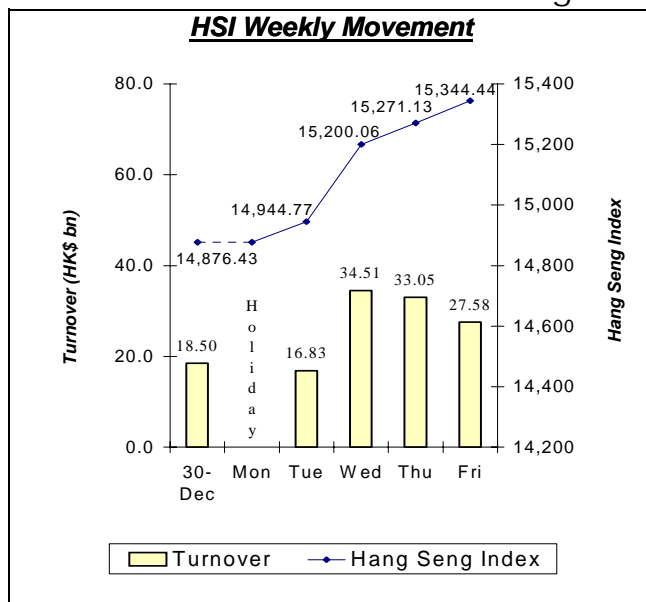


## HSI finished at 3-Month high on US rate hikes drawing to an end



<b>Weekly Market Statistics</b>				
Week ended	6/1/2006	30/12/2005	Change	%
Hang Seng Index	15,344.44	14,876.43	+468.01	+3.1%
HS Red Chip Index	2,014.03	1,934.89	+79.14	+4.1%
HS China Enterprises Index	5,677.93	5,330.34	+347.59	+6.5%
HS Composite Index	2,019.20	1,947.72	+71.48	+3.7%
HS HK Composite Index	2,036.69	1,976.87	+59.82	+3.0%
HS Mainland Composite Index	1,996.47	1,901.57	+94.90	+5.0%
S&P/HKEx GEM Index	1,030.47	1,007.28	+23.19	+2.3%
Avg Daily Turnover (HK\$ bn)	27.99	16.48	+11.51	+69.9%
<b>Sectoral Indices</b>				
Finance	27,283.06	26,614.29	+668.77	+2.5%
Utilities	31,502.41	31,866.03	-363.62	-1.1%
Properties	18,884.93	17,977.81	+907.12	+5.0%
Comm & Ind	7,410.49	7,139.32	+271.17	+3.8%

## Review & Outlook of Market Performance

Hong Kong stocks rallied strongly in the first week of 2006, mainly tracking gains in the US markets after the FOMC December minutes signalled that the monetary tightening cycle is close to an end. Peaking interest rates and clearer monetary policy outlook lifted local shares to a three-month high. Hang Seng Index jumped 468 points or 3.1% w-o-w to 15,344.44. Trading was active after the New Year holiday, with average daily turnover of HK\$27.99 billion, compared with that of HK\$16.48 billion in the previous week.

Hang Seng Property sub-index rose 5.0% w-o-w, outperforming other HS sub-indexes, as investors expect peaking rates should revive potential homebuyers' confidence and boost property sales after the Lunar New Year. For individual stocks, however, COSCO Pacific topped all gainers in the blue-chip index over the week with an 11.6% gain to close at HK\$15.85, after the port operator said to extend its business horizons overseas via acquiring a stake in an Egyptian port company. Its share price was also supported by bargain hunting, as it was the worst performer in HSI last year. Meanwhile, utility shares underperformed, led by drop in HongKong Electric and CLP Holdings, amid disputes with the government over the proposed guaranteed rate of return when the existing Scheme of Control expires in 2008. HKE tumbled 5.1% w-o-w to HK\$36.45, while CLP slipped 3.4% to HK\$43.45.

Investors chased after H shares, as they hope solid economic growth in the Mainland should lift their corporate earnings. HSCEI reaped 6.5% w-o-w to an all-time closing high at 5,677.93, with only two ended in negative territories and seeing 11 out of the 40 index members finished up more than 10% over the week. Heavyweight Bank of Communications jumped 12.8% to HK\$3.975, while Ping An Insurance advanced 10.8% to HK\$15.85. Other financial plays also performed well, with China Life up 8.0% to close at HK\$7.40 and PICC P & C up 13.5% to close HK\$2.525.

