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HONG KONG RESEARCH

Restricted circulation **Weekly Report**
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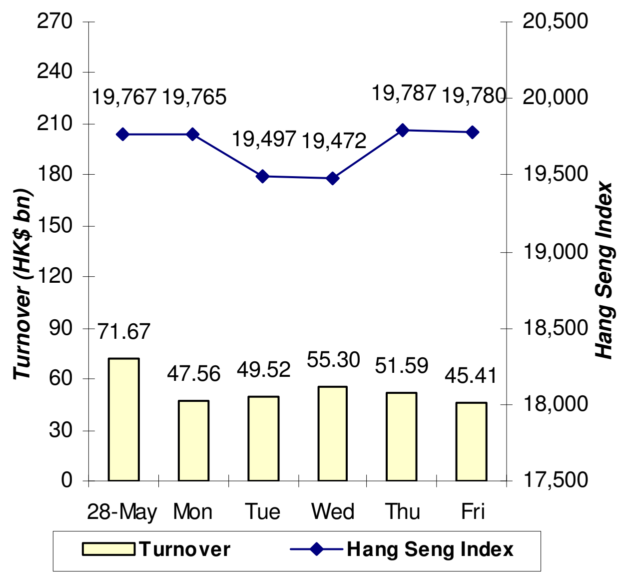
HSI rebounded on better US data

HSI Weekly Movement



Weekly Market Statistics

Week ended	04/6/2010	28/5/2010	Change	%
Hang Seng Index	19,780	19,767	+13	+0.1%
HS Red Chip Index	3,683	3,712	-29	-0.8%
HS China Enterprises Index	11,376	11,508	-133	-1.2%
HS Hong Kong 35 Index	2,010	2,007	+4	+0.2%
HS Mainland 100 Index	6,355	6,397	-43	-0.7%
Growth Enterprise Index	780	768	+12	+1.5%
Avg Daily Turnover (HK$ bn)	49.9	69.2	-19	-27.9%
Sectoral Indices				
Finance	30,098	29,987	+112	+0.4%
Utilities	38,696	38,683	+13	+0.0%
Properties	24,726	24,844	-117	-0.5%
Comm & Ind	10,657	10,674	-17	-0.2%

Review & Outlook of Market Performance

Hong Kong equities registered a U-shaped rebound this week. The shares ended almost flat on Monday neglecting news that Spain's credit rating had been downgraded. Market sentiment weakened on Tuesday and Wednesday after news of Chinese banks' fundraising plans. Nevertheless, the Hang Seng Index (HSI) rebounded sharply on Thursday, led by gains in financial and energy shares following the US's better-than-expected pending home sales in April. Eventually, the HSI had a weekly gain of 0.1% to 19,780.07, while the HSCEI dropped 1.2% to 11,375.51. The daily average turnover amounted to HK$49.9 billion, down from HK$69.2 billion in the previous week.

China's purchasing manager index fell larger-than-expected to 53.9 in May from 55.7 in April, while Hong Kong retail sales rose 15.6% y-o-y in April to HK$25.1 billion, driven by higher spending from mainland tourists and the low base in the last year. Meanwhile, shares in Prudential rose 6.2% week-on-week after the insurance company scrapped its buyout plan of American International Assurance as American International Group refused to cut the acquisition price. Local property counters had mixed performance (-1.4% to +7.4%) on MTRC's withdrawal of its offer of Nan Cheong Station project and the implementation of the government's new primary property sales rules. Most mainland property developers remained under pressure after China said it would study a possible nationwide property tax reform. On IPO front, International Taifeng (a mainland manufacturer and distributor of quality cotton yarns and bedding products) set off its Hong Kong IPO from 31st May to 3rd June. However, it only received a lukewarm market response as some of the subscribers cancelled their margin financing orders.

Looking ahead, market focus will be on US's May non-farm payroll, April wholesale trade and Beige Book, as well as China's new RMB loans approved in May. The Hang Seng Index is expected to be capped at its nearest resistant level of 19,800 in the coming week amid China's continuous tightening risk and a near term large-scale IPO from the Agricultural Bank of China which may sap capital from the market.

