

**THE FED RAISES INTEREST RATES
AND STOCK PRICES ARE OFF AND RUNNING**

In the mistaken belief that crude oil prices would continue to fall, investors in Europe ploughed into stocks and shares, listed on the 6 major, eurozone equity markets, last Monday.

In electronic trading in Europe on The New York Mercantile Exchange (NYMEX), early last Monday morning, the price of light sweet crude oil for delivery in June was being quoted at \$US49.23 per barrel.

That price represented a drop, compared with the settlement price of Friday, April 29, of about 49 cents (US) per barrel.

And, then, the price of light sweet crude oil fell even further, dropping back to \$US49.05 per barrel.

The '*word*' in Europe was that the US had stockpiled huge quantities of crude oil and that the worst was over as far as rising oil prices were concerned.

However, it was not to be: Man proposes, God disposes.

During normal trading hours on The NYMEX, last Monday in New York, the price of light sweet crude oil for June delivery was settled at \$US50.92 per barrel, an increase of about 2.41 percent, compared with the previous Friday close.

As for July delivery, the price of light sweet crude oil was settled at \$US52.64 per barrel. That price represented an increase of about 2.31 percent on the previous close.

The worst was, clearly, not over.

This was how indices of the major European bourses ended their respective trading days, last Monday:

| | |
|-------------------------------------|----------------------|
| Amsterdam's AEX Index | Plus 0.04 percent |
| Great Britain's FTSE 100 Index | Plus 0.24 percent |
| Germany's Frankfurt XETRA DAX Index | Plus 0.93 percent |
| France's CAC 40 Index | Plus 0.69 percent |
| Switzerland's Swiss Market Index | Plus 1.06 percent |
| Italy's MIBTEL Index | Plus 0.69 percent |

Wall Street was, still, a little concerned about what the US Federal Reserve Board might release at the conclusion of its Open Market Committee Meeting, scheduled to commence the following day.

As such, there was a certain amount of hesitancy in respect of setting the prices of stocks and shares, listed on the world's largest equity markets.

On The New York Stock Exchange, the Dow Jones Industrial Average rose 59.19 points, or about 0.58 percent, ending the trading session at 10,251.70 points.

On The (tech-laden) NASDAQ, its Composite Index managed only to make a gain of 7 points, equivalent to about 0.36 percent, coming to rest at the end of the day at 1,928.65 points.

Trading was choppy, which is normal on the eve, so to speak, of an interest meeting of The Fed.

Aside from the consideration that interest rates were likely to rise, once again, before the week was out, the considerably higher prices of fossil fuels went a long way to dampen the ardour of many investors.

Trading was subdued in Asian equity markets (those that were open for business, that is) not because of The Fed, not because of the prospects of higher/lower prices for crude oil, but because it was a holiday week for many of the markets in this part of the world.

The equity markets of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) were closed for a public holiday.

Japan was open for business, last Monday, but it was Golden Week in The Land of The Rising Sun, with one holiday after another, coming during the week: The equity markets of Japan were closed from Tuesday to Thursday.

On The Tokyo Stock Exchange, last Monday, The Nikkei-225 Stock Average closed the quiet trading session at 11,002.11 yen, a 6.79-yen fall, equivalent to a drop of 0.06 percent.

The ratio of gaining counters to losing ones was about 1.49:One.

News Wise

- **Mitsubishi Heavy Industries Ltd** reported that its Net Profit Attributable to Shareholders for Fiscal 2004 had fallen 81.40 percent, Year-On-Year, to 4.05 billion yen. The higher costs of materials were said to have been a contributing factor to the fall from grace;
- **Kawasaki Heavy Industries Ltd** announced that its Net Profit Attributable to Shareholders had risen during Fiscal 2004 to 11.48 billion yen, up 81.20 percent, *Year-On-Year*;
- **All Nippon Airways Company**, the second-largest carrier in Japan, reported a Net Profit Attributable to Shareholders for Fiscal 2004 of 26.90 billion yen, an increase of about 9 percent, compared with Fiscal 2003; and,
- **Mazda Motor Corporation** announced that its Net Profit Attributable to Shareholders for Fiscal 2004 rose to 45.80 billion yen, an increase of about 35 percent, compared with Fiscal 2003. It was a record level for the motor-vehicle producer.

This was how indices of other Asian equity markets closed, last Monday night:

| | |
|-----------------|---------------------------------|
| The HKSAR | Closed |
| Indonesia | Minus 0.30 percent to 1,026.52 |
| Japan | Minus 0.06 percent to 11,002.11 |
| Malaysia | Closed |
| The Philippines | Closed |
| Singapore | Closed |

| | |
|-------------|-----------------------------|
| South Korea | Plus 0.78 percent to 918.42 |
| Taiwan | Unchanged at 5,818.07 |
| Thailand | Closed |

Tuesday

Every investor, from New York to Tokyo, Japan, waited anxiously for the US Federal Reserve Board to hold its interest-rate meeting, last Tuesday.

And every investor fully expected The Fed to increase interest rates by 25 basis points.

And so it came to pass.

This is that which The Fed announced, last Tuesday:

'The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3 percent.

'The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. Recent data suggest that the solid pace of spending growth has slowed somewhat, partly in response to the earlier increases in energy prices. Labor market conditions, however, apparently continue to improve gradually. Pressures on inflation have picked up in recent months and pricing power is more evident. Longer-term inflation expectations remain well contained.

'The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability ...

'In a related action, the Board of Governors unanimously approved a 25-basis-point increase in the discount rate to 4 percent ... '.

No great shakes and no great shocks: Investors breathed a sigh of relief.

On The New York Stock Exchange, the Dow Jones Industrial Average hardly moved, during the choppy trading session.

When The Fed's announcement came, if anything, it was an anticlimactic pronouncement.

The Dow ended at 10,256.95 points, up about 0.05 percent on Monday's close.

