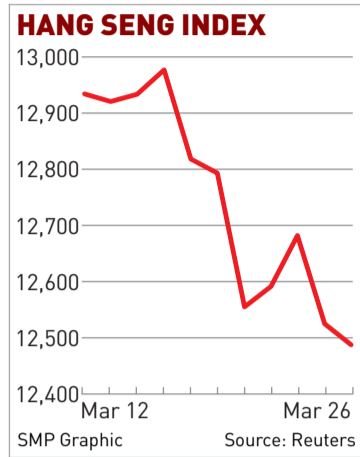


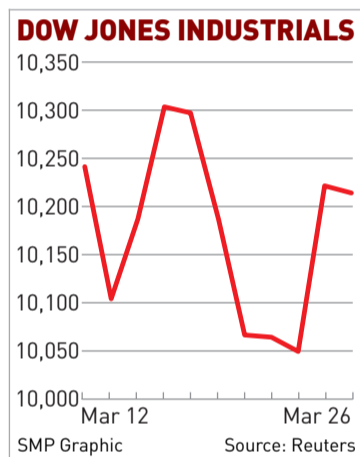
# Your Money

## UPDATE

Your Money welcomes your ideas and contributions. Just e-mail us at [money@scmp.com](mailto:money@scmp.com)



Hong Kong share prices are expected to remain under pressure this week with investors likely to wait for some good corporate or geopolitical news before making any significant moves, dealers say. The Hang Seng Index slipped 307 points or 2.36 per cent to end the week at 12,483.24. The performance rounded off a miserable March, wiping out all the gains made so far this year. "There are a few corporate earnings left but nothing big - it's going to be another bad-news week," says Herbert Lau of Celestial Asia. "Because of this new low the chances are we will see the market slip even further - I expect to see support at 12,200." AFP



Wall Street appears to have found its footing after a dizzying drop over the past few weeks, but analysts say investors want to see signs of a stronger jobs market in the US before resuming a rally. The Dow Jones Industrial Average of 30 blue chips added 0.26 per cent in the week to Friday to 10,212.97, while the tech-heavy Nasdaq advanced 1 per cent to 1,960.02. However, the S&P 500 index edged lower for the week, down 0.15 per cent to 1,108.06. Analysts say the market has steadied and that a powerful rally on Thursday could be the turning point. AFP

## NEW PRODUCTS

HSBC has launched a guaranteed fund that offers 21 per cent or more in total returns over a 10-year term. The Turbo Asia Capital Guaranteed Fund has a guaranteed income of 15 per cent at the end of the first year and will mature automatically if the accumulated potential return reaches an additional 6 per cent or more after the end of the second year, bringing the total potential return to 21 per cent. "We have seen a growing interest in growth-oriented products as equity market performance improves," says bank spokeswoman Sandra Lee, adding that investors still want the peace of mind of capital preservation. The fund will focus its equity portion on Asian companies primarily involved in consumers, financials and outsourcing. These include such companies as Bridgestone Corp, News Corp, Cheung Kong (Holdings) and BHP Billiton. The offer period for the fund closes on April 23. The minimum tenor is two years and the maximum 10 years. HSBC has 14 capital-guaranteed funds under management.

## EXCHANGE RATES

HK\$	Bid	Ask
£	14.1626	14.1683
SFr	6.0705	6.0731
*¥	7.3513	7.3578
₱	4.6082	4.6110
₹	5.8154	5.8200
₪	5.9130	5.9169
Baht	0.1972	0.1974
NZ\$	5.0814	5.0854
*Won	0.6735	0.6738
M₳	2.0517	2.0525
NT\$	0.2347	0.2352
Euro	9.3755	9.3774
Peso	0.1381	0.1384
Yuan	0.9395	0.9450

Rates yesterday \*per 100 units Source: Reuters

Maker of sales terminals opens Shanghai factory and losing petrochemicals firm looks set for recovery

# Turnaround plays offer expansion and profits

Andy Mantel

Two fantastic companies that have escaped popular attention are turning around after initial setbacks and now offer remarkable growth and strong profits.

Singapore-listed GES International designs and manufactures point-of-sale (POS) terminals for many of the world's leading electronic brands. Its annual report shows its market share is huge and growing.

The company supplies more than 50 per cent of the requirements of POS terminals for the retail market globally, with sales primarily in North America. Market share is also growing in Europe and Asia.

