



# BEA securities

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HONG KONG RESEARCH

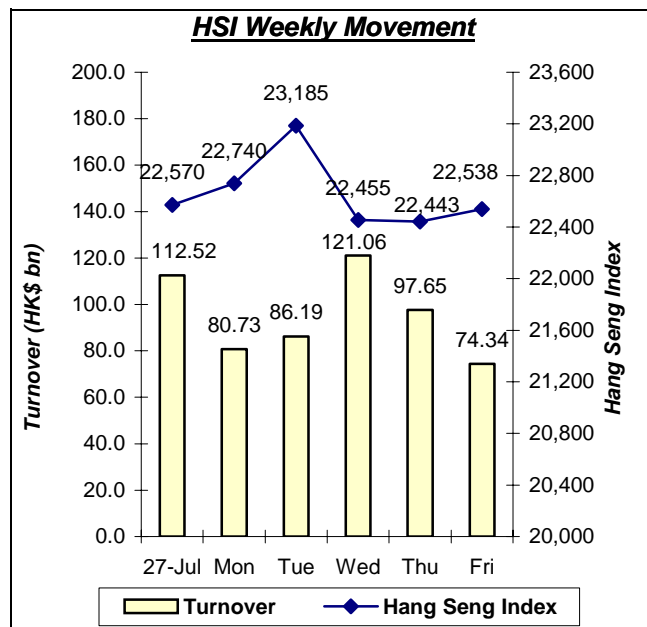
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Weekly Report

3<sup>rd</sup> August 2007

## Worldwide credit concerns set off massive sell-off



Weekly Market Statistics				
Week ended	03/08/07	27/07/07	Change	%
Hang Seng Index	22,538	22,570	-32	-0.1%
HS Red Chip Index	4,346	4,353	-7	-0.2%
HS China Enterprises Index	12,780	12,926	-147	-1.1%
HS Composite Index	3,260	3,271	-10	-0.3%
HS HK Composite Index	2,603	2,611	-8	-0.3%
HS Mainland Composite Index	4,101	4,114	-13	-0.3%
Growth Enterprise Index	1,691	1,756	-65	-3.7%
Avg Daily Turnover (HK\$ bn)	92.0	99.3	-7	-7.4%
Sectoral Indices				
Finance	35,381	34,798	+583	+1.7%
Utilities	35,732	35,923	-190	-0.5%
Properties	26,129	26,548	-419	-1.6%
Comm & Ind	12,519	12,696	-178	-1.4%

## Review & Outlook of Market Performance

The local sell-off started last week took a pause early this week. Thanks to the forecast-beating 1H07 results from HSBC Holdings and Hang Seng Bank and a rebound in the US market, the HSI regained the 23,000 level. However, a slew of bad news from hedge funds and mortgage lenders slammed the market: two Bear Stearns hedge funds that are heavily exposed to US mortgages filed for bankruptcy protection while several other hedge funds warned investors of their significant losses recorded. Investors realized the US subprime woes might have been underestimated and this set off a spill-over effect into the global credit market where credit spreads hiked. The US-driven credit crunch triggered liquidation of equity holdings by many hedge funds and unwinding of carry trade positions sending the Yen strengthened to its three-month high. The US market nose-dived dragging with it other global stock markets. The local market saw some panic-selling with the HSI tumbled close to 1,000 points at a time on Wednesday boosting market turnover to record high of over HK\$121 billion. The market then became very volatile for the rest of the week despite the US market bounced back strongly on two consecutive days. Some bargain-hunting activities emerged and provided temporary support to the HSI at the 22,500-level. Over the week, the HSI fell 0.1% to 22,538.44, while the H-share index fell 1.1% to 12,779.67. Average daily turnover was HK\$92.0 billion versus last week's HK\$99.3 billion.

During the week, Hang Seng Bank's forecast-beating 1H07 profit lifted its shares to a life high and fuelled confidence in the sector, bringing up the Bank of China (HK) and BEA along with the rally. However, the gains failed to sustain, as BEA delivered 1H07 results at the low end of consensus forecasts and the Bank of China (HK) came under pressure on concerns over its exposure to the subprime mortgage market. HSBC Holdings delivered forecast-beating 1H07 profit but loan impairment charges against the US Mortgage Services operations more than doubled. The uncertainty around its US subprime mortgage business remains the largest overhang. Meanwhile, profit taking also hurt local property developers after the piece of land in Wong Tai Sin was auctioned at the low end of the forecast price range.

The HSI Services Ltd. is to review the HSI constituents on 10<sup>th</sup> Aug. Bank of Communications and China Overseas Land are the top candidates. Local earnings season continue next week with several blue chip stocks due to announce their results. Overall market sentiment will remain cautious ahead of Federal Reserves' Policy meeting on 7<sup>th</sup> Aug and the local market may hopefully become more upbeat as investors shift their focus back to corporate earnings. The market should test the next support level of 22,300 in the near term.