The stock market is expected to take a breather after strong rally this week, before testing the 2005 high near 15,500. A weaker-than-expected jobs report in the US on Friday further eased rate-hike fear and pushed US stock market higher, which should lend support to Hong Kong equities next week.

**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							
6th January	10,959.31	2,305.62	16,428.21	2,420.74	911.67	747.34	6,694.82
30th December	10,717.50	2,205.32	16,111.43	2,347.34	899.79	713.73	6,548.34
Change	+241.81	+100.30	+316.78	+73.40	+11.88	+33.61	+146.48
%	+2.3%	+4.5%	+2.0%	+3.1%	+1.3%	+4.7%	+2.2%

**Major Changes in Index Constituent Stocks (Week ended 6<sup>th</sup> January 2006)****Hang Seng Index (HSI)**

Stock	Stock Code	Closing Price @6/1/06	W-O-W Change		Remarks / Comments
			Absolute	%	
CLP Holdings	0002	HK\$43.45	-HK\$1.55	-3.44%	The two utility stocks fell over the week after the government proposed to cut the guaranteed rate of return to 7%-11% from the current 15% when the Scheme of Control expires in 2008. Meanwhile, the plan by a consortium led by China Power (HKEx: 2380) to supply electricity to the territory in 1H2006 also dragged their share prices.
Hongkong Electric	0006	HK\$36.45	-HK\$1.95	-5.08%	

**Hang Seng China Enterprises Index (HSCEI)**

Stock	Stock Code	Closing Price @6/1/06	W-O-W Change		Remarks / Comments
			Absolute	%	
Zijin Mining	2899	HK\$3.875	+HK\$0.45	+13.14%	Share offering of rival Lingbao Gold (HKEx: 3330), the second largest gold miner in the Mainland, received strong interests from investors and was heavily over-subscribed, which helped boost Zijin Mining's share price.

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

Stock	Stock Code	Closing Price @6/1/06	W-O-W Change		Remarks / Comments
			Absolute	%	
COSCO Pacific	1199	HK\$15.85	+HK\$1.65	+11.62%	COSCO Pacific said late last week to acquire a 20% stake in an Egyptian port operator, amid the company's strategy to expand its business outside Mainland China.

**Summary of US Economic News**

Indicator	Change/Index	Comments
Construction spending – November	+0.2%	Construction spending surged 0.2% m-o-m in Nov, slightly lower than market expectation of a 0.6% rise.
ISM manufacturing index – December	54.2	The ISM index fell to 54.2 in Dec from 56.6 in Nov, well below consensus forecast of 57.5.
Factory orders – November	+2.5%	Factory orders growth in November came in line with market expectations, as orders for aircraft offset weakness in automobiles.
Initial jobless claims – the week ended 31 <sup>st</sup> December 2005	-35,000	Jobless claims slashed 35,000 to 291,000 last week, the lowest level since Sep 2000.
ISM non-manufacturing index – December	59.8	The ISM non-manufacturing index surged to 59.8 in Dec from 58.5 in Nov, which showed that the US services sector continued to grow favourably.
Non-farm payrolls – December	+108,000	Non-farm payrolls surged 108,000 last month, short of consensus forecast of a 200,000 gain and lower than 305,000 jobs added in Nov.
Jobless rate – December	4.9%	Unemployment rate fell to 4.9% in Dec from 5.0% in Nov, slightly better than market expectation of 5.0%.

**Forthcoming Important Announcements / Events**

9 <sup>th</sup> January 2006 (Monday)	HK US	: : No important announcements/ events <b>Alcoa Inc – Q4 2005 results</b>
10 <sup>th</sup> January 2006 (Tuesday)	HK US	: : Macau Success (0487) – final results Wholesale trade – November 2005 Genentech, Inc. – Q4 2005 results
11 <sup>th</sup> January 2006 (Wednesday)	HK US	: : <b>JCG Holdings (0626) – final results</b> No important announcements/ events
12 <sup>th</sup> January 2006 (Thursday)	HK US	: : Mae Holdings (0851) – interim results Initial jobless claims – week ended 7 <sup>th</sup> January 2006 International trade – November 2005
13 <sup>th</sup> January 2006 (Friday)	HK  US	:  : Netel (8256) – interim results Water Oasis Group (1161) – final results <b>Producer price index – December 2005</b> <b>Retail sales – December 2005</b> Business inventory – November 2005 <b>Sun Microsystems Inc – Q2 2005/06 results</b>