



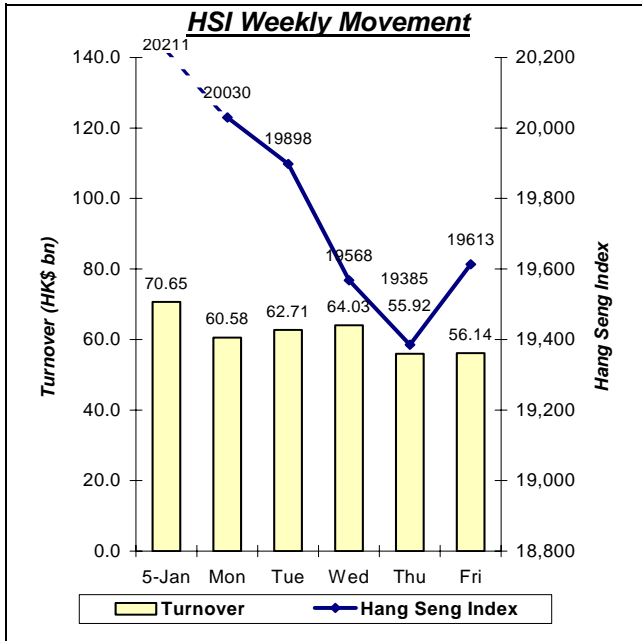
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Weekly Report

12th January 2007

Stock indices hit by a sharp correction



Week ended	12/1/2007	5/1/2007	Change	%
Hang Seng Index	19,613	20,211	-597.87	-3.0%
HS Red Chip Index	3,203	3,375	-172	-5.1%
HS China Enterprises Index	9,675	10,235	-561	-5.5%
HS Composite Index	2,743	2,822	-79	-2.8%
HS HK Composite Index	2,459	2,470	-12	-0.5%
HS Mainland Composite Index	3,142	3,308	-166	-5.0%
S&P/HKEx GEM Index	1,223	1,227	-5	-0.4%
Avg Daily Turnover (HK\$ bn)	59.9	65.4	-6	-8.4%
Sectoral Indices				
Finance	31,724	32,415	-691	-2.1%
Utilities	35,363	35,461	-98	-0.3%
Properties	24,013	24,268	-255	-1.0%
Comm & Ind	10,340	10,792	-452	-4.2%

Review & Outlook of Market Performance

The local bourse started the week with a mild correction after the PBOC raised the required reserve ratio late last Friday in an effort to curb excess liquidity from the market. Investors started taking profit from Chinese financial stocks ahead of China Life Insurance's A-share debut. Despite the A-share surged above its IPO price, the H-shares continued the correction, particularly when several brokerage houses downgraded the Chinese financial sector. Profit-taking activities spread to other blue-chips and the selling pressure was huge during mid-week. The almost 1,200-point post-Christmas gain up to the start of the correction has been mostly eroded. Sliding oil prices also dragged down oil shares but lifted aviation stocks. Stocks with defensive nature, such as utilities, toll roads, and local properties were chased after. Local banks also gained: BEA gained 5.93% w-o-w after it said it hoped to become the first lender outside China to list on domestic bourses; Hang Seng Bank gained as Industrial Bank is expected to list in Shanghai before the end of this month. Toward the end of the week, some buying activities were seen as investors speculated on bargain-hunting. Over the week, Hang Seng Index dropped 2.96% w-o-w at 19,613.41, down 597.87 points. Average turnover was at HK\$59.9 billion, down from last week's HK\$65.4 billion.

After the pre-Christmas rally in the Chinese financial stocks, the counter fell sharply as fundamentals could not sustain the pricy valuations. Investors also took the opportunity to sell other recent gainers, such as telecom stocks which rose earlier in anticipation of issuing 3G license in the PRC. The gainer among the HSCEI constituents was Air China on positive operational statistics, strengthening RMB, and lowered oil prices. Over the week, the Hang Seng China H-Financials Index fell 6.01% w-o-w while the HSCEI dropped 5.48% to 9,674.71 after the slump.

A volatile week is expected ahead as consolidation may continue while funds may be re-allocated from massively profitable sectors into laggards. Liquidity remains strong with sound fundamentals. Both the HSI and the HSCEI are expected to see solid support at the 19,500 and the 9,500 in the near term, 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							
12th January	12,514.98*	2,484.85*	17,057.01	3,009.09	1,119.33	645.71	7,761.71
5th January	12,398.01	2,434.25	17,091.59	3,029.04	1,120.40	628.19	7,835.57
Change	+116.97	+50.60	-34.58	-19.95	-1.07	+17.52	-73.86
%	+0.9%	+2.1%	-0.2%	-0.7%	-0.1%	+2.8%	-0.9%

 Remark (*): closing as of 11th January 2007

 Remark (^): 8th January 2007 was a public holiday in Japan.