Over on The NASDAQ, its Composite Index rose just 0.23 percent, limping up to 1,933.07 points.

While The Fed had, by last Tuesday, raised interest rates for 8 consecutive Open Market Committee Meetings, considering the low level from where interest rates had risen, a 25 basis-point raise to 3 percent could hardly be considered the end of the road.

The fact that The Fed had made prominent mention of the fact that consumer spending in the US had slowed, and that this situation had been partly due to the increased costs of energy, was not good news for the equity

markets of the world's only superpower.

But there was some very positive news, last Tuesday, also.

On The New York Mercantile Exchange (NYMEX), the price of light sweet crude oil for delivery in June dropped by about 2.79 percent, compared with Monday's closing level, to settle at \$US49.50 per barrel.

As for July delivery, the price of light sweet crude oil was settled at \$US51.23 per barrel, down 2.68 percent on the day.

That was the good news.

Then, from 2 of the largest, motor-vehicle producers of the US came rather worrying news.

Both General Motors Corporation and Ford Motor Company, both, being giants in their field, reported that sales, during the month of April, were startlingly lower than had, hitherto, been expected.

The principal bugbear was the high price of petrol in the US.

These manufacturing giants of the US motor-vehicle industry, also, reported that sales of the once, very popular Sports Utility Vehicles (SUVs) were ebbing ... and ebbing very quickly: The petrol cost of running them was just too high for many Americans.

Meanwhile, Asian competitors to General Motors and Ford proudly announced that they had made decided inroads into the once hallowed US, motor-vehicle market.

Toyota Motor Corporation of Japan announced that April vehicle sales in the US had risen by about 21 percent, Year-On-Year.

It was the best monthly result in the history of the company.

Management of Nissan Motor Company Ltd, also, of Japan, reported that April sales in the US were up, Year-On-Year, by about 27 percent.

South Korea's Hyundai Motor Company Ltd reported double-digit gains in the sales of its motor vehicles in the US, during the month of April, compared with the like month in 2004.

In Europe, although The Fed had not announced its determination in respect of interest rates in the US, during trading hours, investors in that part of the world took a flyer that that which had been expected would come to pass – without any shocks.

Also, it appeared that the price of oil was falling rather smartly.

For a change, investors of eurozone got it right.

This was how the indices of major bourses in Europe fared, last Tuesday:

| | |
|-------------------------------------|-----------------------|
| Amsterdam's AEX Index | Plus 0.20 percent |
| Great Britain's FTSE 100 Index | Plus 1.23 percent |
| Germany's Frankfurt XETRA DAX Index | Plus 0.50 percent |
| France's CAC 40 Index | Plus 0.43 percent |
| Switzerland's Swiss Market Index | Minus 0.12 percent |
| Italy's MIBTEL Index | Plus 0.09 percent |

The key indices of major Asian equity markets ended on a higher note, last Tuesday.

Trading on the 2 equity markets of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) remained somewhat subdued, however, as investors determined to wait out the meeting of the US Federal Reserve Board.

On the Main Board of The Stock Exchange of Hongkong Ltd, the Hang Seng Index shed about 0.11 percent of its value, falling to 13,893.98 points.

The Total Turnover was about \$HK13.97 billion, while the ratio of losing counters to gaining ones was about 1.06:One.

The Ten Most Active counters were:

| | |
|--|---|
| HSBC Holdings plc (Code: 5) | Down 0.40 percent to \$HK124.50 per share |
| China Mobile (Hongkong) Ltd (Code: 941) | Up 1.67 percent to \$HK27.45 per share |
| Hutchison Whampoa Ltd (Code: 13) | Up 0.36 percent to \$HK69.75 per share |
| PetroChina Company Ltd (Code: 857) | Up 0.53 percent to \$HK4.70 per share |
| Sun Hung Kai Properties Ltd (Code: 16) | Unchanged at \$HK74.50 per share |
| Hang Seng Bank Ltd (Code: 11) | Down 0.47 percent to \$HK106.00 per share |
| Cheung Kong (Holdings) Ltd (Code: 1) | Down 0.34 percent to \$HK73.25 per share |
| BOC Hongkong (Holdings) Ltd (Code: 2388) | Down 0.34 percent to \$HK14.70 per share |
| China Telecom Corporation Ltd (Code: 728) | Up 0.95 percent to \$HK2.65 per share |
| China Petroleum and Chemical Corporation (Code: 386) | Unchanged at \$HK3.05 per share |

As for the Main Board's double-digit movers of the day, they included:

| Name of Company | Code | Increase (%) | Decrease (%) | Closing Price (\$HK) |
|---|------|--------------|--------------|----------------------|
| Anex International Holdings Ltd | 723 | 10.64 | | 0.104 |
| Artel Solutions Group Holdings Ltd | 931 | | 13.70 | 0.126 |
| Bestway International Holdings Ltd | 718 | 21.05 | | 0.069 |
| Capital Estate Ltd | 193 | 12.90 | | 0.035 |
| China United International Holdings Ltd | 273 | | 12.63 | 0.249 |
| Chinney Alliance Group Ltd | 385 | 10.53 | | 0.021 |
| Fortuna International Holdings Ltd | 530 | | 11.11 | 0.016 |
| Heritage International Holdings Ltd | 412 | 10.00 | | 0.011 |
| Hi Sun Technology (China) Ltd | 818 | 13.33 | | 0.51 |
| Mei Ah Entertainment Group Ltd | 391 | 11.29 | | 0.345 |
| Pak Tak International Ltd | 2668 | 10.00 | | 0.44 |
| Premium Land Ltd | 164 | | 15.79 | 0.32 |
| Ruili Holdings Ltd | 491 | | 13.68 | 0.246 |
| Sunway International Holdings Ltd | 58 | | 10.00 | 0.27 |
| Victory Group Ltd | 1139 | 12.50 | | 0.045 |
| VST Holdings Ltd | 856 | | 11.54 | 0.138 |
| Wealthmark International (Holdings) Ltd | 39 | | 15.49 | 0.60 |

It was a similar story on The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd as the one, being told on the Main Market.