GES initially started out designing POS terminals for IBM in 1992 and now designs about a dozen models for the company. Two years ago 60 per cent of sales were to IBM but this decreased to 20 per cent last financial year. New clients include NCR, the POS leader in the grocery market; Keycorp, Australia's top maker of electronic payment terminals; and Micros, leader in the restaurant market.

GES's revenue and profit for the half year ended December 2003 were S\$256 million (HK\$1.17 billion) and S\$16 million, up 16 per cent and 34 per cent respectively. Two-thirds of revenue was by way of original design and manufacture activities.

GES recently opened a manufacturing facility in Shanghai,

### MANTEL'S CHOICE

	Price on recommendation Jan 21	Friday price
<b>China Resources</b>	\$10.40	\$9.75
	Feb 29	
<b>Kwang Sung Electronics</b>	\$1.76	\$1.97
<b>Weichai Power</b>	\$10.50	\$15.75
	March 28	
<b>Jilin Chemical</b>	\$1.68	—
<b>GES</b>	S\$0.665	—



bringing the number of factories to four. The others are in Singapore, Malaysia and the United States. Located at Zhangjiang Hi Tech Park in Pudong, the new facility is expected to be a focal point of company development. It will substantially reduce operational costs and also act as a sales platform for the mainland. Flexible factory lines can be scaled up to meet global demand.

The factory is expected to generate most of the company's revenue by the end of next year. In addition, the research and development workforce in Shanghai is expected to increase to 100 personnel.

GES listed in Singapore in early 1999 and the Asian crisis had a delayed effect on its business in the next two years. The company

underwent major restructuring in 2001 and 2002.

The stock is trading at 13 times price/earnings with a 3 per cent dividend yield. Total market capitalisation is about S\$475 million.

My second stock pick this month is Jilin Chemical, which manufactures petroleum products, organic chemicals, dyestuff and dye intermediate products, synthetic rubber products, and chemical fertiliser.

About half of sales are from petroleum products and more than two-thirds from intermediate products such as propylene, ethylene, xylene, styrene and acetic acid.

A recent capacity upgrade allowed the company to become the largest styrene producer in China as out

put grew 25 per cent year on year to 160,000 tonnes. Ethylene production increased 12 per cent year on year to almost 600,000 tonnes.

The company is heavily reliant on its parent, PetroChina, both for its crude oil needs and as a customer of its products.

The company has lost money for the past three years but is poised to see a strong turnaround when it releases its 2003 results in the middle of next month. Earnings are supported by robust regional demand leading to higher margins for intermediate petrochemicals. As well, margin spreads with upstream materials are expected to further increase.

Last year's sales should be about 20 billion yuan and profits should reach 400 million yuan, despite expected provisions for bad debt and losses on fixed assets. Profits are expected to double this year, putting the shares at an estimated eight times price/earnings.

The company listed H shares in 1995 and A shares the next year. It is one of only 29 mainland companies that have shares listed on both markets. It trades at a 70 per cent discount to its A shares, versus a mean of 52 per cent for other dual-listed stocks.

The company has a compelling turnaround story and will benefit from strong government support. given its strategic industry position. Andy Mantel is managing director of Pacific Sun Investment Management and manager of The China Mantou Fund

## WHAT THE BROKER SAYS

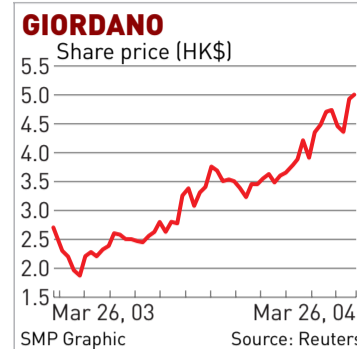
Clothing retailer Giordano is facing its brightest prospects for several years and is forecast to deliver a strong performance in 2004.

G K Goh has upgraded its recommendation on the company from "sell" to "buy" and raised its target price to HK\$6 from \$4.925 on March 19. The counter closed at \$5 on Friday.

Net profit last year was down 22 per cent year on year to \$266 million, which was better than expected. The group turned around strongly in the second half on a combination of improved merchandising and better consumer sentiment.

The Taiwan market, a four-year problem for Giordano, has been recovering strongly since October because of stronger merchandising and the relocation of stores.

Better procurement and inventory management helped to lift the gross margin from 46.7 per cent in 2002 to 48.2 per cent last year. Operating costs declined by 4 per cent year on year because of a 7 per cent



drop in staff expenses and savings in the company's distribution and administration.

Sales in Hong Kong and Taiwan were encouraging in the fourth quarter last year and Goh believes the momentum will probably continue in 2004.

