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HONG KONG RESEARCH

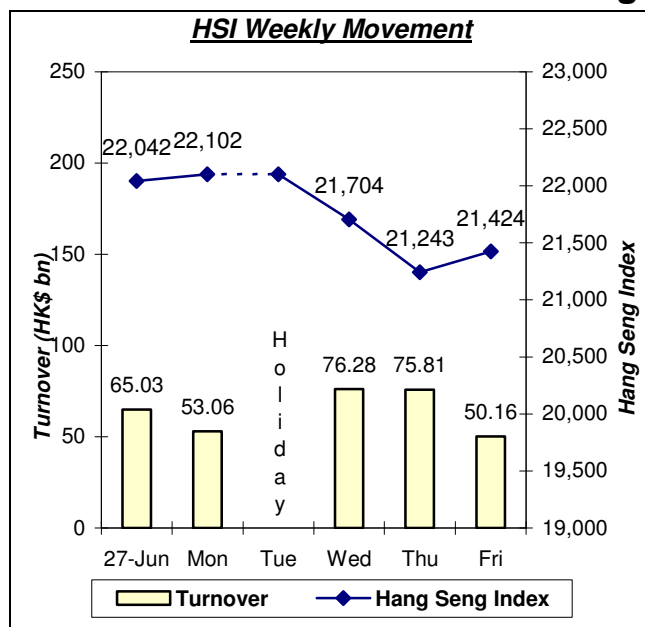
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Weekly Report

4th July 2008

Investors saw no rush to bargain-hunt despite a 21% drop in 1H



<u>Weekly Market Statistics</u>				
Week ended	04/7/2008	27/6/2008	Change	%
Hang Seng Index	21,424	22,042	-619	-2.8%
HS Red Chip Index	4,693	4,712	-19	-0.4%
HS China Enterprises Index	11,225	11,814	-589	-5.0%
HS Composite Index	3,002	3,097	-95	-3.1%
HS HK Composite Index	2,320	2,386	-66	-2.8%
HS Mainland Composite Index	3,870	3,999	-129	-3.2%
Growth Enterprise Index	761	787	-27	-3.4%
Avg Daily Turnover (HK\$ bn)	63.8	56.2	+8	+13.5%
Sectoral Indices				
Finance	32,030	33,486	-1,456	-4.3%
Utilities	42,919	43,467	-548	-1.3%
Properties	24,924	25,982	-1,058	-4.1%
Comm & Ind	12,228	12,364	-136	-1.1%

Review & Outlook of Market Performance

Investor sentiment was weak, amid sluggish regional market performance and rising crude oil prices. Despite a serious fall in the first half, HK equities saw little interest in bargain hunting during the first week of July, as investors expected record-high crude oil prices, at above US\$145 per barrel, would hurt corporate earnings. Over the week, the Hang Seng Index fell 619 points or 2.8 % to 21,423.82, while the HSCEI plunged 5.0% to 11,225.18.

Due to rising oil prices, the US subprime crisis and fear for further monetary tightening in the Mainland, the blue-chip index lost more than one-fifth in the first half. However, in spite of the big market correction, investors remained cautious and refused to take any early bet or bargain hunt. What drags the market sentiment is undoubtedly the record-high crude oil prices. Oil hit a record high at US\$145.85 amid fear of supply distortion in the Middle East on Iran's warning to cease oil exports. Airlines were the most hard-hit, with Air China down a sharp 9.4% and Cathay Pacific down 5.4% w-o-w. Profit warning on high fuel costs from Cathay during the week has also raised alarm among market players that interim results of HK-listed companies, especially those in the energy-consuming industries like airlines and base metals, may fall below expectations. In contrast, ICBC issued a positive earnings alert for 1H2008. Nonetheless, investors found little cheer from the news, as it had been largely priced in, given the outperformance of the PRC banking plays in the first half. Meanwhile, the IPO market was also battered by weak investor sentiment, with the share offering of Xdlong being shelved – the 19th so far this year.

Along with the 3% drop this week, the Hang Seng Index lost nearly a quarter (23%) so far this year. Nonetheless, it is too early to say the stock market has bottomed, as crude oil prices stay high and more and more companies may issue profit warnings ahead of the August-September earnings reporting season, further dampening market sentiments. For the coming week, the HSI is seen staying sluggish with its short-term support at 21,000.

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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 4th July	11,288.54*	2,245.38*	13,237.89	2,886.59	1,134.14	743.03	7,228.41
27th June	11,346.51	2,315.63	13,544.36	2,955.91	1,190.54	775.73	7,548.76
Change %	-57.97 -0.5%	-70.25 -3.0%	-306.47 -2.3%	-69.32 -2.3%	-56.40 -4.7%	-32.70 -4.2%	-320.35 -4.2%

Remarks: (*) closing as of 3rd July 2008; the US stock market closed on 4th July (Independence Day).

