Your Money

UPDATE

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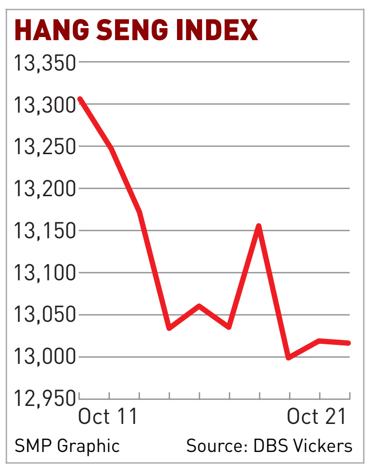
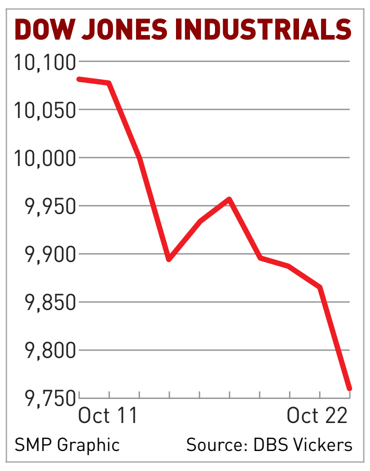


Hong Kong stocks are likely to be flat this week on persistent concerns about rising oil prices but they should also be supported by strong Chinese economic data.

China's GDP grew 9.1 per cent in the third quarter, slowing from 9.6 per cent in the second, suggesting that government efforts to cool the economy are having some impact and more may not be needed.

Inflation, retail sales and industrial output figures released on Friday were also taken positively in regional markets. This could give a boost tomorrow as the Hong Kong market reopens after a three-day break.

"China's monetary policy seems to be working, which leads investors to believe that it will not increase its interest rate for a while," said DBS Vickers director Peter Lai. *AFP*



Record crude oil prices, a tidal wave of quarterly earnings reports and anxiety ahead of the presidential election may pin US stocks down this week.

A stream of economic data, including the government's first read on third-quarter gross domestic product and reports on durable goods and manufacturing activity will also provide investors with grist for trading.

For the week, the Dow ended down 1.77 per cent to 9,757.81, the Nasdaq advanced 0.19 per cent to 1,915.14 and the S&P 500 ended off 1.12 per cent at 1,095.74.

This week is the last full week of trading before the presidential election on November 2. President George Bush and Democratic challenger Senator John Kerry are neck and neck in many opinion polls, sparking uncertainty in the markets. *Reuters*

NEW PRODUCT

Banking giant HSBC has launched yuan credit card services for clients who travel frequently to the mainland. The service will issue either gold or classic credit cards. The cards are accepted at 60,000 ATM banking machines throughout the mainland and the China UnionPay Company merchant network.

The cards will offer free consumer insurance against loss, theft or damage for up to HK$30,000 within 30 days of purchase. Customers will earn one point for each yuan spent on credit. The programme will convert each 12 reward points into one Asia Mile or one KrisFlyer mile. Annual fees are waived for those who apply before October 31.

EXCHANGE RATES

HK$	Bid	Ask
£	14.2320	14.2381
SFr	6.4292	6.4325
*¥	7.2581	7.2608
S$	4.6708	4.6736
A$	5.7623	5.7656
C$	6.3099	6.3121
Baht	0.1885	0.1887
NZ$	5.4166	5.4230
*Won	0.6827	0.6827
M$	2.0489	2.0493
NT$	0.2300	0.2308
Euro	9.8740	9.8765
Peso	0.1381	0.1384
Yuan	0.9407	0.9409

Rates yesterday *per 100 units Source: Bloomberg

Exploit the price differential between H shares and their A-share listings, writes **Andy Mantel**

Retailer's ambitions ready to bear fruit

A review of our recommendations this year suggests that most of our stock picks have been successful.

Our recommendations in January were red-chip conglomerate China Resources and a short position in fixed-line and mobile phone manufacturer Qiao Xing Universal Telephone.

China Resources' aim to become the mainland's largest consumer goods retailer in the next couple of years is beginning to bear fruit. Now China's second-largest supermarket chain, the company has also become its largest beer maker following recent acquisitions of mid-tier breweries in both Zhejiang and Anhui provinces.

