

**MR INVESTOR:
LOOK AT THE FUNDAMENTALS AND
DON'T BE MISLED BY VESTED INTERESTS**

It is said that any excuse is better than none, but, in the case of the Hang Seng Index and its sporadic but inevitable slide, since about May this year, the economic facts, relevant to The Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) and of the companies, listed on The Stock Exchange of Hongkong Ltd, speak for themselves.

Excuses seem hardly required.

On May 3, TARGET's lead report was headlined: 'THE RAIN ALWAYS FOLLOWS THE SUNSHINE'. This report stated that, since the Hang Seng Index had risen about 7,565 points since October 5, 1998, it could fall just as fast as it rose

About one month later, TARGET stated, in its lead report: DON'T BE MISLED: THINGS ARE NOT IMPROVING.

The penultimate paragraph of this report stated: '... precious little has happened to the HKSAR economy to make TARGET believe that the stock market can make any material headway ...'.

On June 29, TARGET went so far as to state that The Hang Seng Index had no reason to be anywhere near the 13,000 level, let alone the 14,000 level.

TARGET has been consistent in stating that the Hang Seng Index should be closer to the 10,000 level than the 13,000 level.

Our analysis of the situation in the HKSAR is, and always has been, based on fundamentals and in anticipation that, when the reporting season came round, the penny would drop as companies, listed on The Stock Exchange, would give the bad news to investors: Things are not all rosy in the HKSAR garden.

What is happening, now, is that vested interests are concentrating on the very real possibility of the US Federal Reserve Board, increasing interest rates in the US.

As such, it is said that investors who play on the stock market in the HKSAR are very concerned because, presumably and correctly, HKSAR interest rates are likely to follow suit.

TARGET asks: For what reason should the HKSAR be more concerned about the possibility of the Fed, raising interest rates by one quarter of one percent, than the main problem in the HKSAR: There are so many listed companies, here, with so many financial skeletons in their closets.

TARGET has been told that nearly every major accounting firm, with offices in the HKSAR, has between 15 companies and 20 companies, all listed on The Stock Exchange of Hongkong Ltd, all waiting for some kind body to make any kind of reasonable offer to take them over.

Late last week, CITIC Ka Wah Bank Ltd announced a shocker: The Interim Profit, to June 30, 1999, had declined more than 73 percent, compared with the like 1998 period, to about \$HK51.59 million (1998: \$HK191.40 million).

CITIC Ka Wah Bank, formerly known as The Ka Wah Bank Ltd, is supposed to be one of the showcase banks of the PRC in the HKSAR.

Even 'massaging' the accounts of this bank cannot help the situation, it appears (not that any massaging ever took place, of course).

The bank admitted, openly and honestly, that more than \$HK2 billion in its loan portfolio are non-performing loans, now, and, in addition, the bank is taking a 'hit' to the extent of about \$HK225 million, being a Provision for Bad and Doubtful Debts.

In the like period in 1998, the bank took a Provision for Bad and Doubtful Debts, amounting to about \$HK140 million.

It is unlikely that this is the end of the story, with regard to provisions for bad and doubtful debts in this massive bank, and TARGET is laying odds that many of the bank's provisions are for companies, controlled by the Government of the PRC.

Also, late last week, came news that Joyce Boutique Holdings Ltd, an up-market retailer of fashion garments, announced that, on a reduced Turnover for the last Financial Year, ended March 31, 1999, it had suffered an Operating Loss Before Exceptional Items of about \$HK63.27 million.

The Turnover was about \$HK784.11 million, down from the 1998 figure of about \$HK1.12 billion, a drop of about 30 percent, Year-on-Year, while the Operating Loss was an exacerbation of the 1998 Operating Loss when Joyce announced that it had taken a 'hit' to the extent of about \$HK94 million.

That was not the end of the story, however, for Joyce, also, announced a write-off, amounting to about \$HK30 million, this being the 'bath' which the Company had to take, following the closure of retail shops and a restaurant in the HKSAR.

Joyce could be described as a bloodbath, if that could be considered the correct simile.

Nobody can blame the Chairman of Joyce, Mr Walter Ma King Wah, for his Company's problems because, as far as Joyce is concerned, the dye was cast some years ago; and, all the Joyce can do is to play the cards as they have been dealt.

Now, CITIC Ka Wah Bank and Joyce are very real problems, and problems which are right on the doorstep of the HKSAR.

These are matters about which the investing public of the HKSAR should be concerned because, in the US, eventually, things will come to a head, eventually, the Fed will raise interest rates, eventually, there will be a meltdown in New York, and, eventually, HKSAR investors will take a close look at the economy and not be misled by would-be stock-market pundits, who only have their own self-interests at heart, to the detriment of all else.

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