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EAST ASIA SECURITIES COMPANY LIMITED

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

Dealing: 3608 8000 Research: 3608 8096 Facsimile: 3608 6132

HONG KONG RESEARCH

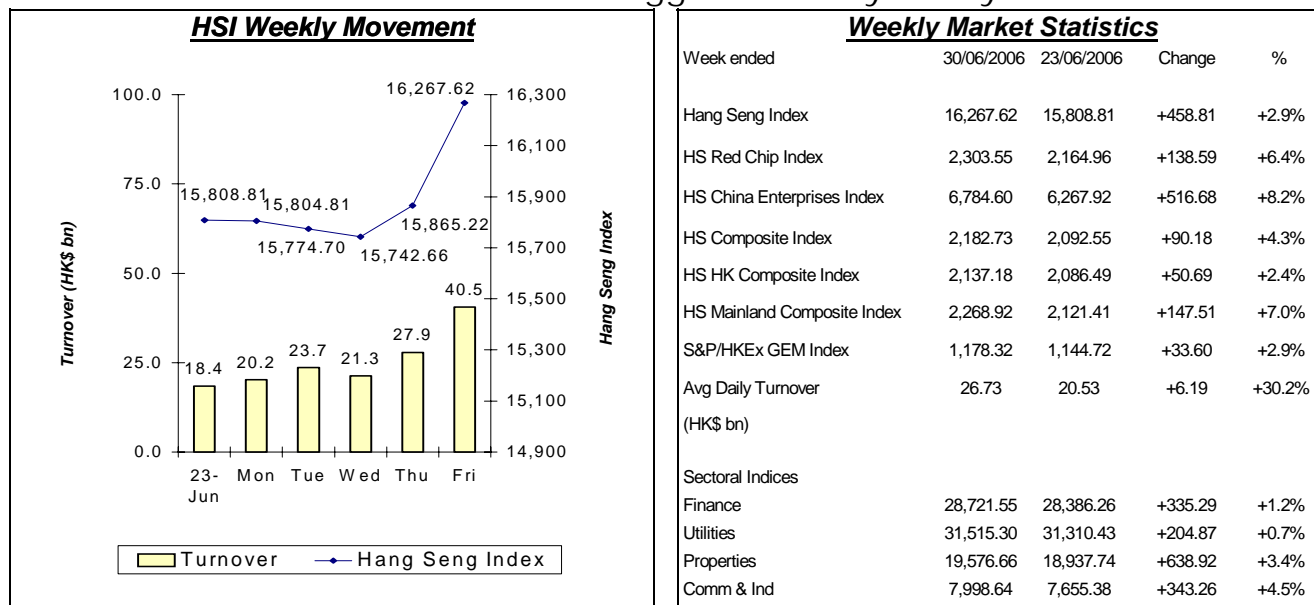
Restricted circulation

Analyst: Stanley Lau

Weekly Report

30th June 2006

Rate-hike relief triggered Friday's rally



Review & Outlook of Market Performance

Blue-chip stocks barely moved in early week's trade amid uncertainties about the Fed's rate decision, which was released later on Thursday overnight. As widely expected, the Fed raised interest rates for the 17th consecutive time by 25 basis points to 5.25%. In its accompanying statement, the Fed softened the more hawkish tone from its May 10 statement and said future moves would depend on economic numbers, leaving the door open for a pause in the August FOMC Meeting. The market reacted positively to the Fed statement and stoked a broad-based rally on Friday. The HSI finished up 458.81 points, or 2.90% w-o-w, at 16,267.62. Average daily turnover was HK\$26.73 billion.

Amid a brighter interest-rate outlook, property stocks recovered from recent weakness, with the HS properties sub-index jumping as much as 3.80% on Friday. Cheung Kong finished at HK\$84.15, up 3.51% w-o-w, and Sun Hung Kai Properties closed at HK\$79.20, up 2.86% w-o-w. Banking stocks also gained ground, with HSBC rising 0.96% w-o-w to HK\$136.10 and Hang Seng Bank gaining 1.39% w-o-w to HK\$98.5. Both lenders ignored the Fed move and said before the market close on Friday that they would leave their prime rates unchanged at 8%.