I expect analysts will re-rate China Resources higher once the supermarket division looks profitable – probably next year. The stock is trading at 12 times next year's earnings with a 3 per cent dividend yield.

Nasdaq-listed mobile phone operator Qiao Xing continues to operate in an extremely competitive marketplace and a shake-out in the handset industry is looming. As a minor player the firm will inevitably lose out to its larger rivals.

On the positive side the company has improved on the timeliness of its financial disclosures, although the high number of internal dealings within the overall group makes it difficult to get a firm grip. The stock remains a short.

Electronics component maker Kwang Sung Electronics has been the only disappointment among the stock picks to date, due to slowing order flows and rising raw material costs. Gross profit margins contracted to about 18 per cent from 24 per cent year on year.

The second half is typically the high season and the company has been running at full capacity once again this past quarter. Post share-price correction, Kwang Sung is now trading at six times current price/earnings, with a 6 per cent dividend yield and a very healthy balance sheet.

Heavy-duty diesel-engine manufacturer Weichai Power reported first-half turnover of 2.8 billion yuan and profits of 249 million yuan, increases of 61 per cent and 102 per cent respectively. The numbers were due to surging orders from China's leading carmakers and construction equipment makers. Despite a good share-price performance since listing earlier this year, the company is still a buy.

Jilin Chemical recently announced that earnings in the first nine months will most likely be about 400 to 450 per cent higher year on year due to larger volumes and higher prices from its oil and petrochemical businesses. The stock is trading at less than four times current price/earnings.

In my view this company is still under-owned and a reasonable initial price target for the stock is $2.70, which would put it near the average discount to the A-share prices of its other dually listed peers (65 per cent now versus 48 per cent average).

Singapore-listed point-of-sale terminal manufacturer GES has had increasing orders in the second half of the year and is starting to benefit from the transfer of manufacturing operations to Shanghai. The company is trading at 11 times price/earnings with a 4 per cent dividend yield.

May's stock picks focused on China's oil sector and offshore oil producer CNOOC and oil refiner Zhenhai Refining have performed very well to date on the back of high oil prices. It has been prudent to take some profits on CNOOC after the stock reached around $4.50 a share. Zhenhai Refining remains very attractive at its current price.

The world's largest container manufacturer China International Marine Container recently announced that profits probably tripled in the first nine months because of rising sales and prices. Despite a share-price appreciation of about 40 per cent in the past six weeks, the company remains a buy and the Shenzhen B share has a valuation of six times current price/earnings, a 3 per cent dividend yield and a 37 per cent discount to its A shares.

Higher chemical prices in the second half have led to widening margins for Shanghai Petrochemical and it should register strong earnings this and next year. The company is trading at around eight times next year's earnings, with a 6 per cent yield. Its H shares trade at a 40 per cent discount to its A shares

Unlike Qiao Xing, mobile phone manufacturer Nanjing Panda does have both an excellent major strategic partner in Sony Ericsson and its own strong local brand, which will allow it to weather the expected consolidation in the mobile-phone manufacturing business. This past week the company announced that its nine-month profit rose more than 50 per cent year on year. I expect investors to pay closer attention to this stock going forward, given its reasonable valuation and staggering price anomaly.

This month my two stock recommendations revolve around a common theme of past articles – good-performing H-share companies that also have A-share listings in the mainland. The discount between A and H-share listings ranges between 8 and 80 per cent.

The first recommendation is Tianjin Capital Environmental Protection, whose H shares are trading at a 62 per cent discount to its A shares. The company, a utility focusing mainly on sewage and water treatment projects in the mainland, recently said its profits in the first nine months should increase more than 50 per cent year on year.

It is valued at seven times next year's price/earnings and offers a 4 per cent dividend yield.

The other recommendation this month is Louyang Glass. Its steep 76 per cent discount price differential is a major attraction. It makes sense to invest in some of these companies given the pending convergence of China share prices.