The Growth Enterprise Index dropped about 0.04 percent of its value, ending the first trading day of the week at 915.53 points.

The Total Turnover on this speculative market was about \$HK82.56 million.

Losing counters eased out gaining counters by the ratio of about 1.31:One.

The 5, most-active counters, in terms of their respective turnovers, only, were:

| | |
|--|--|
| Vertex Communications and Technology Group Ltd (Code: 8228) | Up 18 percent to 57 cents per share |
| Town Health International Holdings Company Ltd (Code: 8138) | Down 4 percent to 10.60 cents per share |
| Techpacific Capital Ltd (Code: 8088) | Down 16 percent to 19.60 cents per share |
| Convenience Retail Asia Ltd (Code: 8052) | Unchanged at \$HK2.85 per share |
| Kanstar Environmental Paper Products Holdings Ltd (Code: 8011) | Unchanged at 31 cents per share |

The GEM's biggest movers of the day were:

| Name of Company | Code | Increase (%) | Decrease (%) | Closing Price (\$HK) |
|--|------|--------------|--------------|----------------------|
| B.A.L. Holdings Ltd | 8400 | 21.88 | | 0.195 |
| Cardlink Technology Group Ltd | 8066 | | 10.83 | 0.107 |
| Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Company Ltd | 8231 | | 10.50 | 0.179 |
| Grandy Corporation | 8143 | | 13.79 | 0.025 |
| New Universe International Group Ltd | 8068 | 22.22 | | 0.055 |
| T S Telecom Technologies Ltd | 8003 | | 11.59 | 0.061 |
| Techpacific Capital Ltd | 8088 | | 16.24 | 0.196 |
| Vertex Communications and Technology Group Ltd | 8228 | 17.53 | | 0.57 |

Japan was closed for Golden Week.

For the most-important equity markets of Asia, this was how their respective key indices closed, last Tuesday:

| | |
|-----------------|---------------------------------|
| The HKSAR | Minus 0.11 percent to 13,893.98 |
| Indonesia | Plus 0.68 percent to 1,033.50 |
| Japan | Closed |
| Malaysia | Plus 1.49 percent to 892.03 |
| The Philippines | Plus 0.57 percent to 1,865.11 |
| Singapore | Plus 0.56 percent to 2,137.17 |
| South Korea | Minus 0.50 percent to 913.82 |
| Taiwan | Plus 0.003 percent to 5,818.22 |
| Thailand | Plus 1.65 percent to 669.72 |

Wednesday

North American and European stock market received a massive dose of confidence, last Wednesday, following an announcement from Tracinda Corporation, the corporate investment vehicle of multi-billionaire Kirk Kerkorian: It would raise its stake in General Motors Corporation to 8.80 percent of the Issued and Fully Paid-Up Share Capital of the company.

This means that Tracinda will be spending at least \$US868 million in order to acquire an addition tranche of 28 million General Motors' shares.

Tracinda, already, owns 22 million General Motors's shares.

The announcement lit a fire on equity markets in North America, especially.

On The New York Stock Exchange, the Dow Jones Industrial Average put on 127.69 points, equivalent to about 1.24 percent, running up to 10,384.64 points.

On The NASDAQ, its Composite Index gained 29.16 points, or about 1.51 percent, ending the session at 1,962.23 points.

The price of General Motors' shares shot up 18.10 percent to \$US32.80.

News Wise

- **International Business Machines Corporation** (IBM) announced that it would be sacking up to 13,000 of its workers. Most of the sackings would be in the company's European operations.

The rally on Wall Street was in spite of crude oil prices, rising once again.

On The New York Mercantile Exchange (NYMEX), the June delivery price for light sweet crude oil rose about 1.27 percent, compared with Tuesday's closing level, the settlement price, coming in at \$US50.13 per barrel.

For July, the price of light sweet crude oil was settled at \$US51.90 per barrel, an increase of about 1.31 percent, compared with Tuesday's last quote.

Europe, however, got it wrong – again – as investors in this part of the world decided that the price of crude oil would fall again.

Equity markets of the eurozone rose, nevertheless, due in large part to the announcement from Tracinda.

This was how indices of the leading bourses of Europe ended their respective trading days, last Wednesday:

| | |
|-------------------------------------|----------------------|
| Amsterdam's AEX Index | Plus 0.60 percent |
| Great Britain's FTSE 100 Index | Plus 0.43 percent |
| Germany's Frankfurt XETRA DAX Index | Plus 0.44 percent |
| France's CAC 40 Index | Plus 0.80 percent |
| Switzerland's Swiss Market Index | Plus 0.95 percent |
| Italy's MIBTEL Index | Plus 0.19 percent |

News Wise

- The **European Central Bank** (ECB) left well-enough alone, last Wednesday, and kept **key interest rates** at 2 percent. With economic confidence in decline and with growth prospects for the European Union, being

less than buoyant, the Governors of the ECB made the determination to leave interest rates at their same levels as June 2003.

Asian stock markets were generally higher, helped by the falling price of crude oil on Tuesday and the lack of any major shocks from the US Federal Reserve Board's statement of Tuesday.

On The Main Board of The Stock Exchange of Hongkong Ltd, the Hang Seng Index rose about 0.37 percent to end the trading session at 13,945.05 points.

The Total Turnover was about \$HK14.41 billion, while the ratio of gaining counters to losing ones was about 1.24:One.

