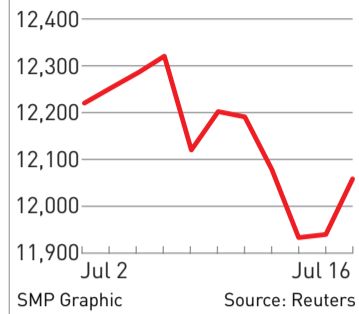


Your Money

UPDATE

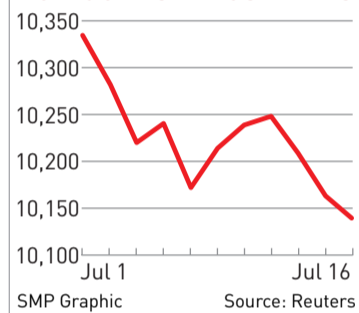
Your Money welcomes your ideas and contributions. Just e-mail us at money@scmp.com

HANG SENG INDEX



Hong Kong shares are expected to move higher this week as concerns over possibly higher interest rates are eased by signs of cooling economies in both the United States and China, dealers say. "The market has reached bottom and it is expected to bounce back next week on bargain-hunting," said DBS Vickers director Peter Lai. The Hang Seng Index closed at 12,059.20 points on Friday, losing 143.06 points or 1.2 per cent over an unsettled week. *AFP*

DOW JONES INDUSTRIALS



Wall Street is feeling the heat after another stormy week, with stocks churning lower amid growing evidence of a slowdown in the United States economy and disappointing earnings reports, especially in the technology sector. The Dow Jones industrials dropped 0.72 per cent for the week to Friday closing at 10,101.39 while the broad-market S&P 500 retreated 1.01 per cent to 1,101.39. The Nasdaq fell 3.25 per cent over the week to end at 1,883.15, closing below 1,900 for the first time since May 20. *AFP*

Container maker CIMC and Shanghai Petrochemical are poised for more growth despite economic tightening, says Andy Mantel

Hot spots in the cooling cycle

China's economic cooling policy is having repercussions across all industries, with some sectors more exposed than others.

Two industries that should be less affected are shipping container manufacturing and petrochemicals.

China International Marine Containers (CIMC) and Shanghai Petrochemical are both well placed to weather the economic tightening measures.

Since 1996 Shenzhen-listed CIMC has been the world's largest manufacturer of shipping containers and has a global market share of about 50 per cent for dry containers, 46 per cent for reefers, and 15 per cent for tanker containers. About 95 per cent of revenue is from its container business.

The company operates a dozen production lines near strategic east coast ports. Large shareholders include Cosco Pacific and China Merchants Container Industry, each with 16.2 per cent.

Last year CIMC recorded turnover of 13.7 billion yuan and profits of 694.1 million yuan, increases of 52 per cent and 64 per cent respectively. Sales of dry containers rose 61 per cent, reefers 12 per cent and special containers 30 per cent. The company also sold 1,233 tanker containers and 243,100 tray containers. Officials announced recently that net profits in the first half of 2004 probably doubled year on year.

Despite a 40 per cent surge in steel prices in the first quarter CIMC continues to fare well. Steel accounts for about half of production costs. First-quarter container sales were up 19 per cent year on year to 283,800 teu (20-foot equivalent units).

The global shipping industry is poised for steady growth, particularly in Asia. We expect leading container makers to benefit from booming inter-regional trade.

Containers typically have a 10-year lifespan and with about 60 million containers in use, the annual replacement demand is around six million.

MANTEL'S CHOICE

	Price on recommendation	Friday price
China Resources	\$10.40	\$9.35
Qiao Xing Universal Telephone (Nasdaq short)	US\$15.00	\$9.10
Feb 29		
Kwang Sung Electronics	\$1.76	\$1.41
Weichai Power	\$10.50	\$13.25
March 28		
Jilin Chemical	\$1.68	\$1.33
GES	\$50.665	\$0.68
May 28		
CNOOC	\$3.325	\$3.375
Zhenhai Refining	\$6.60	\$7.85
July 16		
CIMC	11.88 yuan	11.88 yuan
Shanghai Petrochemical	\$2.75	\$2.75

SMP Graphic

annual replacement demand is around six million.

