

Your Money

UPDATE

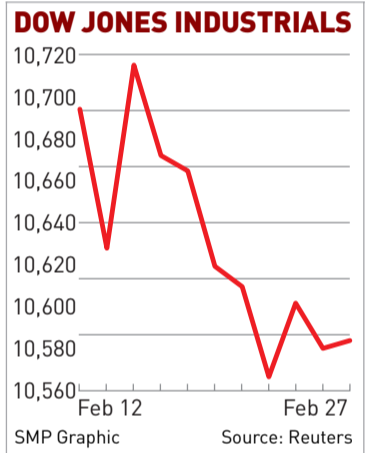
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Hang Seng Index heavyweight HSBC is expected to give momentum to the market this week after release tomorrow of what is expected to be an upbeat earnings report.

Last week the index gained 0.28 per cent to close at 13,907.03, taking its gains to nearly 11 per cent this year. Property and China plays were particularly strong.

"People still believe there are lots of funds coming into Hong Kong, speculating that the renminbi may appreciate," says Peter Lai, a director at DBS Vickers. Reuters



Stocks in the United States appear set to range-trade this week as Wall Street awaits a fresh catalyst that will give investors clues on whether the nearly year-old rally can continue.

The Dow Jones Industrials slipped 0.33 per cent to 10,583.92 while the broad-market S&P 500 index gained a fraction of a point for the week to Friday, or 0.04 per cent to 1,144.94. The tech-heavy Nasdaq composite fell for the sixth straight week, dropping 0.40 per cent to 2,029.82. AFP

NEW PRODUCTS

HSBC marked a milestone on Thursday with the launch of its renminbi financial services.

A special renminbi deposit account at the bank will earn up to 0.35 per cent per annum, far above the 0.001 per cent now offered on Hong Kong dollar deposits. There is no charge for opening an account.

Notes can be remitted at any HSBC branch in Hong Kong. Customers can also choose to apply for deposit services under their existing HSBC Premier or PowerVantage accounts, or set up a standalone savings account.

The bank says it hopes to introduce a credit card on renminbi accounts eventually.

Account balances below 5,000 yuan will not receive interest, while those with a total relationship balance above one million yuan will receive an interest bonus of 0.05 per cent. Three-month time deposits above 10,000 yuan will earn 0.50 per cent, and 0.55 per cent for Premier account customers.

During a promotional period up to May 31, the bank will offer a bonus 0.1 per cent, bringing the potential interest during the period for cash deposits to 0.45 per cent.

Customers will be able to buy or sell up to 20,000 yuan per day.

EXCHANGE RATES

HK\$	Bid	Ask
E	14.5376	14.5450
SFr	6.1654	6.1695
*¥	7.1257	7.1310
S\$	4.5825	4.5861
A\$	6.0139	6.0190
C\$	5.8275	5.8316
Baht	0.1980	0.1983
NZ\$	5.3423	5.3512
*Won	0.6601	0.6607
M\$	2.0476	2.0486
NT\$	0.2339	0.2343
Euro	9.6408	9.6536
Peso	0.1379	0.1383
Yuan	0.9365	0.9440

Rates yesterday *per 100 units Source: Reuters

Separating out the noise, one fund manager finds two profitable mainland firms with room to grow

Old economy stocks win favour in new China

Andy Mantel

It is relatively easy to get caught up in the mass excitement over new China stocks, but finding meaningful investment opportunities is no simple task.

On almost a daily basis in any of the five-star hotels in Hong Kong there is at least one mainland company pitching its wares to a group of eager investors. The companies, from small to large, represent a wide range of businesses and industries and operate in just about every corner of China.

Despite all the noise being generated, there are some very good companies available at reasonable share prices - all it takes is homework to uncover the winners.

Kwang Sung Electronics manufactures and supplies a broad range of audio-related products. The Guangdong company, with senior management from Korea, specialises in composite components such as FM tuners and AM/FM tuner modules for home and car audios. About 70 per cent of the company's revenue in the first half of last year came from the manufacture of these devices. The gross profit margin for these products was 23 per cent.

The company's electronic components business, which makes coil inductors, transformers, antennae and filters and modules, maintained a 25 per cent gross profit margin and contributed around 30 per cent of first-half revenue last year.

MANTEL'S CHOICE

	Price on recommendation	Friday price
China Resources	\$10.40	\$11.00
Kwang Sung Electronics	\$1.76	-
Weichai Power	(listing in mid-March)	-

SMP Graphic



In the first six months of 2003, revenue amounted to HK\$217 million and profit \$31.5 million, up 29 per cent and 11 per cent respectively. Most sales were in the mainland, a third in Hong Kong, and the rest mainly in Korea, where Samsung, LG Electronics and CCT Telecom are key customers.

Kwang Sung will report its 2003 full-year results in April and management has indicated the company is likely to surpass the \$63.5 million target announced in its listing prospectus. No interim dividend was paid, but the company is expected to mail out a final dividend equivalent to 25 per cent of last year's net profit.

Kwang Sung was listed in July last year and is trading at six times price/earnings with good order flows and a strong balance sheet. An Asia-based investment bank led its initial public offering and marketing of the stock has been minimal. A relative underperformer in the second half of 2003, the company's share price is up more than

30 per cent this year and should continue to do well once it makes it on to the radar screens of North American and European investors. The company has a market capitalisation of about \$550 million, with a free float of only 25 per cent of that amount.

My next suggestion is one of the few H-share companies in which management are shareholders.

Weichai Power is a leading diesel engine manufacturer in China and is focused on heavy-duty engines. Based in Weifang City in Shandong province, the company has more than a 70 per cent market share in the fast-growing heavy-duty vehicles and construction machinery markets. The company is expected to raise as much as US\$150 million when it lists on the Hong Kong stock exchange on March 11. The pricing will be announced on Wednesday and the company should be valued at 13 times 2003 price/earnings if priced at the top of the indicative range.