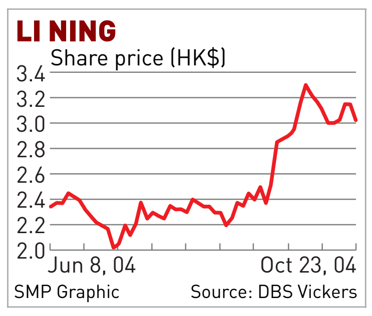
Andy Mantel is managing director of Pacific Sun Investment Management and manager of The China Mantou Fund

MANTEL'S CHOICE

	Price on recommendation	Thursday/Friday price
	Jan 21	
China Resources	$10.40	$10.65
Qiao Xing Universal Telephone (Nasdaq short)	US$15.00	$7.85
	Feb 29	
Kwang Sung Electronics	$1.76	$1.01
Weichai Power	$10.50	$14.60
	Mar 28	
Jilin Chemical	$1.68	$1.94
GES	S$0.665	$0.715
	May 28	
CNOOC	$3.325	$4.125
Zhenhai Refining	$6.60	$7.65
	Jul 16	
CIMC	$11.88	$15.37
Shanghai Petrochemical	$2.75	$2.75
	Aug 13	
Nanjing Panda	$1.49	$1.47
Guangdong Kelon	$2.875	$2.40
	Sep 24	
Huaneng Power	$6.20	$5.80
Guangdong Power	$4.92	$4.34
	Oct 22	
Tianjin Capital	$2.275	$2.275
Louyang Glass	$0.90	$0.90

SMP Graphic

WHAT THE BROKER SAYS



Sports goods manufacturer Li Ning is positioned to benefit from the success of China at the Athens Olympics and publicity leading up to the 2008 Beijing games. This, with increased leisure spending, bodes well for the market in China, says DBS Vickers Securities.

The broker expects Li Ning's earnings to grow by 25 per cent a year from 2004 to 2006, driven by network expansion and margin improvement. It recommends Li Ning as a "buy" and sets a one-year price target of HK$3.40. At this price, and if earnings improve as expected, the counter would trade a 22.5 times price/earnings.

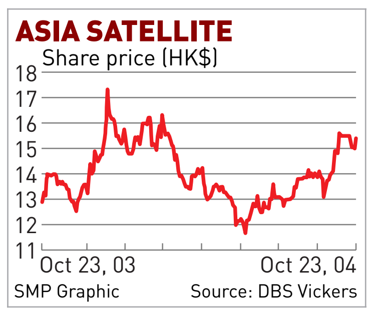
The company is expected to make a net profit of 127 million yuan this year, 164 million yuan next year and 198 million yuan in 2006.

Strong distribution aside, Li Ning is distinguished from the other manufacturers in having an effective marketing strategy, the most recognised effort beings its sponsorship of Chinese Olympic athletes. This, coupled with its focus on product development, should strengthen the company's brand reputation.

DBS Vickers believes momentum may enable the share to exceed its price target if earnings surprise to the upside.

The counter closed at $3.03 on Thursday.

WHAT THE BROKER SAID



About a year ago Lehman Brothers said commercial satellite operator Asia Satellite Telecommunications Holdings (AsiaSat) was set to gain from the regional economic recovery. Lehman raised its stock rating to "overweight" and increased its price target to HK$16.50. The counter was trading at about $13.30 at the time.

The report said the satellite sector should improve as stronger consumer spending led to higher advertising revenue, lifting demand for broadcasting content and transponder capacity.

The company had lagged the market over the past six months and traded at attractive levels with a 2003 price earnings ratio of 11 times and strong cash flow. Lehman considered it an opportunity to buy a market-leading franchise.

Lehman said the stock also offered a potential call option on the China broadcasting sector. AsiaSat had worked closely with the government to gain access to the direct-to-home pay TV market.

In March AsiaSat posted a 32.92 per cent fall in second-half net income after demand shrank.

Profit fell to $184.4 million from $274.9 million in 2003. For the full year AsiaSat's net income fell 24 per cent to a four-year low of $424.5 million.

The counter closed at $15.40 on Thursday.

UK braces for results gala

The record earnings of British oil majors will take centre stage in a gala show of blue-chip results this week, but they will also serve as a reminder of high oil prices and other economic ills hanging over the market.

More than a dozen FTSE 100 companies are due to release results or updates, ranging from GlaxoSmithKline, which is likely to signal better times ahead despite a poor third quarter, to fund manager Amvescap and retailer Boots.

BP opens the show with its third-quarter earnings on Tuesday, and Royal Dutch/Shell follows.