Major Changes in Index Constituent Stocks (Week ended 12th January 2007)
Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @12/1/07	W-O-W Change		Remarks / Comments
			Absolute	%	
		HK\$			
China Unicom	0762	HK\$10.08	-HK\$1.70	-14.43%	Second to Chinese financial stocks, investors also sold off telecoms players after the recent stellar gains.
China Netcom	0906	HK\$19.00	- HK\$1.85	-8.87%	
Cathay Pacific	0293	HK\$20.30	+ HK\$1.52	+8.09%	Favouring oil prices helped pushed the counter to its record high.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @12/1/07	W-O-W Change		Remarks / Comments
			Absolute	%	
		HK\$			
Air China	0753	HK\$5.29	+HK\$0.29	+5.80%	Strong traffic volume (up 8.9% y-o-y), continued RMB appreciation, and sliding oil prices attracted investors to switch this laggard.
China Life	2628	HK\$24.05	-HK\$2.05	- 7.85%	Chinese insurance stocks were sold off as investors took profit after the recent rally. Several brokerage houses downgraded the sector also potentiate the selling pressure.
PICC	2328	HK\$3.88	-HK\$0.63	-13.97%	
Ping An	2318	HK\$37.80	-HK\$1.90	-4.79%	
Datang Power	0991	HK\$8.16	-HK\$1.06	-11.50%	The company plans to shut down five power plants after being singled out as heavy polluters in a report from the State Environment Protection Administration.

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @12/1/07	W-O-W Change		Remarks / Comments
			Absolute	%	
		HK\$			
CITIC Resources	1205	HK\$2.39	+ HK\$0.15	+6.70%	The counter rose after a "Buy" research report was issued by a brokerage citing compelling valuation.

Summary of US Economic News

Indicator	Change/Index	Comments
Consumer credit – November 2006	+US\$12.3 billion	The Federal Reserve reported that consumer (non-mortgage) borrowing increased \$12.3 billion (6.2% annually) to \$2.39 trillion in November, its biggest jump in three months, after falling \$1.3 billion in October. The rise beat economist forecasts of \$5.2 billion, and suggests consumer spending gained strength.
Trade balance – November 2006	-US\$58.2 billion	The US trade balance narrowed for a third straight month in November with an unexpected 1% decline. The October figure was US\$58.80 billion.
Initial jobless claims – week ended 5 th January 2007	-26,000	Initial jobless claims fell 26,000 to 299,000 in the week ended Jan. 5, the lowest in more than five months. The figure was lower than a market forecast of 320,000 claims.
Wholesale inventory – November 2006	1.3%	Inventories at U.S. wholesalers climbed a much-stronger-than-expected 1.3% in November as stocks rose in most industries, including a 0.6% gain in the auto sector.

Forthcoming Important Announcements / Events

15 th January 2007 (Monday)	HK US	: No important announcements / events : No important announcements / events
16 th January 2007 (Tuesday)	HK US	: Neo-China Group (0563) – Interim results for the period ended 31 Oct 06 Water Oasis (1161) – Annual results for the year ended 30 Sept 06 : Wells Fargo & Company – Q4 2006 results Intel Corp – Q4 2006 results
17 th January 2007 (Wednesday)	HK US	: No important announcements / events : Apple Computer Inc – Q1 2007 results JPMorgan Chase & Co. – Q4 2006 results Core Producer Price Index – December 2006 Industrial Production – December 2006
18 th January 2007 (Thursday)	HK US	: Macau Success (0487) – Annual results for the year ended 30 Sept 06 Yue Yuen (0551) – Annual results for the yr ended 30 Sept 06 HK Unemployment rate –October to December : The Bank of New York Co. Inc – Q4 2006 results Merrill Lynch & Co. Inc – Q4 2006 results Core Consumer Price Index – December 2006 Housing Starts – December 2006 Initial jobless claims – week ended 12th January 2007 Leading Indicators – December 2006
19 th January 2007 (Friday)	HK US	: Oriental Investment Corp. (0735) – Interim results for the period ended 31 Oct 06 : Citigroup Inc – Q4 2006 results Motorola Inc – Q4 2006 results Schlumberger Ltd – Q4 2006 results



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