The Ten Most Actives were:

| | |
|--|---|
| HSBC Holdings plc (Code: 5) | Up 1.20 percent to \$HK126.00 per share |
| China Mobile (Hongkong) Ltd (Code: 941) | Down 1.46 percent to \$HK27.05 per share |
| Hutchison Global Communications Holdings Ltd (Code: 757) | Up 41.05 percent to \$HK0.67 per share |
| Sun Hung Kai Properties Ltd (Code: 16) | Up 0.67 percent to \$HK75.00 per share |
| Hutchison Whampoa Ltd (Code: 13) | Up 0.36 percent to \$HK70.00 per share |
| Cheung Kong (Holdings) Ltd (Code: 1) | Up 0.34 percent to \$HK73.50 per share |
| PetroChina Company Ltd (Code: 857) | Unchanged at \$HK4.70 per share |
| Hang Seng Bank Ltd (Code: 11) | Down 0.47 percent to \$HK105.50 per share |
| China Telecom Corporation Ltd (Code: 728) | Unchanged at \$HK2.65 per share |
| BOC Hongkong (Holdings) Ltd (Code: 2388) | Up 0.68 percent to \$HK14.80 per share |

The Main Board's biggest movers of the day included:

| Name of Company | Code | Increase (%) | Decrease (%) | Closing Price (\$HK) |
|---|------|--------------|--------------|----------------------|
| Applied International Holdings Ltd | 519 | 24.00 | | 0.31 |
| China Motion Telecom International Ltd | 989 | | 12.30 | 0.214 |
| Great China Holdings Ltd | 141 | 10.64 | | 0.52 |
| Guangdong Tannery Ltd | 1058 | 11.11 | | 0.20 |
| Hutchison Global Communications Holdings Ltd | 757 | 41.05 | | 0.67 |
| Hop Hing Holdings Ltd | 47 | | 13.33 | 0.26 |
| Interchina Holdings Company Ltd | 202 | | 15.45 | 0.104 |
| Landune International Ltd | 245 | | 11.11 | 0.112 |
| Mascotte Holdings Ltd | 136 | | 13.79 | 0.25 |
| Massive Resources International Corporation Ltd | 70 | | 11.11 | 0.016 |
| Rivera (Holdings) Ltd | 281 | | 10.42 | 0.215 |
| Rontex International Holdings Ltd | 1142 | | 11.30 | 0.102 |
| Ruili Holdings Ltd | 491 | | 18.70 | 0.20 |
| Sky Hawk Computer Group Holdings Ltd | 1129 | 16.67 | | 0.07 |
| South China Industries Ltd | 413 | 16.90 | | 0.83 |
| Sunlink International Holdings Ltd | 2336 | | 25.29 | 0.065 |
| United Power Investment Ltd | 674 | 17.17 | | 0.58 |

Over on The **G**rowth Enterprise **M**arket (The GEM) of The Stock Exchange of Hongkong Ltd, the pattern of trading, set by the Main Board, was just about repeated on this speculative market.

The Growth Enterprise Index rose about 0.27 percent to 917.97 points on a Total Turnover of about \$HK52.54 million.

Gaining counters nudged out losing ones by the ratio of about 1.06:One.

The 5, most-active counters, in terms of their respective turnovers, only, were:

| | |
|---|---|
| Vertex Communications and Technology Group Ltd (Code: 8228) | Down 5 percent to 54cents per share |
| Town Health International Holdings Company Ltd (Code: 8138) | Down 5 percent to 10.10 cents per share |
| TOM Online Incorporated (Code: 8282) | Up 3 percent to \$HK1.21 per share |
| Convenience Retail Asia Ltd (Code: 8052) | Down 3 percent to \$HK2.775 per share |
| Rojam Entertainment Holdings Ltd (Code: 8075) | Up 9 percent to 41.50 cents per share |

The biggest GEM movers of the day included:

| Name of Company | Code | Increase (%) | Decrease (%) | Closing Price (\$HK) |
|--|------|--------------|--------------|----------------------|
| CASH Financial Services Group Ltd | 8122 | 18.93 | | 0.245 |
| Changchun Da Xing Pharmaceutical Company Ltd | 8067 | 10.00 | | 0.275 |
| China Advance Holdings Ltd | 8391 | | 12.00 | 0.33 |
| ePRO Ltd | 8086 | | 12.50 | 0.014 |

Japan was closed for a public holiday.

On other Asian equity markets, this was how their respective indices closed, last Wednesday:

| | |
|-----------------|--------------------------------|
| The HKSAR | Plus 0.37 percent to 13,945.05 |
| Indonesia | Plus 1.56 percent to 1,049.58 |
| Japan | Closed |
| Malaysia | Plus 1.24 percent to 903.07 |
| The Philippines | Plus 0.06 percent to 1,866.17 |
| Singapore | Plus 0.57 percent to 2,149.38 |
| South Korea | Plus 1.70 percent to 929.35 |
| Taiwan | Minus 0.25 percent to 5,803.68 |
| Thailand | Plus 0.79 percent to 675.03 |

Thursday

Before the start of proceedings on Wall Street, last Thursday, the US Labour Department brought out its statistics, relating to productivity and costs for the first quarter of 2005.

The report contained, on careful reading, some worrying aspects of the US economy.

This is that which this important department of the US Government announced:

PRODUCTIVITY AND COSTS

First Quarter 2005, preliminary

'The seasonally adjusted annual rates of productivity change in the first quarter were:

*2.1 percent in the business sector and
2.6 percent in the nonfarm business sector.*

'Productivity in the business sector grew more slowly than in the fourth quarter of 2004, when it increased 3.7 percent. In the nonfarm business sector, however, productivity increased more in the first quarter than it had in the previous quarter. Nonfarm business labor productivity increased 2.1 percent in the fourth quarter of 2004.

'In manufacturing, productivity changes in the first quarter were:

*3.9 percent in manufacturing,
6.3 percent in durable goods manufacturing, and
1.3 percent in nondurable goods manufacturing.*

'Productivity growth in manufacturing in the first quarter of 2005 reflected a 3.3-percent increase in output and a drop of 0.7 percent in hours worked in the sector. Output and hours in manufacturing, which includes about 13 percent of U.S. business sector employment, tend to vary more from quarter to quarter than data for the aggregate business and nonfarm business sectors ...

