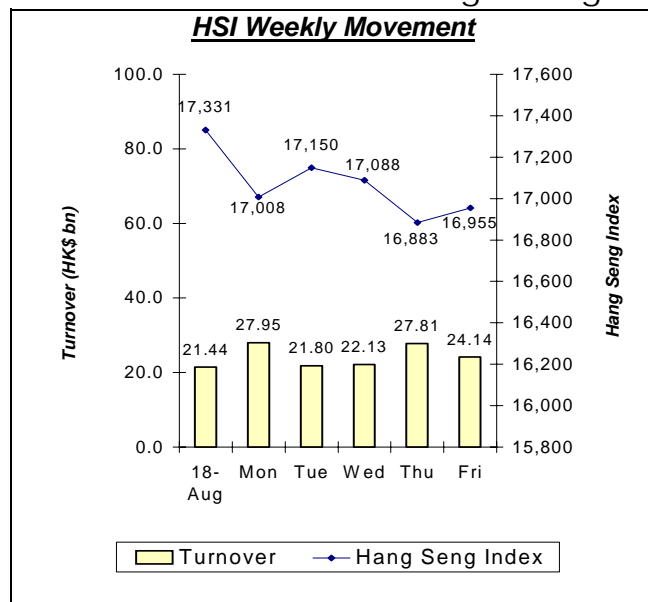


## Profit taking emerged after rate hike in China



<b>Weekly Market Statistics</b>				
Week ended	25/8/2006	18/8/2006	Change	%
Hang Seng Index	16,955	17,331	(375)	-2.2%
HS Red Chip Index	2,492	2,568	(76)	-3.0%
HS China Enterprises Index	6,869	6,990	(121)	-1.7%
HS Composite Index	2,248	2,294	(46)	-2.0%
HS HK Composite Index	2,196	2,235	(39)	-1.7%
HS Mainland Composite Index	2,344	2,400	(56)	-2.4%
S&P/HKEx GEM Index	1,141	1,118	23	+2.0%
Avg Daily Turnover (HK\$ bn)	24.8	24.1	1	+2.8%
<b>Sectoral Indices</b>				
Finance	29,346	29,627	(282)	-1.0%
Utilities	32,992	33,162	(170)	-0.5%
Properties	20,174	20,885	(712)	-3.4%
Comm & Ind	8,487	8,748	(261)	-3.0%

## Review & Outlook of Market Performance

Profit taking activities were seen during the week after the People's Bank of China hiked interest rates after market close on 18<sup>th</sup> Aug. Investors dumped shares on Monday, despite the rate hike should have largely been anticipated, as investors feared more austerity measures to come amid Beijing's stronger efforts to cool down the fast-growing Mainland economy. Hang Seng Index lost 375 points or 2.2% w-o-w to 16,955.45. Average daily turnover was HK\$22.8 billion, down from HK\$24.1 billion in the previous week.

Listed companies continued to roll out their first-half results, of which some had disappointed the market. Cheung Kong (Holdings) and Hutchison Whampoa reported a decent rise in 1H06 profit, thanks to an exceptional gain from the disposal of a stake in port business. However, their underlying growth failed to impress investors and triggered heavy sell-offs. Cheung Kong (Holdings) fell 4.53% w-o-w, while Hutchison ended down 3.38%. China Netcom slumped 7.32%, as we saw its core local telephone business hit hard by mobile service substitution. Wharf was the biggest loser in the blue-chip index over the week, after its first-half earnings missed consensus forecast, which led to investment downgrade by several brokerage houses.

Meanwhile, PetroChina, the heavyweight in the H-share index, surprised the market on the upside with its earnings up a solid 29% y-o-y in 1H06. The oil giant ended the week 1.37% higher but seeing selling pressure near the HK\$9 level. Rival Sinopec, the largest oil refiner in China, dropped 3.02% w-o-w, as investors were expecting a fall in its 1H06 bottom line after PetroChina reported a much bigger loss in its refining segment during the first half. Mainland banking counters also settled in the negative territories, as their interim results failed to deliver any positive surprises.

The reporting season is coming to an end, amid the last batch of big caps presenting their first-half results next week. Market focus is seen resting on the US GDP report on next Wednesday 30<sup>th</sup> Aug and payrolls data on 1<sup>st</sup> Sept, as investors turn to look for clues as to whether the US Federal Reserve would take another break in rate hikes in the next FOMC meeting scheduled on 20<sup>th</sup> Sep. We see bargain hunting would emerge next week pushing the Hang Seng Index to stay above the 17,000 level next week.

