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HONG KONG RESEARCH

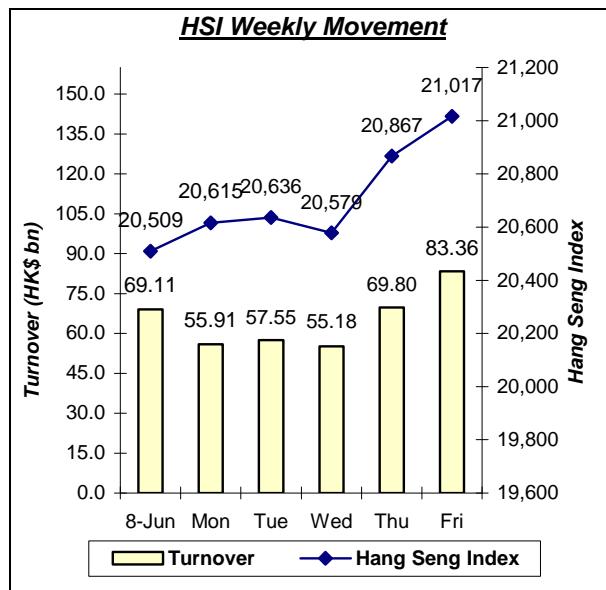
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Weekly Report

15th June 2007

Both HSI and HSCEI hit record



Weekly Market Statistics				
Week ended	15/06/07	08/06/07	Change	%
Hang Seng Index	21,017	20,509	+508	+2.5%
HS Red Chip Index	3,807	3,640	+167	+4.6%
HS China Enterprises Index	11,444	10,829	+615	+5.7%
HS Composite Index	2,997	2,906	+91	+3.1%
HS HK Composite Index	2,520	2,498	+21	+0.9%
HS Mainland Composite Index	3,624	3,451	+173	+5.0%
Growth Enterprise Index	1,679	1,652	+28	+1.7%
Avg Daily Turnover (HK\$ bn)	64.4	67.8	-3	-5.1%
Sectoral Indices				
Finance	32,553	31,900	+653	+2.0%
Utilities	35,604	35,253	+352	+1.0%
Properties	25,158	24,705	+453	+1.8%
Comm & Ind	11,645	11,288	+358	+3.2%

Review & Outlook of Market Performance

Despite growing concerns of a fresh round of monetary tightening in the Mainland, Hong Kong stocks finished the week with a decent rise, led by strong gains in H shares. Both the Hang Seng Index and the Hang Seng China Enterprises Index ended at record highs. The blue-chip index gained 2.5% w-o-w to 21,017.05, the first time it closes above 21,000, while the H-share index rallied 5.7% to 11,443.91, after hitting an intraday high at 11,491.27.

China released a set of economic figures during the week, which showed the inflationary pressure heated up and economic activities accelerated in May. May 07 CPI inflated 3.4%, up from 3.0% in April, while retail sales jumped 15.9% y-o-y last month, the fastest pace in three years. Urban fixed-asset investment surged 25.9% in the Jan-May period, higher than market expectations of a 25.7% rise. In the wake of the surprisingly strong figures, the State Council signalled the Chinese government would introduce further tightening to cool down the economy and remove excess market liquidity. Domestic A shares this time reacted more calmly with only a modest drop. H shares even rallied after the news that the CSRC will study and introduce "arbitrage" measures in order to eliminate the huge price discrepancy between A shares and H shares. Such measures are expected to lead to capital inflows and help lift H share prices. Chalco and Shenhua, China Coal and Yanzhou Coal, were among the winners, as demand for aluminum and coal is seen staying strong in the Mainland.

Meanwhile, banking plays continued their lacklustre performance amid concerns over tightening interest margins in Hong Kong. Property developers also underperformed, as the auction result of a West Kowloon land site failed to impress.

For the coming week, the stock market may take a breather after strong gains during the last couple of sessions. However, we expect the short-term downside should be limited, as investors may hunt for bargains in Mainland financials and traditional blue chips following their underperformance so far this year.

