

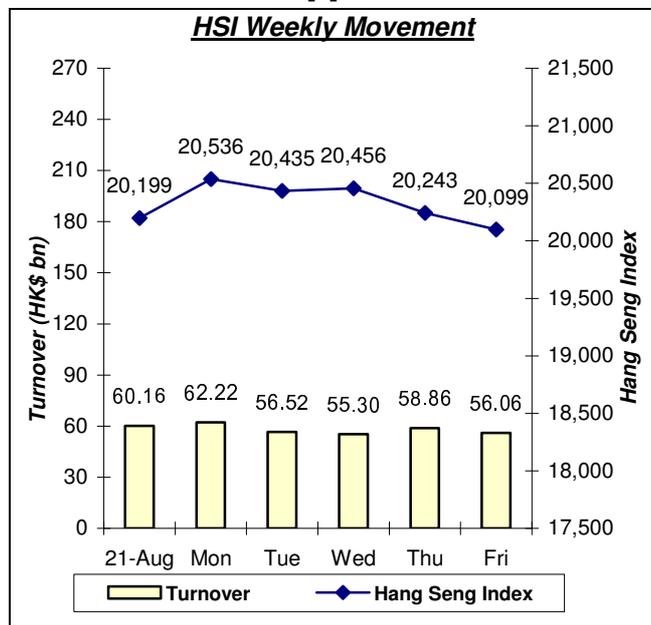
**Restricted circulation**

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**Weekly Report**

 28<sup>th</sup> August 2009

### HSI slipped on weakness in the Mainland stock market



**Weekly Market Statistics**

| Week ended                   | 28/8/2009 | 21/8/2009 | Change | %      |
|------------------------------|-----------|-----------|--------|--------|
| Hang Seng Index              | 20,099    | 20,199    | -100   | -0.5%  |
| HS Red Chip Index            | 3,930     | 4,021     | -92    | -2.3%  |
| HS China Enterprises Index   | 11,434    | 11,465    | -31    | -0.3%  |
| HS Composite Index           | 2,772     | 2,797     | -25    | -0.9%  |
| HS HK Composite Index        | 2,029     | 2,035     | -6     | -0.3%  |
| HS Mainland Composite Index  | 3,672     | 3,717     | -46    | -1.2%  |
| Growth Enterprise Index      | 623       | 625       | -2     | -0.3%  |
| Avg Daily Turnover (HK\$ bn) | 57.8      | 65.6      | -8     | -11.9% |
| <b>Sectoral Indices</b>      |           |           |        |        |
| Finance                      | 30,911    | 30,745    | +166   | +0.5%  |
| Utilities                    | 37,630    | 37,020    | +610   | +1.6%  |
| Properties                   | 25,884    | 26,610    | -726   | -2.7%  |
| Comm & Ind                   | 10,633    | 10,803    | -170   | -1.6%  |

### Review & Outlook of Market Performance

Tracking gains in the US stock market last Friday, the Hang Seng Index opened higher on Monday. But the local bourse soon lost steam, dragged by weak performance of the Mainland stock market following cautious comments by Premier Wen on economic recovery and investors' concerns over market liquidity drain by the upcoming IPOs in September. Over the week, the HSI lost 100 points or 0.5% to 20,098.62, while the HSCEI dipped 0.3%. The daily average of market turnover eased to HK\$57.8 billion, down from HK\$65.6 billion in the previous week.

Investors turned into a cautious mode during the week, after Premier Wen said the country is facing new challenges in boosting domestic consumption and warned about "blind optimism". On Wednesday, Wen reiterated during the executive meeting of the State Council that the Chinese government will take a stricter control on new projects in those industries with overcapacity problem like iron & steel, cement, etc., which also led to further pressure on both the HK and the Mainland equities. Meanwhile, market sources said several sizable IPOs will market next month, including China Metallurgical and Sinopharm.

During the week, major blue chips and China plays continued to deliver their earnings results. In fact, corporate earnings were generally mixed. Sinopec reported a sharp 3.3x jump in 1H09 earnings on revived refining margin, while its upstream peers PetroChina and CNOOC recorded a 7% and a 55% y-o-y drop in net profit during the first half, respectively, on weak crude oil prices. China Life saw its earnings up 15% y-o-y in 1H09 on better investment returns, while Esprit reported a 26% fall in its bottom line for FY08/09 on sluggish European sales.

The reporting season of the first-half results is approaching its final stage. We should continue to see mixed performance of stocks in different market segments in the near term, as investors would adjust their portfolio mix according to the companies' 1H09 results and their respective management guidance for the second half. For the coming week, market focus would be on the US payrolls report on Friday, with the August jobless rate seen inching up at 9.5% from 9.4% in July.

