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HONG KONG RESEARCH

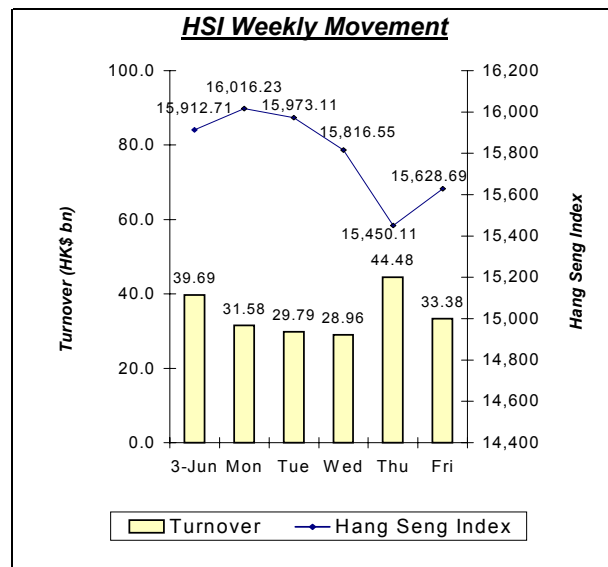
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Weekly Report

10th June 2006

Bernanke's hawkish comments triggered sell-off



Weekly Market Statistics				
Week ended	9/6/2006	2/6/2006	Change	%
Hang Seng Index	15,628.69	15,912.71	-284.02	-1.8%
HS Red Chip Index	2,129.67	2,189.57	-59.90	-2.7%
HS China Enterprises Index	6,255.81	6,603.51	-347.70	-5.3%
HS Composite Index	2,089.48	2,149.73	-60.25	-2.8%
HS HK Composite Index	2,089.22	2,137.24	-48.02	-2.2%
HS Mainland Composite Index	2,110.04	2,188.36	-78.32	-3.6%
S&P/HKEx GEM Index	1,133.61	1,163.33	-29.72	-2.6%
Avg Daily Turnover (HK\$ bn)	33.64	38.07	-4.43	-11.6%
Sectoral Indices				
Finance	28,215.02	28,467.23	-252.21	-0.9%
Utilities	30,892.76	31,035.44	-142.68	-0.5%
Properties	18,870.52	19,707.07	-836.55	-4.2%
Comm & Ind	7,521.71	7,681.65	-159.94	-2.1%

Review & Outlook of Market Performance

Hong Kong shares dropped, as investors' hope for US rate-hike cycle coming to an end was dashed after Fed chairman Bernanke's hawkish comments. Bernanke said the FOMC, the US's rate-setting committee, would be vigilant to ensure inflationary pressure not to sustain, which refreshed investors' rate-hike fear and triggered a sell-off in worldwide equities. Hang Seng Index touch a low beneath 15,500, before bargain hunting on Friday helped recoup some of the losses. Over the week, HSI sank 1.78% to 15,628.69. Average daily turnover was HK\$33.64 billion, lower than HK\$38.07 billion in the previous week.

Property developers were among the losers, as investors feared further rate-hike would hurt home sales. Hang Seng Properties sub-index slumped 4.24% w-o-w to a closing low not seen since mid-February. Meanwhile, HSCEI, or the H-share index, plunged 5.27% w-o-w to 6,255.81, mainly dragged by commodity related plays. Investors dumped metals and oil producers, as they turned sceptical about the commodity price outlook amid rising interest rates. Bellwether PetroChina tumbled 7.32% w-o-w, while Jiangxi Copper dived 15.00% on panic selling.

Cathay Pacific and related companies were suspended from trading since Monday amid shareholding structure reshuffle. After the reshuffle, Cathay will fully own Dragonair, the 2nd largest air carrier in HK, and double its stake in Air China, while CITIC Pacific, Air China and CNAC will in turn raise their interests in Cathay. Swire Pacific will remain the largest shareholder of Cathay, but its stake would be reduced to 40% from 46.3%. The Dragonair buyout would enable Cathay to gain a greater access in the Mainland aviation market and lessen competition between the two HK air carriers. The stocks resumed trading on Friday. Cathay Pacific outperformed the blue-chip index with a 6.95% w-o-w gain, while CNAC jumped 31.98% after its parent said to privatize the company.

