources Land	1109	HK\$2.075	-HK\$0.20	-8.79%	The stock was down on profit taking, after touching a fresh 52-week new high of HK\$2.40 in the previous week.

**Summary of US Economic News**

Indicator	Change/Index	Comments
Producer price index – September	+1.9%	PPI rose 1.9% last month, mainly due to high energy prices. The rise in PPI in September was the biggest one since January 1990.
Housing starts – September	+3.4%	Housing starts rose 3.4% to an annual rate of 2.11 million units, beating market expectations of a drop to below 2 million units. The figure showed that the property market in the US remained buoyant.
Initial jobless claims – the week ended 15 th October 2005	-35,000	Initial jobless claims fell to 355,000 last week from a revised 390,000, better than market expectations of a drop to 365,000.
Index of leading economic indicators – September	-0.7%	Index of leading economic indicators fell 0.7% m-o-m to 136.8 in September, worse than consensus forecast of a 0.5% drop. The September figure was the first month to show the impact of Hurricanes Katrina and Rita.

Forthcoming Important Announcements / Events

24 th October 2005 (Monday)	HK US	: : : :	No important announcements/events American Express Co – Q3 2005 results Merck & Co. Inc. – Q3 2005 results Texas Instruments Inc – Q3 2005 results
25 th October 2005 (Tuesday)	HK US	: : : : : : : : : :	China Agrotech (1073) – final results Massive Resources (0070) – final results Paladin (0495) – final results Existing home sales – September 2005 Consumer confidence – September 2005 Amazon.com Inc. – Q3 2005 results Bank of America Corp. – Q3 2005 results Honeywell International – Q3 2005 results JP Morgan Chase & Co – Q3 2005 results SBC Communications Inc – Q3 2005 results
26 th October 2005 (Wednesday)	HK US	: :	Hua Han (0587) – final results SEE Corporation (0491) – final results Lucent Technologies Inc. – Q4 2004/05 results
27 th October 2005 (Thursday)	HK US	: : : : : : : : : : : : : :	External trade – September 2005 Asia Aluminium (0930) – final results Champion Tech (0092) – final results Kantone Holdings (1059) – final results Proview International (0334) – final results Initial jobless claims – week ended 22 nd October 2005 Durable goods orders – September 2005 New home sales – September 2005 Dow Chemical – Q3 2005 results Exxon Mobil – Q3 2005 results Microsoft – Q1 2005/06 results Verizons Communications – Q3 2005 results
28 th October 2005 (Friday)	HK US	: : : : : : :	Good Fellow Group (0910) – final results New Spring Holdings (0690) – interim results New Times Group (0166) – final results GDP – Q3 2005 Consumer sentiment – October 2005 Chevron Corp – Q3 2005 results Viacom Inc – Q3 2005 results