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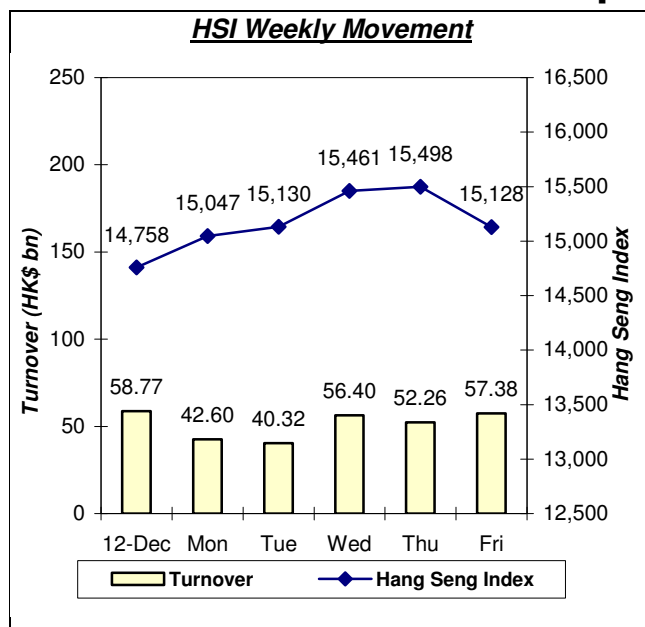
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HONG KONG RESEARCH**Restricted circulation**

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Weekly Report19th December 2008**The HSI extended its uptrend amid Beijing's measures**

Weekly Market Statistics				
Week ended	19/12/2008	12/12/2008	Change	%
Hang Seng Index	15,128	14,758	+369	+2.5%
HS Red Chip Index	3,448	3,260	+188	+5.8%
HS China Enterprises Index	8,435	7,912	+524	+6.6%
HS Composite Index	2,084	2,001	+83	+4.1%
HS HK Composite Index	1,467	1,462	+6	+0.4%
HS Mainland Composite Index	2,827	2,661	+166	+6.2%
Growth Enterprise Index	376	375	+1	+0.3%
Avg Daily Turnover (HK\$ bn)	49.8	60.6	-11	-17.8%
Sectoral Indices				
Finance	23,115	23,040	+76	+0.3%
Utilities	32,225	33,894	-1,669	-4.9%
Properties	18,584	17,037	+1,548	+9.1%
Comm & Ind	8,258	7,913	+345	+4.4%

Review & Outlook of Market Performance

Hong Kong stocks rose for 4 out of 5 days this week, boosted by the China's new stimulating package and the rate-cut expectation. However, the gains were capped by the plunge of the HSBC shares as the brokerage house CLSA downgraded its target price to only \$64 amid expectations of capital rise and dividend reduction. The HSI finished Friday at 15,127.51, up 369.12 points or 2.5% w-o-w, with an average daily turnover of HK\$49.8 billion.

On the PRC front, China has enacted a tax cut and favorable loan policies under a new stimulus package designed to boost the slumping property market. Also, the PBOC governor Zhou Xiaochuan indicated the possibility of more interest-rate cuts on the Mainland as the latest data drew a deflationary cloud over the economy. Moreover, the Mainland cut fuel prices for the first time in nearly two years. The above measures helped boost the shares in property, electricity and airline sectors, leading the HSCEI to close up 523.55 points or 6.62% w-o-w at 8,435.31.

During the week, the Federal Reserve cut the fed funds rate to a target range of between zero and 0.25% and said it will do whatever is necessary to ease the longest recession in a quarter-century. Nevertheless, Hong Kong lenders left their prime lending rates unchanged, ignoring the steep cut in rates for the US dollar. The prime rate of HSBC, Hang Seng Bank and BOC (Hong Kong) still stands at 5%, while the prime rate of other mid-tier lenders including Standard Chartered and Bank of East Asia is 5.25%.

On the other hand, Hong Kong's unemployment rate last month rose to 3.8%, the highest level since October last year. Economists generally expect unemployment to worsen to about 5% to 6% next year given the gloomy economic outlook and the retailers are expected to slash jobs and close outlets after the festivals of Christmas and Lunar New Year.

The local bourse will be closed from Wednesday afternoon till Friday next week and the buying sentiment should be lukewarm ahead for the Christmas holiday break. Despite a holiday-shortened week, we expect the local market would still have a good support due to window dressing right before the year-end. We see the HSI is likely to move sideways in the next few sessions, with a downside support at 14,700.