The HK stock market is expected to take a breather next week after the recent sell-off. Compared with the high set in early May, Hang Seng Index has sunk by nearly 10%, creating better value for long-term investors to hunt for bargains. However, given uncertainty over global interest rates, market sentiment is not expected to turn positive in the near future and the HSI is likely to be capped at 16,000.

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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							
9th June	10,891.92	2,135.06	14,750.84	2,337.44	915.40	670.41	6,444.63
2nd June	11,247.87	2,219.41	15,789.31	2,419.42	930.72	722.61	6,959.64
Change	-355.95	-84.35	-1,038.47	-81.98	-15.32	-52.20	-515.01
%	-3.2%	-3.8%	-6.6%	-3.4%	-1.6%	-7.2%	-7.4%

Major Changes in Index Constituent Stocks (Week ended 9th June 2006)

Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @9/6/06	W-O-W Change		Remarks / Comments
			Absolute	%	
Henderson Land Development	0012	HK\$37.90	-HK\$2.85	-6.99%	Property developers slumped, after Fed chairman Bernanke said early in the week that the US central bank would be vigilant in monitoring inflation, which renewed rate-hike fear among investors.
Sino Land	0083	HK\$10.95	-HK\$0.85	-7.20%	

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @9/6/06	W-O-W Change		Remarks / Comments
			Absolute	%	
Zhejiang Expressway	0576	HK\$4.475	+HK\$0.20	+4.68%	Zhejiang Expressway rallied over the week, after stock exchange filings showed UK-based hedge fund The Children's Investment Fund (TCI) has doubled its stake in the toll road operator to 9.23%.

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @9/6/06	W-O-W Change		Remarks / Comments
			Absolute	%	
CITIC Resources	1205	HK\$1.23	+HK\$0.01	+0.82%	Speculation about asset injection from its parent CITIC Group lifted the stock to gain as much as 18% during the week. However, the stock tumbled on the news that its joint venture with Caltex has withdrawn application for running retail business of petrol stations in the Mainland, as it did not receive government approval after several extensions due to its foreign-owned enterprise status.

**Summary of US Economic News**

Indicator	Change/Index	Comments
ISM non-manufacturing index – May	60.1	ISM's non-manufacturing index fell to 60.1 in May from 63.0 in April. However, a figure above 60 showed growth in the US service sector remained sound.
Initial jobless claims – the week ended 2 nd June 2006	-35,000	Initial jobless claims sank 35,000 to 302,000, far below consensus forecast for a drop to 325,000.
Wholesale inventory – April	+0.9%	Wholesale inventory surged 0.9% in April, higher than market expectation of a 0.5% gain, as automotive stocks posted the strongest gain in ten months.
International trade – April	-US\$63.4 billion	US April trade deficit widened by 2.5% m-o-m to US\$63.4 billion, but slightly below consensus forecast of a US\$65 billion deficit. The widened traded gap was mainly driven by a surge in oil imports amid rising prices.

Forthcoming Important Announcements / Events

12 th June 2006 (Monday)	HK US	: : Wheelock Properties (0049) – final results No important announcement/event
13 th June 2006 (Tuesday)	HK US	: : China Elegance (0476) – final results Business inventory – April 2006 Retail sales – April 2006 Best Buy Co. – Q1 FY2006/07 results Goldman Sachs Group Inc – Q2 results
14 th June 2006 (Wednesday)	HK US	: : Gold Peak (0040) – final results Consumer price index – May 2006 Federal Reserve's Beige Book Lehman Brothers Holdings – Q2 FY2005/06 results
15 th June 2006 (Thursday)	HK US	: : Next Media (0282) – final results Initial jobless claims – week ended 10 th June 2006 Industrial production – May 2006 Bear Stearns Companies Inc – Q2 2005/06 results
16 th June 2006 (Friday)	HK US	: : : : Kong Sun Holdings (0295) – final results Rising Development Holdings (1004) – final results Tern Properties (0277) – final results Current account balance – Q1 2006 Michigan Consumer Sentiment – June 2006

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