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EAST ASIA SECURITIES COMPANY LIMITED

9/F, 10 Des Voeux Road Central, Hong Kong.

Dealing: 3608 8000 Research: 3608 8098 Facsimile: 3608 6132

HONG KONG RESEARCH

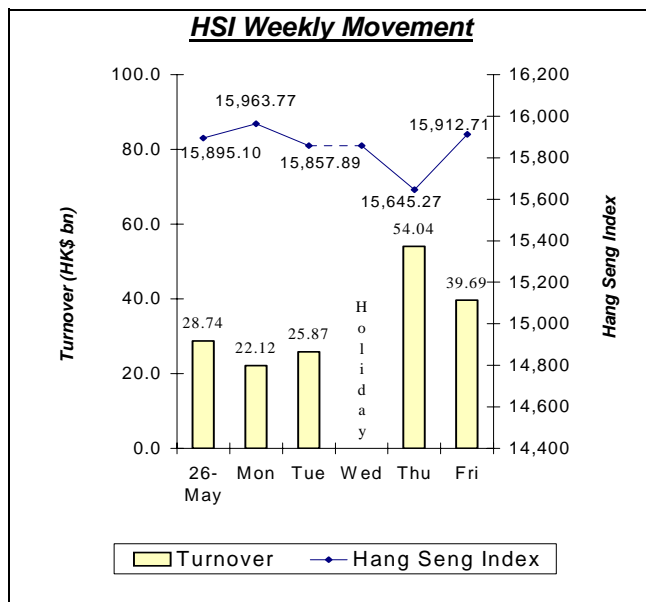
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Analyst: Kelvin Li

Weekly Report

3rd June 2006

Bank of China shines on trading debut



Weekly Market Statistics				
Week ended	2/6/2006	26/5/2006	Change	%
Hang Seng Index	15,912.71	15,895.10	+17.61	+0.1%
HS Red Chip Index	2,189.57	2,156.69	+32.88	+1.5%
HS China Enterprises Index	6,603.51	6,628.45	-24.94	-0.4%
HS Composite Index	2,149.73	2,135.22	+14.51	+0.7%
HS HK Composite Index	2,137.24	2,133.02	+4.22	+0.2%
HS Mainland Composite Index	2,188.36	2,158.96	+29.40	+1.4%
S&P/HKEx GEM Index	1,163.33	1,144.66	+18.67	+1.6%
Avg Daily Turnover (HK\$ bn)	35.43	35.16	+0.27	+0.8%
Sectoral Indices				
Finance	28,467.23	28,455.73	+11.50	+0.0%
Utilities	31,035.44	31,537.67	-502.23	-1.6%
Properties	19,707.07	19,730.33	-23.26	-0.1%
Comm & Ind	7,681.65	7,648.79	+32.86	+0.4%

Review & Outlook of Market Performance

Hong Kong shares posted a V-shaped rebound on Friday after the HSI hit a low of 15,645 this week as bargain hunting emerged after refund from the mega size Bank of China IPO, which helped recoup earlier losses on rate-hike fear and a fresh round of austerity measures in the Mainland. The benchmark index finished up 17.61 points or 0.1% w-o-w at 15,912.71. Meanwhile, the trading debut of Bank of China boosted the average daily turnover for the week to HK\$35.43 billion, against HK\$35.16 billion in the previous week. Excluding contributions from BOC, market turnover should have dropped sharply by an average of 19% w-o-w.

Bank of China Limited, bucking negative market sentiment, surged a better-than-expected 15% on its trading debut. Besides its out-performance, BOC also broke the record as the most actively traded IPO with a turnover of more than HK\$2 billion on the first day of listing. It closed at HK\$3.475 on Friday, up 17.8% from its offer price at HK\$2.95. Performance of its rivals - China Construction Bank and Bank of Communications - was mixed over the week, up 3.8% and down 0.5%, respectively.

On Monday, Beijing introduced the long expected austerity steps to fight speculations in the Mainland's property market. Metal and construction related plays were among the losers after the news. Anhui Conch plunged 11.4% w-o-w and was the biggest loser in the H-share index. Angang Newsteel tumbled 6.5%, while Chalco dropped 4.8% w-o-w. Meanwhile, the two port operators topped all gainers in the blue-chip index, after China Merchants said the company's cargo throughput jumped by 160% y-o-y in the first four months this year. China Merchants rallied 7.1% over the week to close HK\$24.05, while peer COSCO Pacific reaped a solid 3.6% to close HK\$16.00.