'The data sources and methods used in the preparation of the manufacturing series differ from those used in preparing the business and nonfarm business series, and these measures are not directly comparable.

'Output measures for business and nonfarm business are based on measures of gross domestic product prepared by the Bureau of Economic Analysis of the U.S. Department of Commerce. Quarterly output measures for manufacturing reflect indexes of industrial production independently prepared by the Board of Governors of the Federal Reserve System...

'Business

'Productivity in the business sector rose 2.1 percent in the first

quarter 2005, as output grew 3.6 percent and hours of all persons engaged in the sector increased 1.5 percent (seasonally adjusted annual rates). Revised data for the fourth quarter of 2004 show that output per hour increased 3.7 percent, reflecting a 4.3-percent rise in output and a 0.6-percent increase in hours at work.

'Hourly compensation increased 4.3 percent during the first quarter of 2005. This measure includes wages and salaries, supplements, employer contributions to employee benefit plans, and taxes. Hourly compensation had risen 4.9 percent in the previous quarter. However, real hourly compensation, which takes into account changes in consumer prices, increased faster in the first quarter of 2005, 1.9 percent, than in the fourth quarter of 2004, when it rose 1.3 percent.

'Unit labor costs rose 2.2 percent in the first quarter of 2005, more rapidly than the 1.1-percent increase in the fourth quarter. Growth in unit labor costs is roughly equivalent to the change in hourly compensation offset by the change in output per hour.

'The implicit price deflator for the business sector, which reflects changes in both unit labor costs and unit nonlabor payments, rose 2.8 percent in the first quarter. In the previous quarter, the implicit price deflator for business sector output increased 2.4 percent._

'Nonfarm business

'Productivity rose 2.6 percent in the nonfarm business sector in first-quarter 2005 as output grew 3.6 percent and hours of all persons increased by 1.0 percent (seasonally adjusted annual rates). In the fourth quarter of 2004, productivity had risen 2.1 percent, reflecting increases in output and hours of 3.7 and 1.6 percent, respectively.

'Hourly compensation increased 4.8 percent in the first quarter of 2005, more rapidly than in the fourth quarter, when it grew 3.8 percent. When the rise in consumer prices was taken into account, real hourly compensation rose 2.4 percent in the first quarter, up from 0.2 percent in the fourth quarter of 2004.

'Unit labor costs grew 2.2 percent in the first quarter of 2005, more rapidly than the 1.7-percent rise of the previous quarter. The implicit price deflator for nonfarm business output rose 2.9 percent in the first quarter and 2.5 percent one quarter earlier.

'Manufacturing

'Productivity increased 3.9 percent in manufacturing in the first quarter of 2005, as output increased 3.3 percent and hours of all persons fell 0.7 percent (seasonally adjusted annual rates). This is the fourth consecutive quarter in which output has risen and hours have decreased. Productivity rose 6.3 percent in durable goods manufacturing, reflecting 5.8-percent growth in output and a 0.4 percent decrease in all person hours. In nondurable goods manufacturing, productivity grew more slowly, 1.3 percent, in the first quarter of 2005 as output edged up 0.3 percent and hours of all persons fell 1.0 percent. The first quarter increase in labor productivity was the smallest in nondurable goods manufacturing since a 4.5-percent drop in the fourth quarter of 2002. Hours in that sector have declined in every quarter since the second quarter of 1999, when they increased 1.2 percent.

'The hourly compensation of all manufacturing workers rose 4.9 percent during the first quarter, and real hourly compensation increased 2.5 percent. The 4.9-percent hourly compensation rise reflects a change of 5.3 percent in durable goods and 3.9 percent in nondurable goods. 'Because the hourly compensation of manufacturing workers rose more rapidly than output per hour, unit labor costs increased in the first quarter, by 0.9 percent. This is similar to the 0.8-percent increase recorded in the fourth quarter of 2004. In durable goods manufacturing, however, unit labor costs fell in the first

quarter of 2005, dropping 0.9 percent. All of the increase in manufacturing unit labor costs came from the nondurable goods subsector, where unit labor costs grew 2.6 percent.'

While, clearly, Wall Street could not have been enamoured over the report from The Labour Department, when it learned of the new status of the debt of General Motors Corporation and Ford Motor Company, it was even less in love with the near-term prospects for trading in stocks and shares.

Standard and Poor's cut its credit rating for both General Motors and Ford to the status of junk.

On The New York Stock Exchange, the Dow Jones Industrial Average slid back 44.26 points, or about 0.43 percent, to end the session at 10,340.38 points.

On The NASDAQ, its Composite Index was flat, with a loss of 0.02 percent, skidding to 1,961.80 points.

The losses on the world's largest equity markets came in the afternoon session, following the release of the pronouncement of Standard and Poor's.

The reason for the downgrade: Flagging sales of its motor vehicles in the US and intense international competition.

Both General Motors and Ford have, openly, admitted that Asian competitors are eating into their traditional US marketplace at a somewhat disturbing pace. (Please see Tuesday's report)

That was not all, however, because The Labour Department, also, announced that Initial Claims for Unemployment Insurance rose by 11,000 Claims to a seasonally adjusted 333,000 Claims for the week, ended April 30, 2005.

It was the highest level in the previous month.

And, if that was not enough, the price of crude oil edged up, once again.

On The New York Mercantile Exchange (NYMEX), the price of light sweet crude oil for June delivery rose 1.40 percent to \$US50.83 per barrel.

For delivery in July, the price of light sweet crude oil was settled at \$US52.49 per barrel, up about 1.14 percent on the last quote on Wednesday.

Supply concerns were said to be the reason for the jump in the price of the black ooze.

In Europe, it was a completely different kettle of fish.

In London, England, voters were choosing their new Prime Minister, with the odds-on favourite, being the incumbent, Prime Minister Tony Blair.

