



BEA securities

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

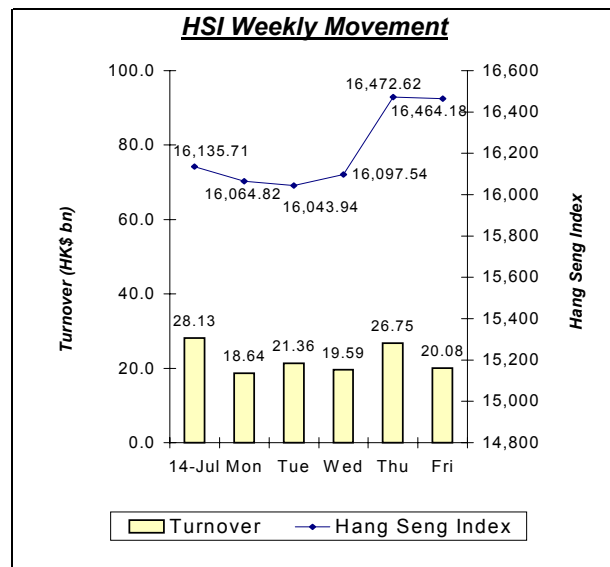
Restricted circulation

Analyst: Kelvin Li

Weekly Report

22nd July 2006

Bernanke's dovish inflation comments lifted HK shares



| Weekly Market Statistics | | | | |
|---------------------------------|-----------|-----------|---------|--------|
| Week ended | 21/7/2006 | 14/7/2006 | Change | % |
| Hang Seng Index | 16,464.18 | 16,135.71 | +328.47 | +2.0% |
| HS Red Chip Index | 2,367.99 | 2,279.88 | +88.11 | +3.9% |
| HS China Enterprises Index | 6,736.12 | 6,647.53 | +88.59 | +1.3% |
| HS Composite Index | 2,186.95 | 2,153.69 | +33.26 | +1.5% |
| HS HK Composite Index | 2,140.22 | 2,115.09 | +25.13 | +1.2% |
| HS Mainland Composite Index | 2,274.87 | 2,229.66 | +45.21 | +2.0% |
| S&P/HKEx GEM Index | 1,140.37 | 1,148.64 | -8.27 | -0.7% |
| Avg Daily Turnover (HK\$ bn) | 21.28 | 24.62 | -3.34 | -13.6% |
| Sectoral Indices | | | | |
| Finance | 28,945.12 | 28,623.12 | +322.00 | +1.1% |
| Utilities | 31,876.56 | 31,831.34 | +45.22 | +0.1% |
| Properties | 19,530.78 | 19,011.99 | +518.79 | +2.7% |
| Comm & Ind | 8,150.42 | 7,925.95 | +224.47 | +2.8% |

Review & Outlook of Market Performance

Hong Kong equities ended higher over the week after the dovish remarks on inflation outlook by Fed chairman Ben Bernanke. Led by gains in property related plays and red chips, Hang Seng Index went up 328.47 points or 2.04% w-o-w to 16,464.18. However, trading remained thin with average daily turnover at HK\$21.28 billion, down from HK\$24.62 billion in the previous week.

Fed chief Bernanke said during his semi-annual testimony before Senate that cooler US growth should help curbing inflationary pressure over time. Bernanke's remarks sparked investors hope for a greater chance of a pause in the Fed's rate-hike campaign in the next FOMC meeting on August 8, which helped trigger a strong rebound in the global stock markets.

Property developers were among the winners during the week, amid clearer interest rate outlook. Sino Land rallied 6.22% w-o-w to HK\$12.80, while Sun Hung Kai Properties was up 2.53% to HK\$79.15. A successful launch of a single-block residential project in Wanchai by K Wah International and a better-than-expected result of the first government land auction in nine months, despite the small land size, also helped improve market sentiments. China Mobile and Lenovo led red chips higher, up sharply by 4.65% and 7.07% w-o-w, respectively, to HK\$46.15 and HK\$2.65.

Meanwhile, HSCEI gained 1.33% w-o-w, despite concerns over further austerity measures to cool down the Mainland economy. Beijing released the latest set of economic figures on Tuesday, which showed that the Chinese economy grew 11.3% y-o-y in 2Q06, much stronger than market expectations. Mainland insurers generally outperformed during the week, with Ping An up 6.06% and PICC Property and Casualty 8.18% higher, on pleasant 1H2006 premium income data. Mining stocks like Jiangxi Copper and Zijin Mining were among the losers, amid drops in respective commodity prices.

We see the Hong Kong stock to consolidate next week after the recent rebound. On Friday, our expectation, the PBOC raised the deposit reserve rate from 8% to 8.5% with a view to curbing the overheated lending activities in the Mainland. It is widely expected that the PBOC would soon raise the bank lending and deposit rates.

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.