Despite a rebound on Friday, it is too early to say the Hang Seng Index has formed a bottom at 15,600, as rate-hike fear should persist before the US Fed gives a clearer policy picture at the next FOMC meeting scheduled on 28-29 June. However, market sentiment is expected to improve next week, following the weaker-than-expected US payrolls report on Friday. We see the HSI would test breaking the 16,000 level next week.

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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							
2nd June	11,247.87	2,219.41	15,789.31	2,419.42	930.72	722.61	6,959.64
26th May	11,278.61	2,210.37	15,970.76	2,445.02	930.75	717.50	6,879.51
Change	-30.74	+9.04	-181.45	-25.60	-0.03	+5.11	+80.13
%	-0.3%	+0.4%	-1.1%	-1.0%	-0.0%	+0.7%	+1.2%

Major Changes in Index Constituent Stocks (Week ended 2nd June 2006)**Hang Seng Index (HSI)**

Stock	Stock Code	Closing Price @2/6/06	W-O-W Change		Remarks / Comments
			Absolute	%	
Johnson Electric	0179	HK\$5.45	-HK\$0.30	-5.22%	Johnson Electric continued its losing streak since its profit warning in late April. The stock touched HK\$5.30 during the week, a low not seen since April 1999. Johnson Electric will release its final results on Monday (5 th June).

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @2/6/06	W-O-W Change		Remarks / Comments
			Absolute	%	
Anhui Conch	0914	HK\$14.00	-HK\$1.80	-11.39%	Anhui Conch was among the biggest losers in the HSCEI, after Beijing introduced new austerity measures to cool down the Mainland's property market. In 2005, Anhui Conch strengthened its cement export sales in order to lessen its reliance on the domestic market. However, sales in the Mainland remained an integral part, as it accounted for 82.9% of the Company's total turnover last year.

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @2/6/06	W-O-W Change		Remarks / Comments
			Absolute	%	
Guangzhou Investment	0123	HK\$1.52	+HK\$0.21	+16.03%	The stock rebound on Friday after forming a support near HK\$1.30-1.35. Meanwhile, the Company's chairman said the latest austerity measures aiming at the property market should have limited impact on GZI but those small-scaled developers.

Summary of US Economic News

Indicator	Change/Index	Comments
Index of consumer confidence – May 2006	-6.0%	Conference Board said the index of consumer confidence tumbled from 109.8 in April to 103.2 in May, the lowest since May 2005. However, it was better than consensus forecast of a drop to 100.9.
Initial jobless claims – the week ended 27 th May 2006	+7,000	Initial jobless claims surged 7,000 to 336,000 last week, much higher than consensus forecast for a drop to 320,000.
Non-farm productivity – Q1 2006	+3.7%	US Q1 non-farm productivity growth was revised up to 3.7% from 3.2%. However, it was weaker than market expectation of a 3.9% gain.
Construction spending – April 2006	-0.1%	Construction spending inched 0.1% down in April, the first drop in ten months.
ISM manufacturing index – May 2006	54.4	ISM's manufacturing index fell to 54.4 in May from 57.3 in April, well below consensus forecast of 55.5. Growth in the US manufacturing sector lost steam last month, largely due to higher cost pressure and lower orders on weaker employment.
Non-farm payrolls – May	+75,000	US added 75,000 non-farm jobs in May, weaker than both the 126,000 additions in April and consensus forecast of rising 175,000.
Jobless rate – May	4.6%	Jobless rate fell to 4.6%, the lowest since July 2001, which was slightly better than market expectations.
Factory orders – April	-1.8%	Factory orders dropped 1.8% m-o-m in April, beating consensus forecast of a 2.2% fall.

Forthcoming Important Announcements / Events

5 th June 2006 (Monday)	HK	:	Johnson Electric (0179) – final results
	US	:	ISM non-manufacturing index – May 2006
6 th June 2006 (Tuesday)	HK	:	No important announcement/event
	US	:	No important announcement/event
7 th June 2006 (Wednesday)	HK	:	Automated Systems (0771) – final results
	US	:	QJY Media (2366) – interim results
8 th June 2006 (Thursday)	HK	:	No important announcement/event
	US	:	TPV Technology (0903) – Q1 2006 results
9 th June 2006 (Friday)	HK	:	Initial jobless claims – week ended 3 rd June 2006
	US	:	Wholesale trade – April 2006
	HK	:	National Semiconductor – Q4 2005/06 results
	US	:	Eco-Tek Holdings (8169) – interim results
	HK	:	Sys Solutions (8182) – Q3 2005/06 results
	US	:	Tianyuan (8253) – final results
	HK	:	International trade – April 2006
	US	:	

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