The voting was continuing, during the trading session of all eurozone equity markets.

But Europe was, also, looking at the figures, produced by the US Labour Department, and, of course, the fact that oil prices had started to firm up.

This was how the indices of key European bourses ended, last Thursday:

| | |
|-------------------------------------|----------------------|
| Amsterdam's AEX Index | Plus 1.02 percent |
| Great Britain's FTSE 100 Index | Plus 0.40 percent |
| Germany's Frankfurt XETRA DAX Index | Plus 0.82 percent |
| France's CAC 40 Index | Plus 0.79 percent |

Switzerland's Swiss Market Index

Plus 1.28
percent

Italy's MIBTEL Index

Plus 0.46
percent

While many parts of Asia were continuing to enjoy, what is known in that part of the world as '*Golden Week*', for the equity markets of Taiwan, The Philippines and the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), it was, simply put: Buy! Buy! Buy!

On the Main Board of The Stock Exchange of Hongkong Ltd, the Hang Seng Index gained about 0.84 percent, rising to 14,061.70 points.

The Total Turnover rose to about \$HK17.30 billion.

The ratio of gaining counters to losing ones was about 2.73:One.

The Ten Most Actives were:

| | |
|--|--|
| HSBC Holdings plc (Code: 5) | Up 0.40 percent to \$HK126.50 per share |
| China Mobile (Hongkong) Ltd (Code: 941) | Up 2.59 percent to \$HK27.75 per share |
| Hutchison Whampoa Ltd (Code: 13) | Up 0.71 percent to \$HK70.50 per share |
| Sun Hung Kai Properties Ltd (Code: 16) | Up 0.67 percent to \$HK75.50 per share |
| Cheung Kong (Holdings) Ltd (Code: 1) | Up 0.34 percent to \$HK73.75 per share |
| Hang Seng Bank Ltd (Code: 11) | Up 0.95 percent to \$HK106.50 per share |
| China Telecom Corporation Ltd (Code: 728) | Up 2.83 percent to \$HK2.725 per share |
| PetroChina Company Ltd (Code: 857) | Up 1.06 percent to HK4.75 per share |
| BOC Hongkong (Holdings) Ltd (Code: 2388) | Unchanged at \$HK14.80 per share |
| China Petroleum and Chemical Corporation (Code: 386) | Up 2.44 percent to \$HK3.15 per share |

As for the Main Board's double-digit movers of the day, they included:

| Name of Company | Code | Increase (%) | Decrease (%) | Closing Price (\$HK) |
|---|------|--------------|--------------|----------------------|
| BEP International Holdings Ltd | 2326 | 17.65 | | 0.20 |
| Bestway International Holdings Ltd | 718 | 14.93 | | 0.077 |
| Chun Wo Holdings Ltd | 711 | 11.24 | | 0.99 |
| Coastal Greenland Ltd | 1124 | 13.04 | | 0.26 |
| Compass Pacific Holdings Ltd | 1188 | 10.42 | | 0.265 |
| Earnest Investments Holdings Ltd | 339 | 15.38 | | 0.03 |
| Fushan Holdings Ltd | 639 | 16.67 | | 0.56 |
| Goldigit Atom-Tech Holdings Ltd | 2362 | 13.33 | | 0.136 |
| Great China Holdings Ltd | 141 | | 13.46 | 0.45 |
| Hi Sun Technology (China) Ltd | 818 | | 13.73 | 0.44 |
| Hongkong Construction (Holdings) Ltd | 190 | 12.00 | | 0.56 |
| Massive Resources International Corporation Ltd | 70 | 12.50 | | 0.018 |
| Mei Ah Entertainment Group Ltd | 391 | 12.50 | | 0.36 |
| Premium Land Ltd | 164 | 18.75 | | 0.38 |

| | | | | |
|---|------|-------|--|-------|
| Sunlink International Holdings Ltd | 2336 | 30.77 | | 0.085 |
| Wealthmark International (Holdings) Ltd | 39 | 10.34 | | 0.64 |

On The **G**rowth **E**nterprise **M**arket (The GEM) of The Stock Exchange of Hongkong Ltd, The Growth Enterprise Index rose about 0.45 percent to 922.13 points.

The Total Turnover was about \$HK100.52 million, while the ratio of gaining counters to losing ones was about 1.83:One.

The 5, most-active counters, in terms of their respective turnovers, only, were:

| | |
|---|--|
| Town Health International Holdings Company Ltd (Code: 8138) | Up 20 percent to 12.10 cents per share |
| Tong Ren Tang Technologies Company Ltd (Code: 8069) | Unchanged at \$HK14.80 per share |
| Vertex Communications and Technology Group Ltd (Code: 8228) | Up 9 percent to 59 cents per share |
| Value Convergence Holdings Ltd (Code: 8101) | Up 16 percent to \$HK1.94 per share |
| Changchun Da Xing Pharmaceutical Company Ltd (Code: 8067) | Unchanged at 27.50 cents per share |

The GEM's biggest movers of the day included the following counters:

| Name of Company | Code | Increase (%) | Decrease (%) | Closing Price (\$HK) |
|--|------|--------------|--------------|----------------------|
| China Advance Holdings Ltd | 8391 | | 31.21 | 0.227 |
| FlexSystem Holdings Ltd | 8050 | | 13.33 | 0.039 |
| Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Company Ltd | 8231 | | 13.94 | 0.142 |
| Golding Soft Ltd | 8190 | 11.11 | | 0.02 |
| Innovis Holdings Ltd | 8065 | | 14.55 | 0.047 |
| Lang Chao International Ltd | 8141 | | 10.59 | 0.38 |
| M21 Technology Ltd | 8153 | | 10.71 | 1.50 |
| PINE Technology Holdings Ltd | 8013 | 13.33 | | 0.136 |
| Sino Stride Technology (Holdings) Ltd | 8177 | 12.07 | | 0.325 |
| SYSCAN Technology Holdings Ltd | 8083 | 16.07 | | 0.13 |
| Town Health International Holdings Company Ltd | 8138 | 19.80 | | 0.121 |
| Value Convergence Holdings Ltd | 8101 | 16.17 | | 1.94 |

News Wise

- Mr Jin Ren Qing, Finance Minister of the Government of the PRC, announced that there were no plans, at this time, to make any changes in respect of the **renminbi's translation value** against any other currency of the world. However, he went on to state that his country is, constantly, engaged in reforms of its currency.

