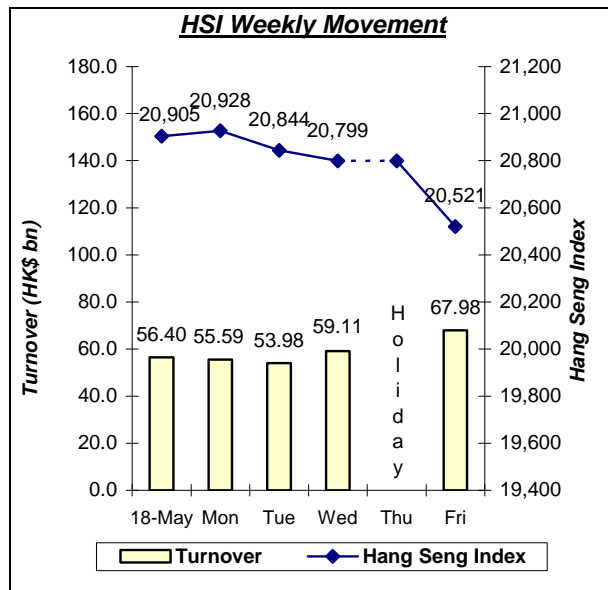


## Emerging risk aversion pressed the market down



<b>Weekly Market Statistics</b>				
Week ended	25/05/07	18/05/07	Change	%
Hang Seng Index	20,521	20,905	-384	-1.8%
HS Red Chip Index	3,575	3,626	-52	-1.4%
HS China Enterprises Index	10,650	10,859	-209	-1.9%
HS Composite Index	2,916	2,959	-43	-1.5%
HS HK Composite Index	2,538	2,567	-29	-1.1%
HS Mainland Composite Index	3,427	3,488	-61	-1.7%
Growth Enterprise Index	1,553	1,519	+34	+2.2%
Avg Daily Turnover (HK\$ bn)	59.2	69.6	-10	-15.1%
Sectoral Indices				
Finance	32,310	32,847	-537	-1.6%
Utilities	35,695	36,822	-1,127	-3.1%
Properties	24,860	25,441	-581	-2.3%
Comm & Ind	11,144	11,345	-200	-1.8%

## Review & Outlook of Market Performance

The latest set of austerity measures introduced by the People's Bank of China seemed to have limited effect on cooling the domestic stock market, as we saw major Mainland stock indexes kept hitting new highs during the week. Nonetheless, Hong Kong equities headed south, as investors became more risk-averse and concerned that a sharp retreat in the Mainland stock market would trigger contagious impact. Meanwhile, former Federal Reserve chairman Alan Greenspan said the bull run in Chinese stocks is unsustainable and a dramatic correction is imminent, echoing similar cautious comments by Mainland finance officials and local tycoons, which triggered a sell-off in HK and regional equities. Over the week, Hang Seng Index fell 384 points or 1.8% to 20,520.66, while HSCEI dropped 1.9% to 10,649.84.

Selling pressure was broad and both the blue-chip and the H-share indexes failed to hold grounds above 21,000 and 11,000, respectively, amid rising risk aversion among investors. Property developers were among the losers, as better-than-expected economic figures in the US may reduce the chance for a rate cut. Mainland steel plays also ended the week with big losses, as China said to raise the tax rate for steel product exports to lessen pressure from the surging trade surplus. Mainland financials also underperformed, after PBoC hiked benchmark deposit rates by 27 bps, versus an 18 bps hike in one-year lending rate, leading to pressure on interest margins. Lower risk tolerance also led to weaker-than-expected trading debut performance of Belle International. Belle, which drew record subscription demand from retail investors, closed at HK\$8.14 on its first trading day, up 31% from its issue price but weaker than market expectations of a 40% rise. It fell further on Friday to HK\$7.92, after hitting a low at HK\$7.61.

Risk for further monetary tightening in the Mainland and fear for a sharp sell-off in the domestic bourses would continue to weigh on market sentiment. Given the uncertainties ahead, HK equities would remain sluggish in the near term and the HSI is expected to consolidate near 20,000-20,500.