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
4th June	10,255.28*	2,303.03*	9,901.19	2,813.57	1,294.59	771.48	7,344.59
28th May	10,136.63	2,257.04	9,762.98	2,739.70	1,269.16^	737.28^	7,295.32
Change	+118.65	+45.99	+138.21	+73.87	+25.43	+34.20	+49.27
%	+1.2%	+2.0%	+1.4%	+2.7%	+2.0%	+4.6%	+0.7%

Remarks: (^) closing at of 27th May 2010; (*) closing as of 3rd June 2010

Major Changes in Index Constituent Stocks (Week ended 4th June 2010)

Hang Seng Index (HSI)

Stock	Stock Code	Closing Price @4/6/2010	W-O-W Change		Remarks / Comments
			Absolute	%	
China Resources Enterprises (CRE)	00291	HK$27.90	+HK$1.25	+4.69%	CRE said capital spending would rise to HK$7 billion this year, up almost 20% year-on-year. Besides, it is exploring six to seven acquisition projects with at least one to two projects to be confirmed this year.
CHALCO	02600	HK$6.30	-HK$0.39	-5.83%	The counter was the worst performed shares in the HSI as commodity prices continued to drop.

Hang Seng China Enterprises Index (HSCEI)

Stock	Stock Code	Closing Price @4/6/2010	W-O-W Change		Remarks / Comments
			Absolute	%	
Citic Bank	00998	HK$4.83	+HK$0.22	+4.77%	Citic Bank announced its issuance of subordinated bonds with an aggregate amount of RMB16.5 billion to replenish its supplementary capital.
Angang Steel	00347	HK$10.06	-HK$1.30	-11.44%	Steel plays were under pressure, after Baosteel cut its hot-rolled steel product price by 10% amid a sluggish demand outlook, adding further pressure on the industry's already battered profit margins.

Hang Seng China-Affiliated Corporations Index (HSCCI)

Stock	Stock Code	Closing Price @4/6/2010	W-O-W Change		Remarks / Comments
			Absolute	%	
Denway Motors	00203	HK$3.54	+HK$0.44	+14.19%	Shares prices of Denway rebounded on news that workers at Honda Motor ended their strike on Friday.

Summary of US Economic News

Indicator	Change/Index	Comments
Construction spending – April 2010	+2.7%, m-o-m	Both construction spending and pending home sales surged 2.7% m-o-m in April, following a 0.4% and 0.2% rebounds in March respectively. The gains were resulted from buyers taking advantage of tax credits before expiry.
Pending home sales – April 2010	+2.7%, m-o-m	
ISM manufacturing index – May 2010	59.7	ISM manufacturing index rose less-than-expected to 59.7 from 60.4 on higher monthly gains in new orders and employment.
ISM non-manufacturing index – May 2010	55.4	The counter was unchanged for a third month in April, staying at a very solid 55.4 in May.
Initial jobless claims – the week ended 29th May 2010	453,000	Initial jobless claims dropped by 7,000 to 453,000 for the week ended 29th May. On the other hand, the four-week average claims were up slightly for a third straight week to 459,000.
Productivity (revised) – Q1 2010	+2.8%, q-o-q	Labor productivity in nonfarm business sector rose 2.8% q-o-q in Q1 2010, with output rising 4.0% and hours rising 1.1%.
Factory orders – April 2010	+1.2%, m-o-m	Factory orders rose 1.2% m-o-m in April, following an upwardly revised 1.7% gain. However, the April rise came in below market expectations.

Forthcoming Important Announcements / Events

7th June 2010 (Monday)	HK	:	Next Media (00282) – final results Tse Sui Luen (00417) – final results
	US	:	No important news or announcements
8th June 2010(Tuesday)	HK	:	Vitasoy International (00345) – final results
	US	:	No important news or announcements
9th June 2010 (Wednesday)	HK	:	No important news or announcements
	US	:	Wholesale trade – April 2010 Fed's Beige Book
10th June 2010 (Thursday)	HK	:	North Asia Strategic (08080) – final results
	US	:	International trade – April 2010 Initial jobless claims – the week ended 5th June 2010
11th June 2010 (Friday)	HK	:	International Taifeng (00873) – trading debut
	US	:	Retail sales – May 2010 Consumer sentiment – June 2010 Business inventories – April 2010

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