Japan's 3 equity markets remained closed for a public holiday.

This was how the indices of other Asian stock markets ended their respective trading sessions, last Thursday:

| | |
|-----------|--------------------------------|
| The HKSAR | Plus 0.84 percent to 14,061.70 |
| Indonesia | Closed |

| | |
|-----------------|--------------------------------|
| Japan | Closed |
| Malaysia | Plus 0.11 percent to 904.06 |
| The Philippines | Plus 1.45 percent to 1,893.20 |
| Singapore | Minus 0.06 percent to 2,148.10 |
| South Korea | Closed |
| Taiwan | Plus 2.13 percent to 5,927.50 |
| Thailand | Closed |

Friday

Again, before Wall Street was open for business, The Bureau of Labour Statistics, a division of the US Labour Department, made an important announcement in respect of the employment situation in The Land of The Free and The Home of The Brave.

While the announcement was not particularly good news – because the unemployment rate was, still, holding at 5.20 percent for the month of April – at the same time, it was not bad news – because 274,000 new jobs had been created in the month of April.

This is the guts of that which The Labour Department told the world, last Friday morning at 8:30 a.m.:

‘THE EMPLOYMENT SITUATION: APRIL 2005

‘Employment rose in April, and the unemployment rate was unchanged at 5.2 percent ... Nonfarm payroll employment increased by 274,000 over the month. Job growth was widespread, with gains in construction, mining, and several service-providing industries.

‘Unemployment (Household Survey Data)

‘Both the number of unemployed persons, 7.7 million, and the unemployment rate, 5.2 percent, were unchanged in April. The jobless rate was down from 5.5 percent a year earlier. Over the month, the unemployment rates for adult men (4.4 percent), adult women (4.6 percent), teenagers (17.7 percent), whites (4.4 percent), and blacks (10.4 percent) showed little or no change. After declining in March, the unemployment rate for Hispanics or Latinos increased to 6.4 percent, the same as in February. The jobless rate for Asians was 3.9 percent, not seasonally adjusted.

‘The number of long-term unemployed -- those unemployed 27 weeks and over -- was about unchanged over the month. This group accounted for 21.2 percent of the unemployed.

Total Employment and the Labor Force (Household Survey Data)

‘Total employment grew by 598,000 in April to 141.1 million, and the employment-population ratio -- the proportion of the population age 16 and over with jobs -- edged up to 62.6 percent. The civilian labor force increased by 605,000 in April to 148.8 million; the labor force participation rate, at 66.0 percent, also was up over the month.

‘Persons Not in the Labor Force (Household Survey Data)

‘There were 1.5 million persons who were marginally attached to the labor force in April, about the same as a year earlier. (Data are not seasonally

adjusted.) These individuals wanted and were available to work and had looked for a job sometime in the prior 12 months. They were not counted as unemployed, however, because they did not actively search for work in the 4 weeks preceding the survey. The number of discouraged workers, at 393,000 in April, declined over the year. Discouraged workers, a subset of the marginally attached, were not currently looking for work specifically because they believed no jobs were available for them. The other 1.1 million marginally attached had not searched for work for reasons such as school attendance or family responsibilities.'

While Wall Street did not move very much, during the trading day, at the same time, it did not fall much, also.

By the close of the trading session, the Dow Jones Industrial Average was standing at 10,345.40 points, representing a gain of 5.02 points on Thursday's closing level.

Over on The NASDAQ, its Composite Index stood at 1,967.35 points when the closing bell sounded. The closing level represented a gain of just 4.55 points on Thursday's close.

The tally for the week for the world's largest equity markets was:

| | |
|----------------------------------|----------------------|
| The Dow Jones Industrial Average | Plus 1.50 percent |
| The NASDAQ's Composite Index | Plus 2.37 percent |

On The New York Mercantile Exchange (NYMEX), the price of light sweet crude oil for delivery in June was settled at \$US50.96 per barrel, equivalent to an increase of about 0.26 percent on Thursday's last quote.

For delivery in July, the price of light sweet crude oil was settled at \$US52.49 per barrel, unchanged on the day.

Europe appeared to appreciate the latest news from the US Labour Department because, mainly, it indicated that all was not lost at the world's only superpower.

With the exception of Italy's MIBTEL Index, every key index of every major bourse rose ... for the sixth consecutive session:

| | |
|-------------------------------------|----------------------|
| Amsterdam's AEX Index | Plus 0.52 percent |
| Great Britain's FTSE 100 Index | Plus 0.33 percent |
| Germany's Frankfurt XETRA DAX Index | Plus 0.26 percent |
| France's CAC 40 Index | Plus 0.35 percent |
| Switzerland's Swiss Market Index | Plus 0.28 percent |
| Italy's MIBTEL Index | Unchanged |

News Wise

- **Marconi Corporation** of Great Britain, announced that it would be sacking 8,000 of its workers in the United Kingdom.

While there were a few laggards among Asia's major equity markets, generally the sentiment was bullish in the world's most-populous area.

In the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), both stock markets saw their key indices lose fractionally.

On the Main Board of The Stock Exchange of Hongkong Ltd, the Hang Seng Index shed about 0.20 percent of its value, ending the week at 14,033.96 points.

The Total Turnover was about \$HK13.46 billion.

Declining counters outpaced advancing ones by the ratio of about 1.46:One.