But concerns about potential interest rate rises, a cooling housing market and an oil-fired fear of slowing economic growth will prevent the FTSE index from straying out of a 4,600 to 4,700 range after a two-month rally.

"The market is trading sideways," said UBS strategist Darren Winder. "The underlying valuation looks pretty supportive." *Reuters*

PEGASUS' PORTFOLIO

Stock	No of shares	Average Entry price	Current price	Market value
Beijing Capital Airport	**34,000**	**$2.60**	**$2.65**	**$90,100**
BYD	**4,500**	**$22.00**	**$22.85**	**$102,825**
Café de Coral	**16,000**	**$8.10**	**$8.25**	**$132,000**
Chow Sang Sang	**30,000**	**$3.075**	**$3.10**	**$93,000**
Esprit Holdings	**8,500**	**$29.025**	**$40.30**	**$342.550**
Ningbo Yidong Electronic	**155,000**	**$0.64**	**$0.60**	**$93,000**
PetroChina	**24,000**	**$3.875**	**$4.125**	**$99,000**
Ping An Insurance Group	**2,000**	**$10.33**	**$11.55**	**$23,100**
Sa Sa International	**38,000**	**$2.65**	**$3.275**	**$124,450**
TPV Technology	**20,000**	**$4.425**	**$4.875**	**$97,500**
Yanzhou Coal	**14,000**	**$8.10**	**$10.10**	**$141,400**
Zhejiang Expressway	**36,000**	**$5.075**	**$5.05**	**$181,800**

Starting capital: $2 million
Total portfolio value: $1,907,520
Portfolio loss: $92,480
Cash (excluding dividends and trading costs): $386,795

Hang Seng Index loss
(February 6, 2004 – October 21, 2004)**: 2.21%**
Portfolio loss
(Feb 6 – Oct 21)**: 4.62%**
H-share index loss
(Feb 6 – Oct 21)**: 5.72%**

Switch to a cautious strategy

INVESTMENT TIPS
PAUL PONG

Gloom has shadowed major stock markets in the past two weeks as high oil prices, weak United States economic data and disappointing corporate profit reports continued to bear down on stocks.

Some investors also prefer moving to the sidelines ahead of the US presidential elections on November 2, owing to uncertainties about the near-term outlook.

Excessive falls in the US stock market seldom occur before presidential elections, not least because the government rarely introduces negative economic measures before voters head to the polls. So I do not expect acute sell-offs in the coming two weeks.

Nevertheless, I caution investors to take profits or reduce their exposure if shares bounce from major support levels.

Longer term I believe global economic growth will slow next year and we may see a major correction in stock markets. With this in mind, I believe investors should consider taking steps to preserving their wealth.

The Hang Seng Index has lost 1.68 per cent over the past two weeks, closing at 13,015.20 Thursday, slightly above the 13,000-point psychological level.

The recent government auction of two land sites at well above market expectations ignited fears we may be moving back to the era of high land prices. Instead of being read as positive for the underlying economy, the land sales raised concerns developers will face higher costs. Thus, property counters saw profit-taking pressure.

Apart from a few selected stocks, China plays also disappointed. Falling global commodity prices resulted in severe selling of mainland commodity shares over the past two weeks. However, portfolio constituent PetroChina surged 6.5 per cent against my purchase price, on the back of strong crude-oil prices.

The H-share index has retreated 5.81 per cent over the past two weeks, closing at 4,492.91.

Since its launch in early February, my portfolio has depreciated by 4.62 per cent, underperforming the blue-chip index which lost 2.21 per cent over the period; yet it has still outperformed the H-share index, which plunged 5.72 per cent.

Recent statistics show slowing growth in mainland tourist visits, and declining spending. These factors were also reflected in the latest local consumer price index. Price gains slowed from August, as reflected in smaller increases in prices for jewellery, clothing, footwear and package tours.

Declining tourist spending may slow the growth momentum of Sa-Sa, As a result, I cashed out half of my holding for a 23.6 per cent gain.

Hang Fung Gold, another retail play in my portfolio, lost more than 15 per cent against its purchase price, and I cut-loss accordingly.

My trading strategy has become cautious for the next few weeks, and I prefer to hold more cash in hand in the meantime.

Paul Pong is managing director of Pegasus Fund Managers