*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							
25th August	11,284.05	2,140.29	15,938.66	2,453.21	950.52	689.13	6,526.22
18th August	11,381.47	2,163.95	16,105.98	2,483.53	942.00	708.49	6,721.06
Change	-97.42	-23.66	-167.32	-30.32	+8.52	-19.36	-194.84
%	-0.9%	-1.1%	-1.0%	-1.2%	+0.9%	-2.7%	-2.9%

**Major Changes in Index Constituent Stocks (Week ended 25<sup>th</sup> August 2006)****Hang Seng Index (HSI)**

Stock	Stock Code	Closing Price @25/8/06	W-O-W Change		Remarks / Comments
			Absolute	%	
Wharf (Holdings)	0004	HK\$26.40	-HK\$2.25	-7.85%	Wharf was the worst performing blue chip this week, after it reported a dip in underlying profit for 1H06. Several brokerage houses downgraded the stock after the interim result announcement.

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

Stock	Stock Code	Closing Price @25/8/06	W-O-W Change		Remarks / Comments
			Absolute	%	
Shanghai Petrochemical	0338	HK\$3.51	-HK\$0.52	-12.90%	Shanghai Petrochem's parent Sinopec said to push forward share reform for the state-owned shares, which hindered hope for a near-term privatization, leading to sell-off in the stock.

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

Stock	Stock Code	Closing Price @25/8/06	W-O-W Change		Remarks / Comments
			Absolute	%	
China Netcom	0906	HK\$13.16	-HK\$1.04	-7.32%	China Netcom fell more than 7% during the week, after it said recurring net profit fell 7.7% y-o-y in the first half, due to a drop in revenue from its core local telephone business on rising rivalry from mobile substitution.

### Summary of US Economic News

Indicator	Change/Index	Comments
Existing home sales – July	-4.1%	US existing home sales fell 4.1% in July to an annual rate of 6.33 million units, lower than market expectations of 6.55 million units.
Initial jobless claims – the week ended 19 <sup>th</sup> August 2006	-1,000	Initial jobless claims amounted to 313,000 last week, down 1,000 from a week earlier, slightly better than consensus forecast of a 1,000 surge.
Durable goods orders – July	-2.4	Durable goods orders dropped 2.4% m-o-m in July, mainly dragged by fewer orders for communications equipment.
New home sales – July	-4.3%	New home sales in the US fell 4.3% m-o-m to an annual rate of 1.072 million, lower than forecast of 1.1 million units. Along with the drop in existing home sales, the US property market is showing signs of a slowdown.

### Forthcoming Important Announcements / Events

28 <sup>th</sup> August 2006 (Monday)	HK	:	China Eastern Airlines (0670) – interim results <b>China Life (2628) – interim results</b> China Shipping Container Lines (2866) – interim results Dongfeng Motor Group (0489) – interim results Hunan Nonferrous Metals Corp (2626) – interim results Lingbao Gold (3330) – interim results SmarTone (0315) – interim results <b>Tsingtao Brewery (0168) – interim results</b>
	US	:	No important announcement/ event
29 <sup>th</sup> August 2006 (Tuesday)	HK	:	<b>Bank of China (3988) – interim results</b> <b>BOC (Hong Kong) (2388) – interim results</b> <b>CNAC (1110) – interim results</b> <b>CNOOC (0883) – interim results</b> <b>Dah Sing Financial (0440) – interim results</b> <b>Dah Sing Banking (2356) – interim results</b> <b>Shanghai Petrochemical (0338) – interim results</b> <b>Xiamen Port (3378) – interim results</b>
	US	:	Consumer confidence – August 2006 FOMC minutes Novell Inc. – Q2 2006 results
30 <sup>th</sup> August 2006 (Wednesday)	HK	:	<b>Air China (0753) – interim results</b> <b>China Telecom (0728) – interim results</b> <b>Hopewell Holdings (0054) – final results</b> <b>Hopewell Infrastructure (0737) – final results</b> TCL Communications (2618) – interim results TCL Multimedia (1070) – interim results
	US	:	GDP (preliminary) – Q2 2006
31 <sup>st</sup> August 2006 (Thursday)	HK	:	China Metal (0319) – interim results <b>SCMP Group (0583) – interim results</b> <b>Shimao Property (0813) – interim results</b> Weichai Power (2338) – interim results
	US	:	Initial jobless claims – week ended 26 <sup>th</sup> August 2006 Personal income – July 2006 Factory orders – July 2006
1 <sup>st</sup> September 2006 (Friday)	HK	:	Retail sales – July 2006
	US	:	Non-farm payrolls – August 2006 ISM manufacturing index – August 2006 Michigan Consumer Sentiment (revised) – August 2006

**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.