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HONG KONG RESEARCH

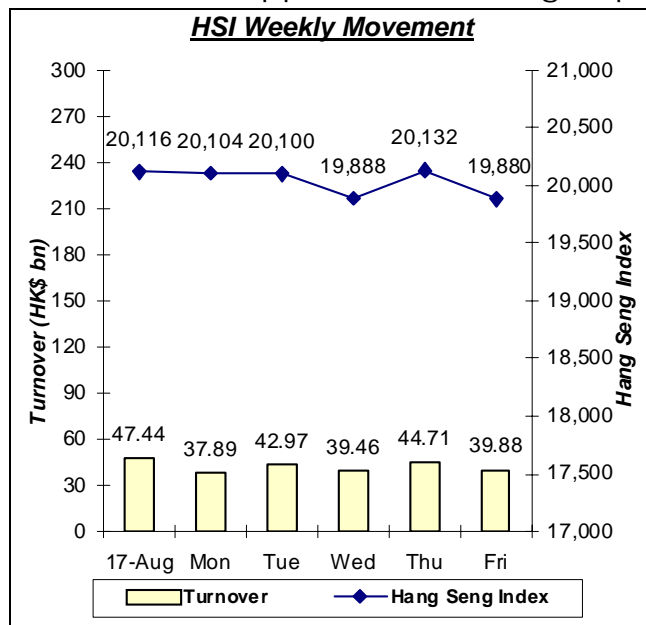
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Weekly Report

24th August 2012

HSI slipped amid fading hope for near-term monetary easing



Weekly Market Statistics

Week ended	24/8/2012	17/8/2012	Change	%
Hang Seng Index	19,880	20,116	-236	-1.2%
HS Red Chip Index	3,906	3,899	+7	+0.2%
HS China Enterprises Index	9,675	9,831	-156	-1.6%
HS Hong Kong 35 Index	2,253	2,269	-16	-0.7%
HS Mainland 100 Index	5,911	5,971	-61	-1.0%
Growth Enterprise Index	358	362	-4	-1.2%
Avg Daily Turnover (HK\$ bn)	41.0	45.2	-4	-9.4%
Sectoral Indices				
Finance	26,605	27,040	-435	-1.6%
Utilities	47,833	48,037	-204	-0.4%
Properties	26,846	27,029	-183	-0.7%
Comm & Ind	11,954	12,060	-106	-0.9%

Review & Outlook of Market Performance

The Hang Seng Index mainly consolidated near 20,000 level amid a mixed bag of earnings results during the week. The stock market turned more volatile towards the end of the week, as the latest FOMC minutes set off two-way speculation of a near-term launch of QE3. Over the week, the HSI dropped 236 points or 1.2% to 19,880.03, while the HSCEI lost 1.6%. The daily average of Mainboard turnover fell to HK\$41.0 billion from HK\$45.2 billion in the previous week, as investors turned to the sideline amid rising monetary policy uncertainty.

The minutes for the FOMC meeting on 31st Jul – 1st Aug revealed policy members judged that new accommodative measures would be confirmed 'fairly soon' if the US economy fails to show better signs of recovery. The statement re-ignited hope for QE3 and triggered a short-lived rally on Thursday, before a non-voting Fed official said the minutes was a bit 'stale'. On the Mainland, hope for a near-term RRR cut also faded, after the central bank injected a hefty amount of liquidity into the banking system via its reserve repo operation.

In light of global recession and economic slowdown on the Mainland, companies delivered a mixed bag of earnings results. PRC banks like Bank of China and Minsheng Bank reported solid profit growth in the first half on better interest income. Results from energy plays like PetroChina, CNOOC and China Coal failed to impress, owing to weak refined oil product and coal prices as well as high lifting costs. Both China Telecom and China Unicom shined, as their respective 3G businesses have established good scale and improved profitability.

It will be the peak of the reporting season next week. Major PRC banks, infrastructure, port and shipping, base metal producers, airlines, etc., are scheduled to release their first-half results, which will give the market a clearer picture of the latest corporate earnings outlook in light of softening economic growth in China.