*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 May	13,441.13*	2,537.92*	17,481.21	3,486.63	1,339.08	719.14	8,159.97
18th May	13,556.53	2,558.45	17,399.58	3,512.40	1,356.84	728.76	8,034.14
Change	-115.40	-20.53	+81.63	-25.77	-17.76	-9.62	+125.83
%	-0.9%	-0.8%	+0.5%	-0.7%	-1.3%	-1.3%	+1.6%

Remark (\*): closing as of 24<sup>th</sup> May 2007

**Major Changes in Index Constituent Stocks (Week ended 25<sup>th</sup> May 2007)****Hang Seng Index (HSI)**

Stock	Stock Code	Closing Price @25/05/07	W-O-W Change		Remarks / Comments
			Absolute	%	
China Resources Enterprise	0291	HK\$27.15	-HK\$0.90	-3.21%	China Resources Enterprise reported a net profit of HK\$740 million during 1Q07, up 9.8% from HK\$674 million a year earlier. Excluding property revaluation gain in 1Q06, CRE said its net profit would have grown by 27% y-o-y. Despite being upgraded by several brokerage houses, the stock tracked the market lower.

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

Stock	Stock Code	Closing Price @25/05/07	W-O-W Change		Remarks / Comments
			Absolute	%	
Angang Steel	0347	HK\$17.10	-HK\$1.62	-8.65%	The Ministry of Finance said it would raise the export tax rate of more than 80 types of steel products by 5-10 percentage points, in order to lessen rising pressure from the country's huge trade surplus. Shares of Mainland steel producers were under selling pressure after the news.
Maanshan Iron	0323	HK\$8.17	-HK\$0.40	-4.67%	

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

Stock	Stock Code	Closing Price @25/05/07	W-O-W Change		Remarks / Comments
			Absolute	%	
Lenovo Group	0992	HK\$3.66	+HK\$0.53	+16.93%	The PC maker reported a net profit of US\$60 million in the Jan-Mar quarter, reviving from a net loss of US\$116 million a year earlier and beating consensus forecast of a profit of US\$28.8 million.

**Summary of US Economic News**

Indicator	Change/Index	Comments
Durable goods orders – April 2007	+0.6%	New orders for durable goods, growing 0.6% m-o-m in April 2007, fell short of consensus forecast of a 1% increase. Excluding transportation orders, durable goods orders rose 1.5% in April, better than market expectations of a 0.6% rise.
Initial jobless claims – the week ended 19 <sup>th</sup> May 2007	+15,000	Initial jobless claims surged 15,000 to 311,000, higher than market expectations of a rise to 305,000.
New home sales – April 2007	+16.2%	New home sales jumped a sharp 16.2% m-o-m to an annual rate of 981,000 units in April from 844,000 units in March, much stronger than consensus forecast of 860,000 units. Market watchers claimed that the stronger-than-expected rise in new home sales was mainly driven by lower housing prices.

**Forthcoming Important Announcements / Events**

28 <sup>th</sup> May 2007 (Monday)	HK	:	External merchandise trade statistics – April 2007 Nam Fong International (1176) – final results
	US	:	No important announcement/event
29 <sup>th</sup> May 2007 (Tuesday)	HK	:	Government land auction
	US	:	Consumer confidence – May 2007 Phillips-Van Heusen – Q1 2007 results Vodafone – 2006 preliminary earnings release
30 <sup>th</sup> May 2007 (Wednesday)	HK	:	Sichuan Xinhua Winshare Chainstore (0811) – trading debut
	US	:	FOMC minutes for the meeting on May 9 Novell, Inc. – Q2 FY2006/07 results
31 <sup>st</sup> May 2007 (Thursday)	HK	:	Retail sales – April 2007
	US	:	GDP (preliminary) – Q1 2007 Initial jobless claims – the week ended 26 <sup>th</sup> May 2007 Chicago PMI – May 2007 Consumer spending – April 2007 Dell, Inc. – Q1 FY2007/08 results
1 <sup>st</sup> June 2007 (Friday)	HK	:	No important announcement/event
	US	:	Non-farm payrolls – May 2007 Unemployment rate – May 2007 Personal income and spending – April 2007 ISM manufacturing index – May 2007 University of Michigan consumer sentiments (revised) – May 2007 Pfizer Ltd. – Q2 FY2006/07 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).

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. Information and opinions expressed herein reflect a judgment as of the date of this document and 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.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.