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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 15th June	13,553.72*	2,599.41*	17,971.49	3,581.46	1,360.65	744.25	8,573.64
8th June	13,424.39	2,573.54	17,779.09	3,491.59	1,352.39	752.00	8,300.71
Change	+129.33	+25.87	+192.40	+89.87	+8.26	-7.75	+272.93
%	+1.0%	+1.0%	+1.1%	+2.6%	+0.6%	-1.0%	+3.3%

Remark (*): closing as of 14th June 2007

Major Changes in Index Constituent Stocks (Week ended 15th June 2007)

Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @15/06/07	W-O-W Change		Remarks / Comments
			Absolute	%	
China Unicom	0762	HK\$12.04	+HK\$0.98	+8.86%	Mainland mobile and fixed-line network carriers were among the winners during the week, after Ericsson signed a framework agreement with China Mobile's parent company to provide US\$1 billion worth of networking equipment. Investors have been keen on bidding up the mobile and telecom counters once there are signs of the 3G service launch in the Mainland.
China Netcom	0906	HK\$20.95	+HK\$1.05	+5.28%	
China Mobile	0941	HK\$75.80	+HK\$3.45	+4.77%	

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @15/06/07	W-O-W Change		Remarks / Comments
			Absolute	%	
Aluminum Corp of China	2600	HK\$13.20	+HK\$2.88	+27.91%	The stock jumped sharply over the week, after brokerage house Goldman Sachs upgraded it from "neutral" to "buy", citing strong demand for the base metal in the Mainland.
Yanzhou coal	1171	HK\$11.48	+HK\$1.36	+13.44%	Demand for coal remained strong in the Mainland, after figures showed that coal exports tumbled 23% m-o-m in May.
China Coal	1898	HK\$11.94	+HK\$1.88	+18.69%	
China Shenhua	1088	HK\$26.45	+HK\$1.95	+7.96%	

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @15/06/07	W-O-W Change		Remarks / Comments
			Absolute	%	
Shenzhen Investment	0604	HK\$5.30	+HK\$0.6	+12.77%	The stock rallied after the company said it secured a 1.78 million-sq m land site in Foshan, Guangdong province for RMB2.27 billion. Shenzhen Investment is planning to build villas, low-rise apartments and a five-star hotel on the site.



Summary of US Economic News

Indicator	Change/Index	Comments
Retail sales – May 2007	+1.4%	Retail sales picked up steam last month and rose 1.4% m-o-m, after a 0.2% drop in April. It was the strongest growth in sales since January 2006 and higher than consensus forecast of a 0.6% rise.
Business inventory – April 2007	+0.4%	Business inventory surged 0.4% in April. However, thanks to a stronger rise in sales, the stocks-to-sales ratio dipped to 1.27 months in April from 1.28 months in March.
Producer price index – May 2007	+0.9%	PPI rose 0.9% in May after a 0.7% increase in April, slightly higher than market expectations of a 0.6%. Stripping out volatile food and energy prices, core PPI inched up 0.2% m-o-m in May, in line with economists' expectations.
Initial jobless claims – the week ended 9 th June 2007	Unchanged	Initial jobless claims was unchanged w-o-w at 311,000 last week, versus consensus forecast of a modest rise to 312,000.

Forthcoming Important Announcements / Events

18 th June 2007 (Monday)	HK	:	Huabao International (0336) – final results Next Media (0282) – final results Tse Sui Luen (0417) – final results
	US	:	No important announcements / events
19 th June 2007 (Tuesday)	HK	:	Market holiday – Tuen Ng Festival
	US	:	Housing starts – May 2007 Best Buy Co., Inc. – Q1 FY2007/08 results
20 th June 2007 (Wednesday)	HK	:	Macau Success (0487) – interim results Vtech Holdings (0303) – final results
	US	:	Morgan Stanley – Q2 FY2006/07 results
21 st June 2007 (Thursday)	HK	:	Unemployment & underemployment statistics – Mar-May 07 Bossini International (0592) – interim results Mirabell (1179) – final results Sincere (0244) – final results Yue Yuen Industrial (0551) – interim results
	US	:	Initial jobless claims – the week ended 16 th June 2007 Index of leading indicators – May 2007
22 nd June 2007 (Friday)	HK	:	Consumer price index – May 2007 Joyce Boutique (0647) – final results
	US	:	No important announcements / events

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