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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							
19th December	8,604.99*	1,552.37*	8,588.52	1,795.47	876.40	447.01	4,694.52
12th December	8,629.68	1,540.72	8,235.87	1,740.34	852.27	424.79	4,481.27
Change	-24.69	+11.65	+352.65	+55.13	+24.13	+22.22	+213.25
%	-0.3%	+0.8%	+4.3%	+3.2%	+2.8%	+5.2%	+4.8%

Remarks: (*) closing as of 18th December 2008

Major Changes in Index Constituent Stocks (Week ended 19th December 2008)

Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @19/12/08	W-O-W Change		Remarks / Comments
			Absolute	%	
HSBC	00005	HK\$76.55	-HK\$5.70	-6.93%	HSBC shares ranked the top loser among HSI constituent stocks this week on concerns that it may be forced to raise capital or slash dividends to keep its balance sheet advantage. CLSA also lowered its target price to only HK\$64.
Bank of China (Hong Kong)	02388	HK\$8.86	-HK\$0.24	-2.64%	The lender issued its first profit warning since its 2002 initial public offering, due to impairment allowances of HK\$3.2 billion made against its investment securities and further write-downs in the value of its investment book.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @19/12/08	W-O-W Change		Remarks / Comments
			Absolute	%	
R&F Properties	02777	HK\$8.98	+HK\$2.09	+30.33%	Chinese government announced a new set of rescue measures to support housing market with focus on second-handed property transaction. Investors were also betting on new monetary or industrial policies to aid the property industry after the central bank governor hinted interest rates might be cut again this month as the nation's economic growth slowed.

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @19/12/08	W-O-W Change		Remarks / Comments
			Absolute	%	
CNOOC	00883	HK\$7.21	+HK\$0.00	+0%	Offshore oil producer CNOOC underperformed the broad-market as crude oil price fell below \$40 per barrel this week for the first time in four years despite a supply cut by producer cartel OPEC.



Summary of US Economic News

Indicator	Change/Index	Comments
Industrial Production – November 2008	-0.6%	Industrial production in November fell 0.6%, following a 1.5% rebound in October. The steep downtrend showed the fourth quarter economy to be in deep recession.
Consumer Price Index – November 2008	-1.7%	The consumer price index fell for the fourth consecutive month in a row due to lower energy costs and weak consumer demand. The numbers are a little weaker than expectations but are favourable to equities as the Fed is given more room to cut rates.
Housing Starts – November 2008	-18.9%	Housing starts in November plummeted further, weighed down by massive unsold inventories of new and existing houses on the market. Housing starts plummeted another 18.9%, following a 6.4% decrease in the prior month.
FOMC Meeting Announcement Federal Funds Rate – Target Level	0% - 0.25%	Due to the view that the economy is worsening while inflation pressures have eased, the Fed announced that its target is now a range of 0.0% to 0.25%, down from the previous fed funds target rate of 1.0%. The Fed also admitted that it is shifting focus to "quantitative easing" in which liquidity is injected into credit markets without lowering interest rates further. In other words, the Fed is planning to buy a lot of assets to improve liquidity soon.
Initial jobless claims – Week ended 13 th December 2008	554,000	The figures came off last week's spike, slipping 21,000 to a lower-than-expected level of 554,000. However, the upward trend is expected to continue as the numbers had not reflected the gloomy outlook of the auto sector.

Forthcoming Important Announcements / Events

22 nd December 2008 (Monday)	HK	:	Moiselle International (00130) – Interim results Artini China (00789) – Interim results Pacific Andes (01174) – Interim results Fu Ji Food And Catering Services (01175) – Interim results
	US	:	Walgreen – Q1 2009 earnings release
23 rd December 2008 (Tuesday)	HK	:	Mascotte Holdings (00136) – Interim results
	US	:	Gross Domestic Product – Q3 final Consumer Sentiment – December 2008 Existing Home Sales – November 2008 New Home Sales – November 2008 State Street Investor Confidence Index – December 2008 Micron Technology – Q1 2009 earnings release
24 th December 2008 (Wednesday)	HK	:	Hong Kong Health Check (00397) – Interim results Sino Prosper (00766) – Interim results Town Health (03886) – Interim results
	US	:	Initial jobless claims – week ended 20 th December 2008 Durable Goods Orders – November 2008 Personal Income and Outlays – November 2008
25 th December 2008 (Thursday)	HK	:	HK Holiday: Christmas Day
	US	:	US Holiday: Christmas Day
26 th December 2008 (Friday)	HK	:	HK Holiday: Christmas Day
	US	:	No important announcement/event



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