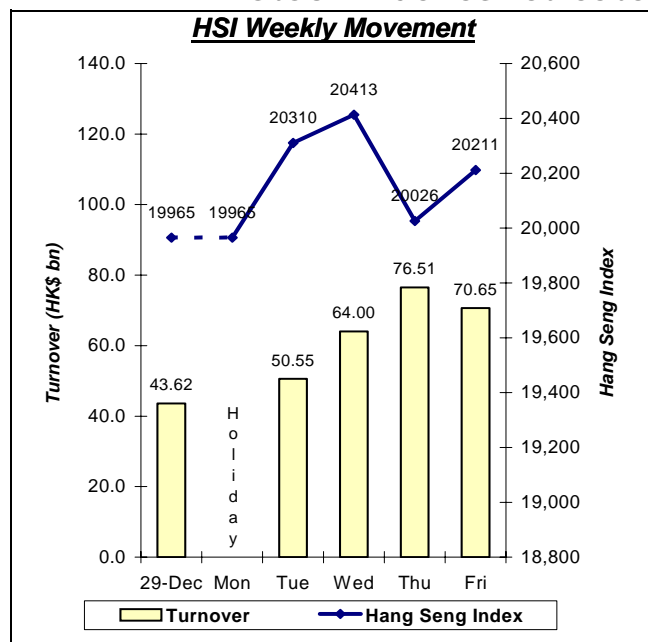


## Stock indexes retreated from fresh record highs



<b>Weekly Market Statistics</b>				
Week ended	5/1/2007	29/12/2006	Change	%
Hang Seng Index	20,211	19,965	+246.56	+1.2%
HS Red Chip Index	3,375	3,330	+45	+1.4%
HS China Enterprises Index	10,235	10,340	-105	-1.0%
HS Composite Index	2,822	2,803	+19	+0.7%
HS HK Composite Index	2,470	2,454	+16	+0.7%
HS Mainland Composite Index	3,308	3,285	+23	+0.7%
S&P/HKEx GEM Index	1,227	1,225	+3	+0.2%
Avg Daily Turnover (HK\$ bn)	65.4	48.8	+17	+34.1%
Sectoral Indices				
Finance	32,415	32,429	-14	-0.0%
Utilities	35,461	35,794	-332	-0.9%
Properties	24,268	23,144	+1124	+4.9%
Comm & Ind	10,792	10,620	+171	+1.6%

## Review & Outlook of Market Performance

Expecting a rally in the Mainland A-share markets after the long three-day New Year holiday break, major local stock indexes jumped to new record highs on strong liquidity on Wednesday. However, HK stock market made a sharp U-turn and gave up part of the gains on Thursday, as investors took profit after analysts warned that the recent rally had largely priced in the pleasant economic and earnings outlook. Hang Seng Index stayed in the positive territory with a 1.2% w-o-w rise at 20,211, thanks to last-minute buying in property plays, while the HSCEI dropped 1.0% to 10,235 after a bumpy ride over the week.

Investors kept bidding up Mainland financials speculating that the planned A-share listing should help boost their stock valuations. Nonetheless, profit taking kicked in, as some market watchers warned that stock valuations became stretched after recent rally and the current stock price should be hard to sustain. Most Mainland financials, especially those insurance plays, were off sharply from their record highs set earlier in the week. The Hang Seng China H-Financials Index touched an all-time high of 13,981 on Wednesday, but finished 8.2% off this all time high level and was down 0.8% w-o-w.

Meanwhile, amid huge selling pressure on PRC banks and insurers towards the end of the week, we saw investors switched into laggards like automobiles and PRC air carriers on less-demanding valuations. Air China topped all gainers in the HSCEI with an 18.8% w-o-w jump, followed by Dongfeng Group's 17.8% gain. Investors also bid up local property developers, as expected rate cuts in 2007 should help boost home purchase demand. Both Cheung Kong (Holdings) and SHKP hit 52-week highs on Friday.

Share performances next week should continue to be volatile, as profit taking and consolidation should remain the key themes. However, we see remote chance of an imminent panic selling, amid strong liquidity, vigorous corporate fundamentals and a pleasant economic outlook on the Mainland. Both the HSI and the HSCEI are expected to find solid hold at the 20,000 and the 10,000 territories, respectively.