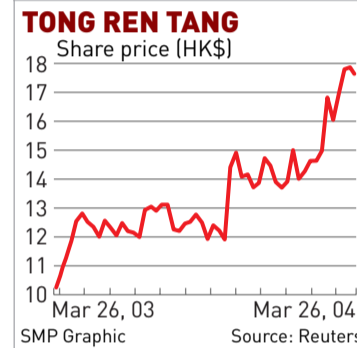
January and February sales increased by double digits over the previous year's levels. The broker has raised its earnings estimates to \$390 million for this year and \$452 million next.

## WHAT THE BROKER SAID

About a year ago Kim Eng Securities maintained its "buy" recommendation on mainland pharmaceutical company Tong Ren Tang, which was trading at about 40 per cent discount to its fair valuation of HK\$16.69. The counter closed at \$10 on March 21 last year.

In 2002 turnover increased 33 per cent to 663 million yuan, with net profit increasing 48 per cent, in spite of a disappointing fourth quarter when year-on-year sales declined. Turnover of flagship products increased strongly for the year and gross margins improved from 51.5 per cent to 53.7 per cent.

In April last year the Beijing-based company, which has manufactured and sold Chinese medicine for 300 years, said its first-quarter profit jumped 35.62 per cent to \$48.34 million, partly boosted by demand for its anti-virus products during the Sars outbreak in China.



In August Tong Ren Tang reported a second-quarter profit of \$92.97 million, up 21.51 per cent. Sales increased 34.45 per cent to \$531.81 million. In December sources said Hutchison Whampoa and Tong Ren Tang Group were closed to finalising a US\$200 million joint venture.

The stock closed at \$17.50 on Friday.

# Speculative trait still runs strong

MEET THE MANAGER  
CHRIS DAVIS

Buoyed by forecasts of robust Hong Kong economic growth of up to 6 per cent, more investors are heading for the racy appeal of equity funds, says Doris Wong, a regional fund expert with SG Asset Management (Hong Kong).

Ms Wong believes that if the feel-good factor and the economic recovery continues into 2005, investors will be looking for products such as hedge funds and fund of funds that benefit directly from the improving outlook. "Already we are seeing this happening," says Ms Wong.

She says many of would-be investors who have been sitting on the fence were surprised by the strength of the market recovery last year. "There is a great deal of pent-up liquidity that is keen to return to the market. Hong Kong investors retain a strong speculative culture even though they have been burnt by both the property and equity markets."

Ms Wong, a former head of retail sales at Allianz Dresdner Asset Management, says barring unforeseen events, a shift towards less risk-adverse investments is likely to continue.

Ms Wong says generally Hong Kong investors look for a quick return on their investments. Putting aside capital-guaranteed products, the holding period of alternative financial products is extremely short compared to investors around Asia and Europe. "This is part of Hong Kong's unique investment culture where assets tend to be invested based on perception rather than strategy."

Contrasting styles of investment management came to the fore during the recent bear market. Growth-style managers will invest in companies whose earnings they expect will increase rapidly. A classic growth stock would be computer giant Microsoft.

But they do not always succeed. In the late 1990s many growth managers piled into technology companies that failed. Growth stocks tend to do well during periods of economic buoyancy.

Value managers, on the other hand, invest in the shares of established companies which they believe are under-priced relative to

their fair value. They will hold these shares, which tend to be defensive and therefore do well in poorer market conditions, until they are re-rated.

During the bear market, these value-oriented funds, which include equity income funds, did particularly well.

Repeating one of the most common pieces of advice to investors - not to put all their eggs in one basket - Ms Wong says as interest returns to another favourite Hong Kong consumption item, property, investors and speculators would be wise to be cautious.

"Hong Kong people seem to have very short memories. They cannot seem to resist the temptation of trying to make quick money buying property is a prime example," Ms Wong says.

The same applies to investment funds. By investing in a combination of funds with different characteristics, investors can give their portfolios more balance, which will help to reduce their overall risk.

Ms Wong says products such as fund of funds offer a comprehen-

**"Hong Kong investors retain a strong speculative culture even though they have been burnt by both the property and equity markets"**

sive asset allocation programme that can include equities, tactical allocation, geographical allocation and different investment styles. The objective is to boost portfolio returns and diversify risk. As such, the underlying range of funds should not remain static but will evolve in line with global market movements and underlying fund performance.

Fund of funds enable investors to diversify risk by essentially dividing the cash among more fund managers, hopefully with different personalities.

Ms Wong says that before inclusion in fund of funds, prospective unit trusts are carefully screened for track record, investment processes and management.

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