Despite a potential economic slowdown in China, the mainland's relatively lower containerised trade relative to developed countries points to attractive organic growth potential for CIMC. In addition, the company has cost advantages and the support of powerful shareholders that should help defend its leading industry position.

CIMC has a valuation of eight times current price/earnings, with a 3 per cent dividend yield. Return on equity is 17 per cent. Thanks to its listing in 1994, the company is one of 86 firms that have both A and B shares listed on the Shenzhen and Shanghai markets. Its B shares trade at about a 35 per cent discount to its A shares.

Shanghai Petrochemical is one of the largest diversified oil comp-

anies in China. It processes crude oil into a broad range of products, including synthetic fibres, resins and plastics and related products.

Sinopec owns 56 per cent of the company. In 1993 it became the first mainland enterprise to be listed on three different markets - Shanghai, Hong Kong and New York. The United States listing was completed by way of American depository receipts.

Last year turnover was 28.9 billion yuan and profit 1.6 billion yuan, increases of 33 per cent and 52 per cent respectively.

Shanghai Petrochemical is China's largest ethylene maker, and following a capacity expansion last year output from this division increased 19 per cent year on year to 948,300 tonnes.

The austerity measures are aimed mainly at overcapacity in heavy industries such as iron, steel and aluminium and cement products. My analysis suggests there will be limited impact on the petrochemical industry as China is facing an energy shortage due to growing domestic demand.

Last year the mainland imported seven million tonnes of ethylene derivatives, or more than 50 per cent of its needs.

Higher crude-oil prices do pose a risk by way of higher inputs and downstream refining costs. In the first quarter of this year the crude-oil refining unit cost was 2,042 yuan per tonne, up 6 per cent compared to last year. But the company has been able to pass on these higher input costs through its end products. The weighted average selling price of synthetic fibres, resins and plastics and related products increased in the range of 3 per cent to 15 per cent.

Utilisation rates have increased and the company has not had an inventory build-up.

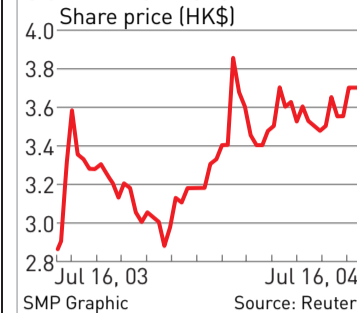
Turnover reached 8.4 billion yuan and profits 736 million yuan in the first quarter, up 22 per cent and 139 per cent respectively. For the full year they are forecast to rise 3.8 per cent and 25 per cent.

The company has a valuation of less than seven times current price/earnings with a 5 per cent dividend yield. The H shares are trading at a 60 per cent discount to its mainland-traded A shares.

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

WHAT THE BROKER SAYS

SUN HING VISION



G.K. Goh has maintained its "buy" recommendation on Sun Hing Vision after the eyewear maker reported a 4.3 per cent net profit increase to HK\$92.4 million for the year to the end of March.

Turnover rose 9 per cent last year to \$514 million. The broker says Sun Hing has consistently delivered earnings growth in the past five years. Its target price for the stock is \$4.48 based on a 10 times one-year-forward price/earnings. The counter closed at \$3.70 on Friday.

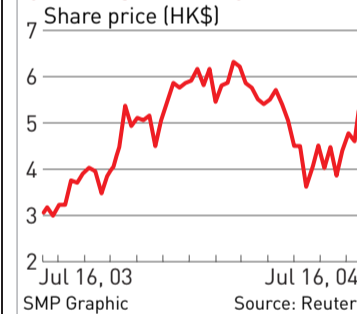
As European manufacturers face rising costs and a shrinking labour pool, the broker expects more outsourcing to be directed to Sun Hing. It projects a two-year compound annual growth rate for original design manufacturing sales of 12 per cent.