The H-share index exhibited greater strength, rallying 516.68 points, or 8.24% w-o-w, to 6,784.60, after digesting the impact of new tightening policies and drawing strength from strong performance of domestic A-share markets. Insurance stocks took the lead, buoyed by regulatory moves that allow domestic insurers to provide more integrated financial services. China Life Insurance surged 12.39% w-o-w to HK\$12.25 and Ping An Insurance soared 11.08% w-o-w to HK\$23.55. Mainland banking stocks also got a lift from the positive response to Bank of China's A-share offering in Shanghai. China Construction Bank climbed 6.77% w-o-w to HK\$3.55 and Bank of Communications advanced 6.32% w-o-w to HK\$5.05.

The gloom about the prospect of higher interest rates seems to have relieved a bit after signs from the Fed that the tightening cycle is much nearer to its end. Investors should get more confidence to look for value in the market. The HSI is likely to test 16,300 in the coming 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							
30th June	11,190.80	2,174.38	15,505.18	2,435.39	914.69	678.13	6,704.41
23rd June	10,989.09	2,121.47	15,124.04	2,343.03	906.34	659.52	6,452.31
Change	+201.71	+52.91	+381.14	+92.36	+8.35	+18.61	+252.10
%	+1.8%	+2.5%	+2.5%	+3.9%	+0.9%	+2.8%	+3.9%

Remark (*): Closing price as of 29th June 2006**Major Changes in Index Constituent Stocks (Week ended 30th June 2006)****Hang Seng Index (HSI)**

Stock	Stock Code	Closing Price @30/06/06	W-O-W Change		Remarks / Comments
			Absolute	%	
China Netcom	0906	HK\$13.6	+HK\$0.95	+7.51%	The bidders for PCCW's telecom and media assets were said to have offered Netcom's parent a significant stake in the proposed deals so as to get around Beijing's opposition to the notion of Hong Kong's main fixed-line assets falling into foreign hands.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @30/06/06	W-O-W Change		Remarks / Comments
			Absolute	%	
China Life Insurance	2628	HK\$12.25	+HK\$1.35	+12.39%	China Life and its parent bought a combined stake of 17.2% in CITIC Securities, allowing the parties to form a strategic alliance as part of the central government's plans to permit more interaction among the banking, insurance and brokerage industries.
Maanshan Iron & Steel	0323	HK\$2.575	+HK\$0.25	+10.75%	The recently agreed increase in the contract price of iron ore for Chinese steel manufacturers spurred hopes for further consolidation in the sector.
Angang New Steel	0347	HK\$7.35	+HK\$0.70	+10.53%	

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @30/06/06	W-O-W Change		Remarks / Comments
			Absolute	%	
China Resources Land	1109	HK\$4.25	+HK\$0.775	+22.30%	China property plays bounced back after over-reacting to fears over the impact of tightening credit to the sector.

Summary of US Economic News

Indicator	Change/Index	Comments
New Home Sales – May	1.234 million units	The pace of new home sales unexpectedly rose 4.6% in May, despite rising mortgage rates and other signs of a cooling housing market.
Consumer Confidence – June	105.7	Consumer confidence increased modestly in June but consumers are still concerned about the near-term outlook.
Existing Home Sales – May	6.67 million units	Existing home sales fell 1.2% last month to the slowest pace since January. The inventory of unsold homes increased as well.
GDP – Q1 Final	5.6%	US economic growth leapt ahead at an upwardly revised 5.6% in the first quarter, propelled by lower imports and strong corporate profits.
Initial Jobless Claims – week ended 24 th June 2006	313,000	Initial jobless claims rose 4,000 last week but remained at levels suggesting a healthy job market.
Fed Funds Rate	+25 bps	The US Federal Reserve raised the Fed funds rate to 5.25% from 5%, the 17 th quarter-point move since June 2004.

Forthcoming Important Announcements / Events

3 rd July 2006 (Monday)	HK	:	Retail Sales – May
	US	:	Construction Spending – May ISM Manufacturing Index – June
4 th July 2006 (Tuesday)	HK	:	No Important Announcements / Events
	US	:	Public Holiday – Independence Day
5 th July 2006 (Wednesday)	HK	:	No Important Announcements / Events
	US	:	Factory Orders – May
6 th July 2006 (Thursday)	HK	:	Fairwood Holdings (0052) – Final results Vitasoy International Holdings (0345) – Final results
	US	:	Initial Jobless Claims – week ended 1 st July 2006 ISM Non-Manufacturing Index – June
7 th July 2006 (Friday)	HK	:	Foreign Currency Reserves – June Oriental Press Group (0018) – Final results
	US	:	Nonfarm Payrolls – June Unemployment Rate – June

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