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 July | 10,868.38 | 2,020.39 | 14,821.26 | 2,371.37 | 924.72 | 685.71 | 6,420.01 |
| 14th July | 10,739.35 | 2,037.35 | 14,845.24 | 2,363.55 | 913.63 | 661.59 | 6,428.03 |
| Change | +129.03 | -16.96 | -23.98 | +7.82 | +11.09 | +24.12 | -8.02 |
| % | +1.2% | -0.8% | -0.2% | +0.3% | +1.2% | +3.6% | -0.1% |

Major Changes in Index Constituent Stocks (Week ended 21st July 2006)

Hang Seng Index (HSI)

| Stock | Stock Code | Closing Price @21/7/06 | W-O-W Change | | Remarks / Comments |
|--------------|------------|---------------------------|--------------|--------|--|
| | | | Absolute | % | |
| China Mobile | 0941 | HK\$46.15 | +HK\$2.05 | +4.65% | Mainland media, citing Ministry of Information Industry statistics, reported that revenue in China's telecom sector grew 10.7% y-o-y in the first half, mainly driven by mobile subscriber growth. Meanwhile, China Mobile said net subscriber addition amounted to 4.45 million in June, higher than the previous month, compared with a drop in net addition of rival China Unicom during the same period. |
| China Unicom | 0762 | HK\$6.90 | +HK\$0.20 | +2.99% | |

Hang Seng China Enterprises Index (HSCEI)

| Stock | Stock Code | Closing Price @21/7/06 | W-O-W Change | | Remarks / Comments |
|----------------------|------------|---------------------------|--------------|--------|--|
| | | | Absolute | % | |
| Ping An Insurance | 2318 | HK\$24.50 | +HK\$1.40 | +6.06% | Ping An Insurance reported that its premium income grew 27% y-o-y in the first half, outpacing bigger rival China Life's 22% premium income growth during 1H06. Ping An has set a fresh record high during the week. |
| China Life Insurance | 2628 | HK\$12.65 | +HK\$0.45 | +3.69% | |

Hang Seng China-Affiliated Corporations Index (HSCCI)

| Stock | Stock Code | Closing Price @21/7/06 | W-O-W Change | | Remarks / Comments |
|--------------|------------|---------------------------|--------------|--------|---|
| | | | Absolute | % | |
| Lenovo Group | 0992 | HK\$2.65 | +HK\$0.175 | +7.07% | International Data Corp (IDC) said China's PC market continued to grow strongly in the second quarter, while Lenovo Group maintained its leading position with a market share of 20%, up from 18.4% a year earlier. |

**Summary of US Economic News**

| Indicator | Change/Index | Comments |
|--|--------------|---|
| Industrial production – June | +0.8% | Industrial output surged 0.8% in June, higher than consensus forecast of a 0.4% growth. The capacity use rate of 82.4% was also greater than expected. |
| Producer price index – June | +0.5% | PPI surged more than expected last month, mainly driven by food and energy prices. |
| Housing starts – June | -5.3% | Housing starts fell dropped a smaller-than-expected 5.3% to an annual rate of 1.85 million units, the lowest in 1-1/2 years. |
| Consumer price index – June | +0.2% | June CPI surged 0.2%, matching market expectations. However, excluding food and energy prices, the core CPI rose a stronger-than-expected 0.3%. |
| Index of leading indicators – June | +0.1% | The index of leading economic indicators surged 0.1% to 138.1 in June, slightly below consensus of a 0.2% rise but bucking two straight months of declines. |
| Initial jobless claims – the week ended 15 th July 2006 | -30,000 | Initial jobless claims fell more than expected to 304k from 334k in the previous week, the lowest in a month. |

Forthcoming Important Announcements / Events

| | | | |
|--|----|---|--|
| 24 th July 2006 (Monday) | HK | : | Chinney Investment (0216) – final results Culturecom Holdings (0343) – final results Hon Kwok Land (0160) – final results Leroi Holdings (0221) – final results Luk Fook (0590) – final results |
| | US | : | Alcon Inc. – Q2 2006 results Merck & Co Inc – Q2 2006 results |
| 25 th July 2006 (Tuesday) | HK | : | Kwoon Chung Bus (0306) – final results U-Right International (0627) – final results |
| | US | : | Consumer confidence – July 2006 Existing home sales – June 2006 3M Co – Q2 2006 results Amazon Com Inc – Q2 2006 results Sun Microsystems Inc – Q4 FY2005/06 results Xerox Corp – Q2 2006 |
| 26 th July 2006 (Wednesday) | HK | : | China Merchants DiChain (Asia) (0632) – final results |
| | US | : | Fed's Beige Book Boeing Co – Q2 2006 results |
| 27 th July 2006 (Thursday) | HK | : | Chinese People Gas (0681) – final results Clear Media (0100) – interim results Tack Fat Group (0928) – final results |
| | US | : | Initial jobless claims – week ended 22 nd July 2006 Durable goods orders – June 2006 New home sales – June 2006 Alcatel – Q2 2006 results |
| 28 th July 2006 (Friday) | HK | : | A-Max (0959) – final results China Water (0855) – final results Hanny Holdings (0275) – final results Tysan Holdings (0687) – final results |
| | US | : | GDP (adjusted) – Q2 2006 Michigan Consumer Sentiment (revised) – July 2006 Chevron Corp – Q2 2006 results |

**Important Disclosure / Analyst Certification / Disclaimer**

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA). At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA and / its associated or affiliated companies may from time to time have interests in securities of the company or companies mentioned herein.

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.