Sun Hing is expected to secure more licensed brands this year to strengthen its portfolio and, given the positive response to a new Levi's eyewear collection, the group will be extending its distribution in Asia. Double-digit growth for licensing sales in the next three years is forecast.

A two-year earnings per share compound annual growth rate of 18 per cent is expected, and the dividend yield is also attractive at more than 4 per cent.

WHAT THE BROKER SAID

CHINA SHIPPING DEV



About a year ago DBS Vickers Securities maintained its "buy" recommendation on China Shipping Development, which was expected to gain from increasing demand for commodities. It set a one-year price target of HK\$3.10.

Strong dry bulk and international oil transport businesses continued to boost revenue growth for China Shipping. Coal transport had returned to earlier levels.

Revenue grew 21 per cent year on year in June, mainly driven by domestic coal transport and international oil transport.

DBS Vickers said its forward price was based on an expanded price/earnings target of 15 times and upward revision of its 2004 earnings estimate, but cautioned investors that strong sentiment towards H shares might lead to near-term price volatility.

It maintained its positive view of China Shipping because it was in a position to capitalise on rising oil and dry bulk transport, backed by new capacity, including dry bulkers, Aframax tankers and very large crude carriers.

In March, China Shipping Development reported that its net profit surged 73 per cent to \$1.02 billion year last year. Turnover was up 19 per cent to 4.88 billion yuan. On Friday the counter closed at \$5.25.

New fund adds metals

HSBC has launched the Capital Guaranteed Global Treasures Fund offering capital protection plus an 8 per cent return over four years and the potential for additional gains via industrial metals. Roughly 3.5 to 4 per cent of the fund will be invested in global commodity futures to capitalise on the booming demand and rapid price gains in the sector. "We feel there is great growth potential in commodities," says Dawn Evans, senior fund sales manager of Jersey-based HSBC Bank International.

The fund will trade in copper, aluminium and crude oil. It will also trade in gold and silver as a hedge against US dollar weakness and inflation. *Chris Oliver*

Coal surge lightens the gloom

INVESTMENT TIPS PAUL PONG

Amid stock market weakness in the United States and Japan during the past three weeks, as well as the lack of direction from regional markets, the Hang Seng Index fell 1.04 per cent for the period, closing at 12,059.20 on Friday.

The H-share index, on the contrary, outperformed the wider market and managed to make a slight gain of 1.61 per cent to 4,292.55.

Since inception, my portfolio has depreciated by 7.31 per cent, yet it has still outperformed the blue-chip and H-share indices. The Hang Seng has lost 9.39 per cent and H shares 9.93 per cent.

China plays regained some momentum over the past three weeks. However, this was restricted to those companies in upstream industries, namely petrochemicals and coal producers.

Yanzhou Coal soared 10 per cent in the past three weeks to close at HK\$9.40 while my portfolio reported a 16 per cent unrealised gain on the stock. The price of coal has been increasing for months and is expected to continue rising owing to strong demand. As the country's largest coal exporter and the third-largest producer, Yanzhou Coal will benefit.

Moreover, the company has recently acquired two more coal mines on the mainland which will strengthen reserves and boost turnover and earnings.

There was strong growth in Hong Kong retail sales owing to in-

PEGASUS' PORTFOLIO

Stock	No of shares	Average Entry price	Current Price	Market value
BYD	4,500	\$22.00	\$21.00	\$94,500
Cathay Pacific	14,000	\$14.125	\$14.10	\$197,400
Esprit Holdings	8,500	\$29.025	\$34.20	\$290,700
Hang Fung Gold Technology	64,000	\$1.40	\$1.40	\$89,600
Huaneng Power	14,000	\$6.80	\$6.15	\$86,100
Jiangsu Expressway	52,000	\$3.6375	\$3.275	\$170,300
Ningbo Yidong Electronic	155,000	\$0.64	\$0.65	\$100,750
Ping An Insurance (Group)	2,000	\$10.33	\$9.50	\$19,000
Sa Sa International	76,000	\$2.65	\$2.90	\$220,400
Yanzhou Coal	14,000	\$8.10	\$9.40	\$131,600
Zhejiang Expressway	36,000	\$5.075	\$5.55	\$199,800