The Ten Most Actives were:

| | |
|--|--|
| HSBC Holdings plc (Code: 5) | Unchanged at \$HK126.50 per share |
| China Mobile (Hongkong) Ltd (Code: 941) | Up 0.77 percent to \$HK27.50 per share |
| Sun Hung Kai Properties Ltd (Code: 16) | Up 0.33 percent to \$HK75.75 per share |
| Hutchison Whampoa Ltd (Code: 13) | Down 0.35 percent to \$HK70.25 per share |
| Cheung Kong (Holdings) Ltd (Code: 1) | Up 0.34 percent to \$HK74.00 per share |
| Hang Seng Bank Ltd (Code: 11) | Down 0.47 percent to \$HK106.00 per share |
| China Telecom Corporation Ltd (Code: 728) | Unchanged at \$HK2.725 per share |
| PetroChina Company Ltd (Code: 857) | Unchanged at HK4.75 per share |
| China Petroleum and Chemical Corporation (Code: 386) | Down 2.38 percent to \$HK3.075 per share |
| China Life Insurance Company Ltd (Code: 2628) | Down 0.94 percent to \$HK5.25 per share |

As for the double-digit movers of the day, they included:

| Name of Company | Code | Increase (%) | Decrease (%) | Closing Price (\$HK) |
|---|------|--------------|--------------|----------------------|
| Artfield Group Ltd | 1229 | | 14.10 | 0.335 |
| BEP International Holdings Ltd | 2326 | 10.00 | | 0.22 |
| Capital Prosper Ltd | 1003 | 19.48 | | 0.092 |
| ITC Corporation Ltd | 372 | | 14.49 | 0.59 |
| New World CyberBase Ltd | 276 | 20.34 | | 0.355 |
| Paul Y. – ITC Construction Holdings Ltd | 498 | | 10.53 | 2.125 |
| Pyxis Group Ltd | 516 | 11.30 | | 0.128 |
| South Sea Holding Company Ltd | 680 | 13.79 | | 0.033 |
| Yardway Group Ltd | 646 | | 15.98 | 0.163 |

On The **G**rowth **E**nterprise **M**arket (The GEM) of The Stock Exchange of Hongkong Ltd, the situation was very similar to that which had transpired on the Main Board.

The Growth Enterprise Index lost about 0.48 percent of its value, dropping back to 917.75 points.

The Total Turnover was about \$HK113.06 million.

Losing counters just managed to squeeze out gaining ones by the slim margin of 1.05:One.

The 5, most-active counters, in terms of their respective turnovers, only, were:

| | |
|--|--|
| Town Health International Holdings Company Ltd (Code: 8138) | Minus 8 percent to 11.10 cents per share |
| Tong Ren Tang Technologies Company Ltd (Code: 8069) | Minus 3 percent to \$HK14.40 per share |
| Value Convergence Holdings Ltd (Code: 8101) | Minus 8 percent to \$HK1.78 per share |
| Panva Gas Holdings Ltd (Code: 8132) | Minus 1 percent to \$HK3.20 per share |
| Kanstar Environmental Paper Products Holdings Ltd (Code: 8011) | Unchanged at 31 cents per share |

The biggest movers of the GEM, last Friday, included:

| Name of Company | Code | Increase (%) | Decrease (%) | Closing Price (\$HK) |
|--|------|--------------|--------------|----------------------|
| AGL MediaTech Holdings Ltd | 8192 | 11.76 | | 0.038 |
| Argos Enterprise (Holdings) Ltd | 8022 | | 20.57 | 0.166 |
| Byford International Ltd | 8272 | | 10.00 | 0.45 |
| Changchun Da Xing Pharmaceutical Company Ltd | 8067 | | 10.91 | 0.245 |
| Excel Technology International Holdings Ltd | 8048 | 13.33 | | 0.068 |
| FlexSystem Holdings Ltd | 8050 | 17.95 | | 0.046 |
| Golding Soft Ltd | 8190 | | 10.00 | 0.018 |
| Grandy Corporation | 8143 | 16.67 | | 0.028 |
| Shenzhen Mingwah Aohan High Technology Corporation Ltd | 8301 | 12.00 | | 0.28 |
| ProSticks International Holdings Ltd | 8055 | | 20.93 | 0.034 |
| QUASAR Communication Technology Holdings Ltd | 8171 | | 10.14 | 0.133 |

The tally for the 4-day trading week for the equity markets of the HKSAR was:

| | |
|-----------------------------|-------------------|
| The Hang Seng Index | Plus 0.90 percent |
| The Growth Enterprise Index | Plus 0.21 percent |

In Japan, after a 3-day break for Golden Week, equity markets sprang into life.

On the premier equity market of The Land of The Rising Sun, The Tokyo Stock Exchange, The Nikkei-225 Stock Average rose 190.06 yen, compared with the previous Monday close, to end the 2-day trading week at 11,192.17 yen.

The 1.73-percent gain of The Nikkei-225 Stock Average was, if anything, an attempt to catch up with other equity markets, which had been trading while Japan was lapping it up, during the Golden Week holidays.

Advancing counters trounced declining ones by the ratio of about 7.22:One.

In other Asian markets, this was how their key indices ended the week of May 6, 2005:

| | |
|-----------|---------------------------------|
| The HKSAR | Minus 0.20 percent to 14,033.96 |
| Indonesia | Plus 1.78 percent to 1,068.28 |

| | |
|-----------------|--------------------------------|
| Japan | Plus 1.73 percent to 11,192.17 |
| Malaysia | Minus 0.31 percent to 901.22 |
| The Philippines | Plus 1.09 percent to 1,913.77 |
| Singapore | Plus 0.61 percent to 2,161.22 |
| South Korea | Plus 1.24 percent to 940.85 |
| Taiwan | Plus 0.68 percent to 5,967.96 |
| Thailand | Plus 2.12 percent to 689.36 |

-- **END** --

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