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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							
5th January	12,480.69*	2,453.43*	17,091.59	3,029.04	1,120.40	628.19	7,835.57
29th December	12,463.15	2,415.29	17,225.83	2,985.83	1,096.24	679.84	7,823.72
Change	+17.54	+38.14	-134.24	+43.21	+24.16	-51.65	+11.85
%	+0.1%	+1.6%	-0.8%	+1.4%	+2.2%	-7.6%	+0.2%

Remark (\*): closing as of 4<sup>th</sup> January 2007

### Major Changes in Index Constituent Stocks (Week ended 5<sup>th</sup> January 2007)

#### Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @5/1/07	W-O-W Change		Remarks / Comments
		HK\$	Absolute	%	
China Resources Enterprise	0291	HK\$24.30	+HK\$1.95	+8.72%	China related counters continued to draw enormous investors' attention, amid bullish sentiment and strong market liquidity. Meanwhile, CR Snow, a JV between SABMiller and the conglomerate, said to acquire mainland brewer Blue Sword for RMB2.5 billion, in order to strengthen its presence in the Mainland beer market.

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

Stock	Stock Code	Closing Price @5/1/07	W-O-W Change		Remarks / Comments
		HK\$	Absolute	%	
PICC Property & Casualty	2328	HK\$4.51	+HK\$0.52	+13.03%	PICC P&C jumped sharply after rumours that the Mainland insurer plans to list on the domestic stock market in 1Q07. Besides, news on last Friday that the Beijing Olympic committee has bought a major insurance from PICC P&C also helped boost the share price. However, it was significantly off its intra-week high, as profit taking kicked in.
Air China	0753	HK\$5.00	+HK\$0.79	+18.76%	Air China topped all gainers in the H-share index during the week, amid a catch-up rally. Dropping oil prices also support share prices.

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

Stock	Stock Code	Closing Price @5/1/07	W-O-W Change		Remarks / Comments
		HK\$	Absolute	%	
Brilliance China	1114	HK\$1.63	+HK\$0.31	+23.48%	Investors bid up automotive stocks, as they bargain hunts. Meanwhile, Brilliance China jumped sharply, as there is rumours that BMW may acquire a 20% stake in the car maker for 180 million euros.
Denway Motors	0203	HK\$3.48	+HK\$0.33	+10.48%	

**Summary of US Economic News**

Indicator	Change/Index	Comments
Construction spending – November 2006	-0.2%	Construction spending fell 0.2% m-o-m in Nov, mainly led by the private residential sector. However, the drop was better than consensus forecast of a 0.5% fall.
ISM manufacturing index – December	51.4	The Institute of Supply Management said its manufacturing index surged to 51.4 in Dec from 49.5 in Nov, as the US manufacturing sector regained growth momentum during the month.
Initial jobless claims – week ended 30 <sup>th</sup> December 2006	+10,000	Initial jobless claims rose 10,000 to 329,000, higher than a market forecast of 318,000 claims.
ISM non-manufacturing index – December	57.1	ISM non-manufacturing index, a gauge of the US service sector, dipped to 57.1 in Dec from 58.9 in Nov, largely in line with consensus forecast.

**Forthcoming Important Announcements / Events**

8 <sup>th</sup> January 2007 (Monday)	HK	:	No important announcements / events
	US	:	Consumer credit – November 2006
9 <sup>th</sup> January 2007 (Tuesday)	HK	:	No important announcements / events
	US	:	<b>ALCOA Inc – Q4 2006 results</b>
10 <sup>th</sup> January 2007 (Wednesday)	HK	:	Public Financial Holdings (0626) – final results
	US	:	Trade balance – November 2006 Wholesale inventory – November 2006 Genentech – Q4 2006 results
11 <sup>th</sup> January 2007 (Thursday)	HK	:	No important announcements / events
	US	:	Initial jobless claims – week ended 5 <sup>th</sup> January 2007 Treasury budget – December 2006
12 <sup>th</sup> January 2007 (Friday)	HK	:	Jiuzhou Development (0908) – interim results Netel Technology (Holdings) (8256) – interim results Simsen International (0993) – interim results
	US	:	Export and import prices – December 2006 Retail sales – December 2006 Business inventory – November 2006

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