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**US & Regional Markets Weekly Update**

| Date        | US<br>Dow Jones | US<br>NASDAQ | JAPAN<br>Nikkei Avg | SINGAPORE<br>STI | MALAYSIA<br>KLSE Index | BANGKOK<br>SET Index | TAIPEI<br>Weighted Index |
|-------------|-----------------|--------------|---------------------|------------------|------------------------|----------------------|--------------------------|
| 28th August | 9,580.63*       | 2,027.73*    | 10,534.14           | 2,642.80         | 1,174.27               | 656.98               | 6,809.86                 |
| 21st August | 9,505.96        | 2,020.90     | 10,238.20           | 2,544.86         | 1,163.79               | 644.63               | 6,654.80                 |
| Change      | +74.67          | +6.83        | +295.94             | +97.94           | +10.48                 | +12.35               | +155.06                  |
| %           | +0.8%           | +0.3%        | +2.9%               | +3.8%            | +0.9%                  | +1.9%                | +2.3%                    |

Remarks: (\*) closing as of 27<sup>th</sup> August 2009**Major Changes in Index Constituent Stocks (Week ended 28<sup>th</sup> August 2009)****Hang Seng Index (HSI)**

| Stock  | Stock Code | Closing Price @28/8/09 | W-O-W Change |         | Remarks / Comments   |
|--------|------------|------------------------|--------------|---------|--|
|        |            |                        | Absolute     | %       |  |
| Esprit | 00330      | HK\$48.50              | -HK\$9.50    | -16.38% | Apparel retailer Esprit tumbled sharply during the week, after the company reported a worse-than-expected 26% y-o-y net profit fall in its FY09 final results, marking the first full-year bottom-line drop in more than a decade amid sluggish performance in its core European market. |

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

| Stock         | Stock Code | Closing Price @28/8/09 | W-O-W Change |        | Remarks / Comments   |
|---------------|------------|------------------------|--------------|--------|--|
|               |            |                        | Absolute     | %      |  |
| China Telecom | 00728      | HK\$4.01               | +HK\$0.17    | +4.43% | China Telecom outperformed during the week, despite reporting a 28% y-o-y in its first-half earnings. Investors praised the fixed-to-mobile operator's cost control efforts in 1H09. Besides, China Telecom also showed fruitful results in its mobile business development and pleasant progress in its 3G operation. |

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

| Stock | Stock Code | Closing Price @28/8/09 | W-O-W Change |        | Remarks / Comments  |
|-------|------------|------------------------|--------------|--------|---|
|       |            |                        | Absolute     | %      |   |
| CNOOC | 00883      | HK\$10.36              | +HK\$0.04    | +0.39% | CNOOC's stock prices held well during the week, despite delivering a disappointing 55% slump in net profit in 1H09 amid lower oil prices. Investors are turning more optimistic about CNOOC's 2H09 results, thanks to rebounding crude oil prices to above US\$70 per barrel. |

**Summary of US Economic News**

| Indicator   | Change/Index | Comments  |
|---|--------------|---|
| Durable goods orders<br>– July 2009                                 | +4.9% m-o-m  | Durable goods orders surged 4.9% m-o-m in Jul, marking the highest gain since Jul 2007. It was also better than market expectation of a 3% rise, thanks to aircraft orders. |
| Consumer confidence<br>– August 2009                                | 54.1         | Index of consumer confidence rose to 54.1 in Aug from 47.4 in Jul, much higher than consensus forecast of 48.   |
| New home sales<br>– July 2009                                       | +9.6%        | New home sales jumped 9.6% to an annual rate of 433,000 units in Jul, marking the 4 <sup>th</sup> monthly gain. It was higher than market expectation of 390,000 units.     |
| Initial jobless claims<br>– week ended 22 <sup>nd</sup> August 2009 | -10,000      | Initial jobless claims fell 10,000 to 570,000 last week, but higher than market expectation of 565,000.   |
| GDP (preliminary)<br>– Q2 2009                                      | -1.0%        | GDP contracted at an annual rate of 1.0% in the second quarter, improving from a drop of 6.4% in Q1. The figure was also better than consensus forecast of a 1.5% fall.     |

**Forthcoming Important Announcements / Events**

|  |    |   |  |
|--|----|---|--|
| 31 <sup>st</sup> August 2009 (Monday)      | HK | : | Guangzhou Investment (00123) – interim results<br>Asia Financial (00662) – interim results<br>Lee & Man (00746) – interim results<br>Xinyi Glass (00868) – interim results<br>KWG Property (01813) – interim results               |
|  | US | : | No important announcement/event  |
| 1 <sup>st</sup> September 2009 (Tuesday)   | HK | : | Retail sales – July 2009<br>Kingway Brewery (00124) – interim results<br>Shanghai Industrial (00363) – interim results<br>China Communications Services (00552) – interim results<br>Sino-Ocean Land (03377) – interim results     |
|  | US | : | Construction spending – July 2009<br>ISM manufacturing index – August 2009   |
| 2 <sup>nd</sup> September 2009 (Wednesday) | HK | : | Sun Hung Kai & Co (00086) – interim results<br>Tai Sang Land Development (00089) – interim results<br>SmarTone (00315) – final results<br>COSCO International (00517) – interim results<br>Comba Telecom (02342) – interim results |
|  | US | : | Productivity (revised) – Q2 2009<br>Factory orders – July 2009<br>FOMC minutes for the Aug 12 meeting  |
| 3 <sup>rd</sup> September 2009 (Thursday)  | HK | : | CATIC Shenzhen (00161) – interim results<br>China Resources Enterprise (00291) – interim results<br>Sing Tao News Corp (01105) – interim results   |
|  | US | : | Initial jobless claims – week ended 29 <sup>th</sup> August 2009<br>ISM non-manufacturing index – August 2009  |
| 4 <sup>th</sup> September 2009 (Friday)    | HK | : | First Pacific (00142) – interim results<br>CITIC Resources (01205) – interim results<br>Weiqiao Textile (02698) – interim results<br>Vinda International (03331) – interim results   |
|  | US | : | Non-farm payrolls report – August 2009   |



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