Its two main products, the

WD615 and WD618 engines, have been in production since 1989 and 2000 respectively. Four versions of the WD615 are produced for use in heavy-duty vehicles, construction machinery, vessels and power generators. The later version is designed for larger vehicles. Both models meet Euro II Standards.

Weichai's major automotive customers include leading domestic manufacturers such as China Heavy Duty Truck Group and Shaanxi Zhongqi. Major construction equipment customers include Guangxi Liugong, Fujian Longgong and Shandong Lingong.

Sales growth in recent years has been phenomenal due to improving infrastructure links, strong construction demand and government support for agricultural reform. During the past three years revenue growth has increased 104 per cent annually to 3.5 billion yuan last year. Net profit increased 129 per cent in the same period to 277.5 million yuan. In terms of sales volume, half the products were used in heavy-duty vehicles and the other half in construction machines.

Weichai's principal strengths include its leadership position in the sector, superior products, research and development capability, nationwide sales network and capable management. Chairman Tan Xuguang has been with the company since 1977.

Andy Mantel is managing director of Pacific Sun Investment Management and manager of The China Mantou Fund

WHAT THE BROKER SAYS

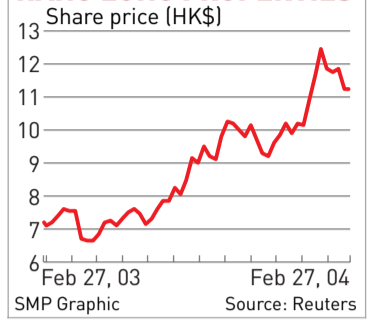
The sales launch of developments in Hong Kong and new land acquisitions will be the drivers for Hang Lung Properties, which has been attracted back in to the recovering property market after a break of nearly four years.

Sun Hung Kai Research has a "hold" recommendation on the stock pending project acquisitions.

This month Hang Lung reported a flat net profit of \$527 million for the six months to December, compared with a restated \$523 million for the same period of the previous year, and announced the beginning of sales at its flagship project The Harbourside in West Kowloon. The company has not disclosed a sales schedule for its other completed projects, including Carmel-on-the-Hill at Homan-tin and AquaMarine in West Kowloon, on which it has been sitting during the property market decline.

The broker says the interim result was no surprise because most of the profit came from stable and

HANG LUNG PROPERTIES



recurrent rental income. The market should focus on the price and progress of sales of its long-awaited projects in Hong Kong and on land acquisitions in Hong Kong and the mainland. It notes that management is more confident in investing in property projects in the mainland than in Hong Kong.

Despite trading at a 4 per cent discount to appraised net asset value, the brokerage says the stock is not attractive. The share closed at \$11.25 on Friday.

WHAT THE BROKER SAID

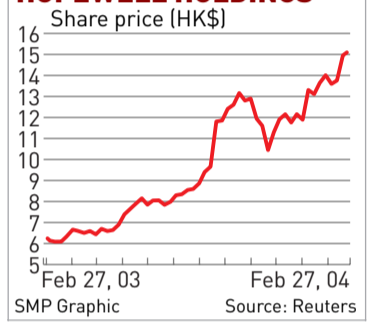
About a year ago, HSBC Securities lowered its earnings forecasts for the infrastructure play Hopewell Holdings to HK\$440 million for 2003, \$613 million for 2004 and \$844 million for 2005.

The revision was due to declining contributions from the construction and engineering business and rentals from the Hopewell Centre and Trademart exhibition centre in West Kowloon.

HSBC said Hopewell's shares had outperformed the market over the past 12 months, reaching its target price of \$6.36. It closed at \$6.10 on March 3 last year. HSBC downgraded its rating from "buy" to sell and lowered its target price to \$6.11.

In September last year Hopewell reported an 81 per cent year-on-year rise in net profit to \$617.86 million for the year to June, thanks to a \$366 million write-back in provision from Indonesia's Tanjung Jati B power station project.

HOPEWELL HOLDINGS



The company's operating profit on mainland highways climbed 21 per cent year on year to \$577 million, while property development fell 7 per cent to \$217 million. Hotel operations were down 30 per cent at \$19 million. Financial income and others tumbled 88 per cent to \$26 million.

The counter closed at \$15.15 on Friday.

Sell HK index, says ABN

It is time to book profits and shuffle portfolios, according to ABN Amro.

The brokerage advises investors to move money out of Hong Kong and into Malaysia and Taiwan, following the longest monthly winning streak in three decades for the Hang Seng Index at the close of February trade on Friday.

"The market needs to take a breather to allow fundamentals to catch up," says ABN Amro's chief Asian strategist, Eddie Wong

Writing in the brokerage's Asia Vision report, Mr Wong says the reflation theme in Hong Kong assets should continue as the United States' dollar looks to remain weak for the next couple of years. However, a rosy outlook does not mean the market will continue to advance without a correction.

"Share prices of blue chip developers already factor in a further 20 per cent increase in property prices," he says.



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6.30pm - Registration
7.00pm - Welcome Speech
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7.05pm - Introduction to Towry Law
Bill Tatham, Managing Director, Towry Law International

7.10pm - International Tax Planning
Gary James, Partner, Grant Thornton

7.30pm - Global Market Review
Dr. Mark Konyon, CEO HK, Dresdner RCM Global Investors

7.50pm - Profit from Financial Planning
Nigel Harris, Sales & Marketing Director, Towry Law Asia (HK) Ltd

8.10pm - Close & Refreshments
An Opportunity to Meet The Speakers

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I am unable to attend the seminar, but would like information on the talks.

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