Major Changes in Index Constituent Stocks (Week ended 4th July 2008)

Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @4/7/08	W-O-W Change		Remarks / Comments
			Absolute	%	
Cathay Pacific Airways	00293	HK\$13.98	-HK\$0.80	-5.41%	Cathay Pacific issued a profit warning for its 2008 first-half results, citing a jump in the average price level of crude oil prices. The airlines said the average jet fuel price it paid in the first half was 60% higher than a year earlier.
China Unicom	00762	HK\$14.94	+HK\$0.98	+7.02%	The stock bucked market weakness and finished the week as the top HSI performer, after China Netcom's Spanish partner Telefonica said it is planning to take a 10% stake in the PRC mobile carrier in the next 18 months.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @4/7/08	W-O-W Change		Remarks / Comments
			Absolute	%	
Ping An Insurance	02318	HK\$50.75	-HK\$7.40	-12.73%	The Mainland insurer trio were among the worst performers this week, as investors dumped the shares on the expectation that their investment returns and so earnings would be disappointing amid a weak domestic stock market. Meanwhile, Ping An was the worse performer among three and the biggest loser in both the HSI and the HSCEI, after news reported authority is conducting a tax audit in the company.
China Life	02628	HK\$25.55	-HK\$1.65	-6.07%	
PICC P&C	02328	HK\$4.73	-HK\$0.37	-7.25%	

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @4/7/08	W-O-W Change		Remarks / Comments
			Absolute	%	
CNOOC	00883	HK\$13.26	+HK\$0.16	+1.22%	CNOOC moved higher during the week, as crude oil futures prices kept setting new highs amid geopolitical unrest in the Middle East.



Summary of US Economic News

Indicator	Change/Index	Comments
Construction spending – May 2008	-0.4%	Construction spending fell 0.4% m-o-m in May to an annual rate of US\$1.085 trillion, better than consensus forecast of a 0.6% drop.
ISM manufacturing index – June 2008	50.2	The ISM manufacturing index inched up to 50.2 in June from 49.6 in May, bucking market expectation of a further fall to 48.6, as the sector revived growth last month.
Factory orders – May 2008	+0.6%	Factory orders rose 0.6% in May, the weakest gain since February but in line with expectations.
Initial jobless claims – week ended 28 th June 2008	+16,000	Initial jobless claims jumped 16,000 last week to 404,000, the highest level in three months and above consensus forecast of 385,000.
Unemployment rate – June 2008	5.5%	Jobless rate stood flat at 5.5% in June, after the Labour Department said non-farm payrolls fell 62,000, slightly above forecast of a net loss of 60,000 jobs.
ISM non-manufacturing index – June 2008	48.2	ISM non-manufacturing index tumbled to 48.2 in June from 51.7 in May, implying a contraction in the US services sector last month.

Forthcoming Important Announcements / Events

7 th July 2008 (Monday)	HK	:	VST Holdings (00856) – final results China Motion Telecom (00989) – final results
	US	:	No important announcement/event
8 th July 2008 (Tuesday)	HK	:	Miramar Hotel and Investment (00071) – final results Associated International Hotels (00105) – final results IDT International (00167) – final results Tian Teck Land (00266) – final results Café de Coral Holdings (00341) – final results Emperor Capital (00717) – final results
	US	:	Pending home sales – May 2008 Wholesale inventories – May 2008 ALCOA – Q2 FY2007/08 results
9 th July 2008 (Wednesday)	HK	:	Fairwood (00052) – final results Mongolia Energy (00276) – final results Quam (00952) – final results
	US	:	No important announcement/event
10 th July 2008 (Thursday)	HK	:	Wing Lung Bank (00096) – board meeting Asia Standard (00129) – final results Asia Orient (00214) – final results Asia Standard Hotel (00292) – final results Alco Holdings (00328) – final results Hang Fung Gold (00870) – final results Walker Group (01386) – final results
	US	:	Initial jobless claims – the week ended 5 th July 2008 Marriott International – Q2 FY2007/08 results
11 th July 2008 (Friday)	HK	:	Get Nice (00064) – final results Goldbond (00172) – final results King Fook (00280) – final results Public Financial (00626) – interim results Pacific Textiles (01382) – final results
	US	:	Trade balance – May 2008 Consumer sentiments (preliminary) – July 2008 General Electric – Q2 FY2007/08 results



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