Starting capital: \$2 million
 Total portfolio value: \$1,853,865
 Portfolio loss: \$144,133
 Cash (excluding dividends and trading costs): \$253,715

Hang Seng Index loss (February 6, 2004 - July 16): 9.39%
 Portfolio loss (Feb 6 - July 16): 7.31%
 H-share index loss (Feb 6 - July 16): 9.93%

creasing inflows of mainland tourists and overall improvement in the local economy from a year ago. Sales increased nearly 20 per cent year on year in May to \$16.5 billion, while volume rose 15.8 per cent. I believe the growth will continue as more residents of mainland cities visit Hong Kong in future.

More specifically, the influx should be favourable to retailers specialising in jewellery, cosmetics, fashion and electrical products. My holdings in Esprit and Sa Sa International surged more than 17 per cent and 9 per cent respectively against their entry prices. In order to capitalise on the upside potential of the retail sales growth, I de-

cidated to invest 5 per cent of my capital in Hang Fung Gold.

Newly listed companies disappointed. Over the past two months, more than 10 companies made their debuts, but only China Mengniu Dairy and instant messaging provider Tencent are trading above their issue prices.

As mentioned previously, I would take short-term profits on new listings when their share prices surge 15 to 20 per cent, and cut losses when they trade down 15 per cent. I follow this profit and loss principle strictly, and sold Li Ning when the share price rose 15 per cent in early July, and sold China Shipping Container Lines (CSCL)

when its share price plunged 16 per cent against its issue price.

In the meantime, I still hold Ping An Insurance in my portfolio, though the share price dropped 8 per cent, closing at \$9.50 on Friday.

The market is still volatile and lacks direction. With the outlook uncertain, I prefer to hold cash. Most of the Hong Kong-listed companies, in particular blue chips and H shares, will report earnings from the end of this month. My strategy is to invest in companies where I expect upbeat earnings before their reports are delivered.

Paul Pong is managing director of Pegasus Fund Managers Limited

Virgin Mobile shrugs off price fears for flotation

Damian Reece

Virgin Mobile insists that it will not be cutting the price range for its float this week, despite investors' concerns with the offer.

A spokesman for the British mobile phone operator said: "The roadshow is proceeding well. There's a lot of interest and there are no plans to alter the price range."

The mood in Virgin Mobile was brightened last week by talk of sizeable orders from British institutions. The plan is to price the shares on Tuesday evening and begin trading on Wednesday.

The company is being brought to the market by JP Morgan and Morgan Stanley with a price range of 235 pence to 285 pence. Analysts expect the offer to be priced at the bottom of the range.

Rodney Sherrington, of ABN Amro, said: "Virgin Mobile has had great success to date as a niche player, but competition in the UK is set to significantly increase, impacting future growth and margins. We value Virgin Mobile's equity at £594 million (HK\$8.59 billion), or 238 pence per share, before a minority float discount."

Richard Branson is planning to float 40 per cent of the company

and the discount the market attaches to shares as a result could be as much as 10 per cent.

Companies such as Virgin have come into the market as virtual mobile network operators. Their calls are carried over the mobile networks of the main operators. Barriers to entry are relatively low for companies with a strong brand name and marketing skills.

The Independent

Achieve financial success with a coordinated strategy

Expert tax and financial planning for expatriates since 1898.
 Contact Sylvia Tse by telephone: 2526 9488 or email: info@thefrygroup.com
 Website: www.thefrygroup.co.uk

The Fry Group includes Wilfred T Fry (Personal Financial Planning) Limited. The company is authorised by the Securities and Futures Commission (SFC) to conduct investment business. It is also a member of the Hong Kong Confederation of Insurance Brokers (CIB).