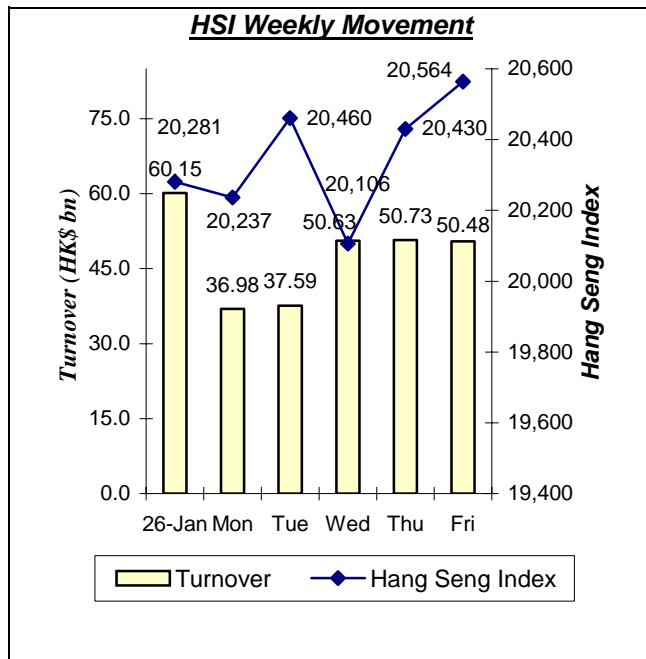


## A volatile week under the overhang of further austerity measures



<b>Weekly Market Statistics</b>				
Week ended	2/2/2007	26/1/2007	Change	%
Hang Seng Index	20,563.68	20,281.13	+282.55	+1.4%
HS Red Chip Index	3,440.86	3,380.53	+60.33	+1.8%
HS China Enterprises Index	9,598.21	9,660.66	-62.45	-0.6%
HS Composite Index	2,832.74	2,803.71	+29.03	+1.0%
HS HK Composite Index	2,547.98	2,506.67	+41.31	+1.6%
HS Mainland Composite Index	3,234.54	3,220.75	+13.79	+0.4%
Growth Enterprise Index	1,287.39	1,240.00	+47.39	+3.8%
Avg Daily Turnover (HK\$ bn)	45.28	57.34	-12.06	-21.0%
Sectoral Indices				
Finance	32,376.47	32,344.91	+31.56	+0.1%
Utilities	36,498.16	36,101.34	+396.82	+1.1%
Properties	25,548.46	24,374.90	+1,173.56	+4.8%
Comm & Ind	11,029.41	10,855.15	+174.26	+1.6%

## Review & Outlook of Market Performance

The local bourses went through another volatile week after a run-up before the expiry of the HSI futures on Tuesday. The HSI took a sharp correction on Wednesday as investors worried that more austerity measures would be announced to cool the A share market making the Shanghai bourse lost more than 5% at one point on that day. The biggest selling pressure was mainly concentrated in the most overheated Chinese financial and property sectors. Amid the threat of further austerity measures, investors took a wait-and-see approach to the H-shares due to their pricy valuations. Instead, they stocked up on blue-chips toward the end of the week. The US central bank held interest rates unchanged at 5.25% and will probably remain unchanged in the near future as inflation pressure also looks well controlled. This helped local properties surge, and the HSI quickly recovered the loss and closed the week higher. The HSI ended the week at 20,563.68, up 282.55 points or 1.4%. Average daily turnover amounted to HK\$45.28 billion, down from HK\$57.3 billion in the previous week.

Among the blue-chips, the local properties stocks outperformed thanks to stable interest rate outlook. Hang Lung Properties gained 14.53% w-o-w outperforming the peers ahead of its interim results announcement next week. Other players such as Cheung Kong and New World Development gained over 6% w-o-w bringing the HSI property sub-index up 4.8% w-o-w. On the other hand, the H-shares were pulled down following the gloomy sentiment in the A-share market. Investors sold off Chinese financial and property sectors and switched into more defensive plays like ports, expressways and consumption plays. The HSCEI closed the week at 9,598.21, down 62.45 points or 0.65% w-o-w.

Thanks to the rally in the stock market and a stronger yuan, retail sales in Hong Kong rose 11.5% in December y-o-y, better than market expectations for an 8.1% rise. For the coming week, the HSI Services Ltd will announce the results of its quarterly review of the constituents of HSI on 9<sup>th</sup> Feb and the effective date is 9 March closing. We may see some buying activities for the potential new constituents. The market will likely remain volatile; bargain hunting on laggards and oversold counters should be the main focus. We see the HSI to consolidate at the 20,200-20,300 levels.