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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 3rd Aug	13,463.33*	2,575.98*	16,979.86	3,436.04	1,335.42	837.73	9,057.82
27th July	13,265.47	2,562.24	17,283.81	3,492.70	1,355.38	863.58	9,162.28
Change	+197.86	+13.74	-303.95	-56.66	-19.96	-25.85	-104.46
%	+1.5%	+0.5%	-1.8%	-1.6%	-1.5%	-3.0%	-1.1%

Remark (\*): closing as of 2<sup>nd</sup> Aug 2007**Major Changes in Index Constituent Stocks (Week ended 3<sup>rd</sup> Aug 2007)****Hang Seng Index (HSI)**

Stock	Stock Code	Closing Price @03/08/07	W-O-W Change		Remarks / Comments
			Absolute	%	
Hang Seng Bank	0011	HK\$119.60	+HK\$9.4	+8.53%	The bank reported a 43.2% y-o-y increase in net profit to a record HK\$8,867 million for 1H07, which was stronger than market expectations ranging between HK\$7.6 billion and HK\$8.35 billion. This was mainly due to strong net interest income on widening NIM, fee income growth, a one-off dilution gain resulting from the listing of Industrial Bank as well as a lower effective tax rate.
Foxconn International	2038	HK\$21.95	-HK\$1.50	-6.40%	Merrill Lynch downgraded the counter to sell from buy, saying the firm may miss the 1H07 earnings forecast due to weak Motorola sales. Nokia's strong results helped Foxconn to recover some of the losses towards the end of the week.

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

Stock	Stock Code	Closing Price @03/08/07	W-O-W Change		Remarks / Comments
			Absolute	%	
PICC P&C	2328	HK\$9.20	+HK\$0.58	+6.73%	The counter soared as investors bet that the non-life insurer would unveil strong first-half earnings. There was also market talk that the firm was in discussions to buy out New China Life Insurance -- the country's 4 <sup>th</sup> largest underwriter of life policies.
PetroChina	0857	HK\$11.10	-HK\$0.66	-5.61%	Warren Buffett's Berkshire Hathaway sold 16.9 million PetroChina shares, cutting his share of the freely tradable shares in the company by market value to 10.96% from 11.05%.

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

Stock	Stock Code	Closing Price @03/08/07	W-O-W Change		Remarks / Comments
			Absolute	%	
Lenovo Group	0992	HK\$5.20	+HK\$0.57	+12.31%	Lenovo Group posted a stronger-than-expected, nearly 13-fold surge in 1QFY07/08 profit as strong corporate demand offset fierce competition at home as well as improvement in gross margin.

**Summary of US Economic News**

Indicator	Change/Index	Comments
Consumer confidence – July 2007	+7.3	Consumer Confidence Index rebounded to 112.6 (versus 105.3 in June) as Americans shrugged off falling home prices to focus on a healthy jobs market. This is the highest level since Aug 2001 when it recorded a 114.0 reading. The market expected a reading of 105.
Personal income and spending – June 2007	+0.4% / +0.1%	Personal income rose 0.4% in June and the increase came in slightly below estimates of a 0.5% rise. Personal spending edged up 0.1% in June after an upwardly revised 0.6% increase in May. Economists had expected spending to rise 0.1% Vs 0.5% increase originally reported for the previous month.
ISM manufacturing index – July 2007	53.8	The ISM index edged back to 53.8 in July from 55.0 in June indicating a slightly lower momentum in the US manufacturing industry.
Factory orders – June 2007	+0.6%	Orders for manufactured goods increased 0.6%, following a 0.5% drop in May. The market expected a 1% increase.
Initial jobless claims – the week ended 28 <sup>th</sup> July 07	+4,000	Initial jobless claims increased 4,000 to 307,000 last week. That was better than economists' forecast of 310,000.

**Forthcoming Important Announcements / Events**

6 <sup>th</sup> August 2007 (Monday)	HK	:	Shangdong Xinhua (0719) – interim results Regent Manner International (1997) – interim results Andre Juice (8259) – interim results
	US	:	BMC Software Inc – Q1 FY2007 results Spectra Energy Corp – Q2 FY2007 results
7 <sup>th</sup> August 2007 (Tuesday)	HK	:	<b>HAECO (0044) – interim results</b> <b>MTRC (0066) – interim results</b> TCL Multimedia (1070) – interim results TCL Communication (2618) – interim results Pacific Basic (2343) – interim results Standard Chartered (2888) – interim results
	US	:	<b>Cisco Systems Inc – Q4 FY2007 results</b> <b>Emerson Electric Co – Q3 FY2007 results</b> <b>Tyco International Ltd – Q3 FY2007 results</b> Productivity – 2Q 2007 FOMC policy statement Consumer Credit – June 2007
8 <sup>th</sup> August 2007 (Wednesday)	HK	:	<b>Cathay Pacific (0293) – interim results</b> <b>Manulife Financial (0945) – interim results</b> Lifestyle (1212) – interim results Zhaojin Mining (1818) – interim results CSCL (2866) – interim results
	US	:	Wholesale Inventories – June 2007 Progress Energy Inc – Q2 FY2007 results Hospira Inc – Q2 FY2007 results Delta Financial Corp – Q2 FY2007 results
9 <sup>th</sup> August 2007 (Thursday)	HK	:	<b>HK Electric (0006) – interim results</b> <b>Swire Pacific (0019) – interim results</b> <b>Chong Hing Bank (1111) – interim results</b> Liu Chong Hing (0194) – interim results <b>China Merchants Bank (3968) – interim results</b>
	US	:	Initial jobless claims – the week ended 4 <sup>th</sup> Aug 2007 Chain store sales – July 2007 Cardinal Health Inc – Q4 FY2007 results Edison International – Q2 FY2007 results
10 <sup>th</sup> August 2007 (Friday)	HK	:	Harbin (1133) – interim results i-cable (1097) – interim results RREEF China Commercial Trust (0625) – interim results Tong Reng Tang Technology (8096) – interim results
	US	:	Treasury budget – July 2007

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