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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
24th August	13,057.46*	3,053.40*	9,070.76	3,050.49	1,648.22	1,237.19	7,477.53
17th August	13,275.20	3,076.59	9,162.50	3,065.15	1,651.52	1,223.91	7,467.92
Change	-217.74	-23.19	-91.74	-14.66	-3.30	+13.28	+9.61
%	-1.6%	-0.8%	-1.0%	-0.5%	-0.2%	+1.1%	+0.1%

Remark: (*) closing at of 23rd August 2012

Major Changes in Index Constituent Stocks (Week ended 24th August 2012)**Hang Seng Index (HSI)**

Stock	Stock Code	Closing Price @24/8/2012	W-O-W Change		Remarks / Comments
			Absolute	%	
China Coal Energy	01898	HK\$6.87	-HK\$0.52	-7.04%	China Coal was under pressure after it reported a disappointing 8% profit drop in the first half. Management is cautious over the coal price outlook in 2H12 amid sluggish demand.
CNOOC Ltd.	00883	HK\$14.80	-HK\$0.78	-5.01%	CNOOC underperformed after it reported a weaker-than-expected 19% earnings drop in 1H12, owing to high lifting costs. The offshore oil producer also cut dividend payout to reserve cash for the proposed Nexen buyout deal.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @24/8/2012	W-O-W Change		Remarks / Comments
			Absolute	%	
China Telecom	00728	HK\$4.43	+HK\$0.40	+9.93%	China Telecom was the top gainer in the HSCEI, after the mobile and fixed-line carrier announced plan to acquire CDMA network assets from its parent, which would help save network leasing fees. In addition, the Group's interim results also showed its mobile ARPU stabilized in 1H12 after a sharp fall in 2011.

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @24/8/2012	W-O-W Change		Remarks / Comments
			Absolute	%	
China Unicom	00762	HK\$13.10	+HK\$1.24	+10.46%	China Unicom was the biggest winner in the HSCCI after it reported a better-than-expected 31% profit growth in the first half on improved earnings from its 3G business.


Summary of US Economic News

Indicator	Change/Index	Comments
Existing home sales – July 2012	+2.3%	Existing home sales rose 2.3% to an annual rate of 4.47 million units in July but weaker than market expectation of 4.55 million units.
Initial jobless claims – week ended 28 th July 2012	+4,000	Initial jobless claims rose 4,000 to 372,000, higher than consensus forecast of 365,000.
New home sales – July 2012	+3.6%	New home sales surged 3.6% to an annual rate of 372,000 units in July, higher than market expectation of 368,000.

Major Earnings Results Announcements During the Week

Stock	Net profit	y-o-y change	Drivers of performance	Share price w-o-w chg
Bank of China (03988)	RMB71.6 billion	+7.6%	BOC posted a stable bottom-line growth in 1H12 on a higher average balance of interest-earning assets despite a narrowed net interest margin.	-1.3%
Belle International (01880)	RMB2.2 billion	+11.7%	Belle reported a solid earnings growth in 1H12, but management said market would be full of challenges in 2H12.	-2.8%
BOC (Hong Kong) (02388)	HK\$11.2 billion	-6.3%	Excluding the write-back from Lehman Brothers' minibonds in 1H11, BOCHK's net income should have increased by 16.2% y-o-y and its net interest margin surged by 43 bps.	+0.6%
China Coal Energy (01898)	RMB5.1 billion	-8.2%	China Coal reported an 8% earnings fall in 1H12 on higher costs but lower spot coal prices during the first half.	-7.0%
China Minsheng Banking Corp (01988)	RMB19.1 billion	+36.9%	Minsheng Bank reported strong earnings growth in 1H12, thanks to a wider net interest margin and a lower Cost-to-Income ratio.	-2.0%
China National Building Materials (03323)	RMB1.9 billion	-47.3%	CNBM 1H12 earnings tumbled sharply on dropping cement prices and higher finance costs.	-0.9%
China Resources Power (00836)	HK\$3.0 billion	+20.8%	CR Power saw strong earnings growth in the first half on contained coal costs.	+2.0%
China Telecom (00728)	RMB8.8 billion	-8.3%	China Telecom reported an 8% profit drop in 1H12 on rising selling and marketing expenses amid keen competition in the PRC mobile market. Meanwhile, the fixed-line and mobile carrier said to acquire CDMA network from its parent for RMB84.6 billion, which is expected to help save China Telecom's network leasing fee.	+9.9%
China Unicom (00762)	RMB3.4 billion	+31.9%	Unicom reported a stronger-than-expected earnings growth in 1H12, thanks to contained handset subsidies and improved earnings from its 3G business.	+10.5%