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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							
2nd February	12,673.68*	2,468.38*	17,547.11	3,217.68	1,209.48	670.60	7,777.03
26th January	12,487.02	2,435.49	17,421.93	3,087.74	1,169.89	657.65	7,821.32
Change	+186.66	+32.89	+125.18	+129.94	+39.59	+12.95	-44.29
%	+1.5%	+1.4%	+0.7%	+4.2%	+3.4%	+2.0%	-0.6%

Remark (\*): closing as of 1<sup>st</sup> February 2007

**Major Changes in Index Constituent Stocks (Week ended 2<sup>nd</sup> February 2007)**
**Hang Seng Index (HSI)**

Stock	Stock Code	Closing Price @2/2/07	W-O-W Change		Remarks / Comments
			Absolute	%	
Hang Lung Properties	0101	HK\$23.65	+HK\$3.00	+14.53%	The counter set a new high during the week thanks to favourable interest rate environment and its strong commercial property portfolio in China.
Cheung Kong	0001	HK\$107.00	+HK\$6.20	+6.15%	Investors chased after this laggard for its abundant land bank in HK and future contributions from China property projects.

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

Stock	Stock Code	Closing Price @2/2/07	W-O-W Change		Remarks / Comments
			Absolute	%	
Beijing Capital International Airport	0694	HK\$7.33	+HK\$0.53	+7.79%	The company plans to issue an unspecified number of A-shares early in the third quarter and will begin a promotional tour in April and May.
Zijin Mining	2899	HK\$5.12	+HK\$0.29	+6.00%	The company is planning to issue up to 150 million A shares in Shanghai raising funds to expand its mining and refining business.

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

Stock	Stock Code	Closing Price @2/2/07	W-O-W Change		Remarks / Comments
			Absolute	%	
China Travel	0308	HK\$3.37	+HK\$0.67	+24.81%	The counter reached a nine-year high after JPMorgan raised the target price to HK\$4.6 in a new research report.
Sinofert	0297	HK\$3.93	+HK\$0.67	+20.55%	Contract negotiations with Potash Corp. for potash, a key product of the company, are expected to conclude before the Chinese New Year.

### Summary of US Economic News

Indicator	Change/Index	Comments
Consumer confidence – January 2007	110.3	Consumer confidence index rose to 110.3 in January, the highest since May 2002 and a slight increase from the revised 110.0 figure of December.
FOMC meeting and policy statement	-	Fed Chairman Ben Bernanke left the interest rate unchanged at 5.25% for a fifth straight time. The statement said recent indicators "suggested somewhat firmer economic growth and tentative signs of stabilization in the housing market". The central bank also gave a comment that readings on core inflation had "improved modestly" in recent months.
GDP (Advanced) – Q4 2006	3.5%	GDP grew at 3.5% annual rate in the fourth quarter as consumers increased spending despite a pullback in the housing market. The market expected an increase of 3%.
Construction spending – December 2006	-0.4%	Construction spending during December 2006 was estimated at a seasonally adjusted annual rate of US\$1.17 trillion, 0.4% below the revised November estimate of US\$1.18 trillion.
Personal income and spending – December 2006	+0.5% / +0.7%	Consumer spending rose a solid 0.7% in December, best showing in five months, while incomes rose 0.5%. Both figures matched economists' expectations.
ISM manufacturing index – January 2007	-2.1	ISM Manufacturing Index has receded in January to 49.3 from a level of 51.4 in December, below the experts' forecast of a flat performance, due to price pressures and liquidation of inventories.
Initial jobless claims – week ended 27 <sup>th</sup> January 2007	-20,000	The Labour Department reported that 307,000 workers filed initial claims for jobless benefits in the week ending January 27, a decrease of 20,000 from the previous week. The figure fell by more than economists had been expecting.

### Forthcoming Important Announcements / Events

5 <sup>th</sup> February 2007 (Monday)	HK US	: : ITE Holdings (8092) – 3QFY2007 results Principal Financial Group Inc – Q4 FY2006 results
6 <sup>th</sup> February 2007 (Tuesday)	HK US	: : Sincere Watch (Hong Kong) (0444) – 3QFY2007 results <b>Cisco Systems – Q2 FY2007 results</b> <b>Tyco International – Q1 FY2007 results</b>
7 <sup>th</sup> February 2007 (Wednesday)	HK US	: : <b>Esprit (0330) – FY2006/07 interim results</b> Moody's Corporation – Q4 FY2006 results Consumer Credit – December 2006 Productivity – Q4 2006
8 <sup>th</sup> February 2007 (Thursday)	HK  US	: : : <b>Bank of East Asia (0023) – FY2006 annual results</b> <b>Hang Lung Group (0010) – FY2006/07 interim results</b> <b>Hang Lung PPT (0101) – FY2006/07 interim results</b> <b>PepsiCo – Q4 FY2006 results</b> <b>Unilever PLC – Q4 FY2006 results</b> <b>Walt Disney Co – Q1 FY2007 results</b> Initial jobless claims – week ended 3rd February 2007 Wholesale Inventories – December 2006
9 <sup>th</sup> February 2007 (Friday)	HK US	: : Finet Group (8317) – 3QFY2007 results MasterCard International – Q4 FY2006 results

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