Major Earnings Results Announcements During the Week

CNOOC Ltd. (00883)	RMB31.9 billion	-19.0%	CNOOC reported a worse-than-expected interim results with earnings dropped by 19%, amid rising lifting costs.	-5.0%
Henderson Land (00012)	HK\$7.7 billion	-12.4%	Henderson Land reported a lower profit during the first half on dropping property sales. But its underlying net income (excluding the fair value change of investment properties) increased by 4.7% y-o-y, beating market expectations.	+3.0%
Hong Kong & China Gas (00003)	HK\$4.1 billion	+27.8%	Towngas's 1H12 jumped y-o-y, thanks to its China city-gas operations.	-0.4%
PetroChina (00857)	RMB62.0 billion	-6.0%	PetroChina saw lower profit in the first half, owing to losses from refining and chemical operations.	-2.3%
Ping An Insurance (02318)	RMB14.0 billion	+9.4%	Ping An posted better-than-expected profit in 1H12, thanks to contribution from its banking operations.	-2.3%
Sinopharm (01099)	RMB959 million	+22.3%	The pharmaceutical distributor's 1H12 earnings was mainly driven by a strong 39% top-line growth.	+2.9%
Tingyi (00322)	US\$284 million	+24.2%	Tingyi reported a solid earnings growth in the first half, thanks to better profit margin and increased market share of its instant noodle products.	+12.8%
Wharf (Holdings) (00004)	HK\$23.6 billion	+65.3%	Excluding property revaluation gain, Wharf's underlying profit grew 115% to HK\$7.1 billion, driven by its robust retail rental business and property sales.	+5.3%



Forthcoming Important Announcements / Events

27 th August 2012 (Monday)	HK	:	Angang Steel (00347) – interim results BYD Company (01211) – interim results China Longyuan Power (00916) – interim results China Southern Airlines (01055) – interim results China Non-ferrous Mining (01258) – interim results COFCO Packaging (00906) – interim results COSCO Pacific (01199) – interim results Foxconn (02038) – interim results GAC Group (02238) – interim results Galaxy Entertainment (00027) – interim results Samsonite (01910) – interim results Sands China (01928) – interim results Shimao Property (00813) – interim results Yital Coal (03948) – interim results
	US	:	No important announcement/event
28 th August 2012 (Tuesday)	HK	:	External merchandise trade – July 2012 Air China (00753) – interim results AviChina (02357) – interim results Bawang Group (01338) – interim results China Communications Construction (01800) – interim results China Life (02628) – interim results Emperor Watch & Jewellery (00887) – interim results Evergrande (03333) – interim results Guangshen Railway (00525) – interim results Mengniu Dairy (02319) – interim results Sinoma (01893) – interim results Sinotruk (03808) – interim results
	US	:	Consumer confidence – August 2012
29 th August 2012 (Wednesday)	HK	:	Agricultural Bank of China (01288) – interim results Brilliance China (01114) – interim results China Agri-Industries (00606) – interim results China COSCO (01919) – interim results China Foods (00506) – interim results China Communications Services (00552) – interim results CITIC Bank (00998) – interim results Jiangxi Copper (00358) – interim results Sino Land (00083) – interim results Want Want China (00151) – interim results
	US	:	GDP (2 nd estimate) – Q2 2012
30 th August 2012 (Thursday)	HK	:	Retail sales – July 2012 Bank of Communications (03328) – interim results Beijing Enterprise (00392) – interim results China Eastern Airlines (00670) – interim results China Merchants (International) – interim results China Railway Construction (01186) – interim results China Railway Group (00390) – interim results CITIC Securities (06030) – interim results ICBC (01398) – interim results Ports (00589) – interim results Weichai Power (02338) – interim results Zoomlion (01157) – interim results
	US	:	Initial jobless claims – week ended 25 th August 2012 Personal income and spending – July 2012
31 st August 2012 (Friday)	HK	:	GOME (00493) – interim results Yue Yue Industrial (00551) – interim results
	US	:	Consumer sentiment (final) – August 2012 Factory orders – July 2012

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