

**MR INVESTOR :
IS RAMPANT SPECULATION IN THE G.E.M.
A HEALTHY STATE OF AFFAIRS ?**

Even before The Stock Exchange of Hongkong Ltd opened its doors on Monday, November 22, excitement was running high in respect of an anticipated takeover of Mannesmann AG of Germany by Vodafone AirTouch plc of England.

The previous week's bid by the British mobile telephone operator, Vodafone AirTouch, amounting to nearly \$HK965 billion, had been rejected by Mr Klaus Esser, Chairman of Mannesmann, who said that the bid was too low for him to recommend it to Mannesmann's shareholders.

But Mr Esser had remarked, over the weekend of November 20-21, that Vodafone AirTouch was getting closer to the mark, allowing him to consider recommending an offer to his shareholders.

Hutchison Whampao Ltd, of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), holds about 10 percent of Mannesmann's Issued and Fully Paid-Up Share Capital so that, should a takeover come to pass, Mr Li Ka Shing's Empire – and, hopefully, his shareholders – would benefit, financially.

The opening of The Stock Exchange saw the Hang Seng Index drop about 5 points, as investors appeared to be uncertain as to what action to take.

By the luncheon bell, however, it was only too apparent as to the market's direction: Up, up and away.

The Hang Seng Index finished the morning session with a gain over the previous Friday's closing level of about 61 points, but the 90-minute afternoon session saw the bulls take complete control, pushing The Index to a new 27-month high of 15,285.03.

The 211.93-point rise, last Monday, represented a gain of about 1.41 percent over the close of the week, ended November 19.

The turnover of last Monday was on the lowish side, however, at \$HK11.89 billion – hardly an indication of a roaring bull market.

Once again, the so-called '*big boys*' of the HKSAR ruled the market, with Hutchison Whampoa Ltd, HSBC Holdings plc, Cable and Wireless HKT Ltd and Cheung Kong (Holdings) Ltd accounting for about 20.51 percent of the Total Turnover.

In Japan, The Tokyo Stock Exchange was overshadowed by what was happening to the yen vis-à-vis the US dollar in spite of the Nikkei-225, gaining substantially due a plethora of very exciting announcements from banks and industry leaders (with some notable exceptions, however).

On foreign exchange markets, the international exchange rate for the Japanese currency rose 1.50 percent, compared with the previous Friday's closing level, to 104.71 yen to the US dollar.

The reason for the fast run-up of the Japanese yen was said to be due to a report, issued by MITI – The (Japanese) Ministry of International Trade and Industry.

MITI stated that Japanese businesses had geared up for a rise in demand for goods and services in the July to September quarter – a very positive sign.

Last Monday's gains for the yen were the biggest improvement in the international exchange rate of the currency since the middle of October.

While international speculators were enjoying the gains of the yen, Japanese business, no doubt, was concerned that the stronger yen would affect fourth quarter profits.

While there was little '*hard*' news to stimulate the stock market in the HKSAR, last Monday, there were so many companies, lining up to tap the market for cash, that it was hardly surprising that things were on the boil.

In other Asian stock markets, there were an equal number of winners and losers:

| | |
|-----------------|--------------------|
| Thailand | Minus 1.24 percent |
| Indonesia | Minus 0.50 percent |
| Malaysia | Plus 1.02 percent |
| The Philippines | Plus 0.58 percent |
| South Korea | Minus 1.53 percent |
| Singapore | Minus 0.45 percent |
| Taiwan | Plus 1.92 percent |
| Japan | Plus 1.35 percent |

Tuesday

The Chairman of Hutchison and Cheung Kong, Mr Li Ka Shing, made headlines on Monday night, coming out in support of the Chairman of Mannesmann, who had decided not to sell out to VodaFone AirTouch.

Mr Li told the Press in the HKSAR that he thought that there was a better future for his Group with Mannesmann than with Vodafone.

By the time that Mr Li had made known how he felt about this situation, the stock market had closed, with the Hang Seng Index, having gained another 108.17 points, coming to rest at 15,393.20 on a Total Turnover of \$HK13.17 billion.

Hutchison, itself, accounted for 8.58 percent of the Total Turnover, with buyers and sellers of the Hutchison Counter, seeing more than \$HK1.13-billion worth of Hutchison stock switch hands.

Again, as has been the case for some weeks, a handful of issues accounted for a large proportion of trading on The Stock Exchange of Hongkong Ltd.

For last Tuesday, it was China Telecom Hongkong Ltd, Hutchison Whampoa Ltd, HSBC Holdings plc and Cable and Wireless HKT Ltd, all of which in aggregate accounted for about 32.19 percent of the Total Turnover.

It was only a late run-up in the market that caused the Hang Seng Index to finish in positive territory because, by the first sounds of the luncheon bell, the market was off about 135.63 points, compared with Monday's close.

While the Japanese stock market was seen to be gaining strength, day after day, one of the problems, facing it, was the strength of Japan's currency, the yen.

It was seen as undermining profits of many Japanese-based companies, such as the giant optical and camera-maker, Canon Incorporated. This company relies on its ability to export to the extent of about 82 percent of its total sales.

Also, due to its success in exporting its products to nearly every country in the world, the Japanese Government looks to it as being an important contributor to Government coffers.

It is estimated that, for every one yen in appreciation against the US dollar, this company loses about \$US20 million (about \$HK151 million).

A strong yen is seen as hurting Japan's ability to export its products and services since other Asian competitors are able to beat Japan, price wise.

And the yen did continue to rise in late trading last Tuesday, finishing the day at about 104.35 against the US dollar.

In London, there were fears that another interest-rate hike was on the cards: It sent the British pound climbing for higher ground.

It appears that The Bank of England's rate-setting committee was, by majority, in favour of higher interest rates, with only one member of the powerful committee, voting against the proposal to tighten money a notch.

In New York, it was announced that October orders for appliances, electronics and electrical equipment had fallen for the second consecutive month. It is the biggest drop in demand for such items in the past 2 years, the Government stated.

Orders for durables fell 1.30 percent in October after a 1.90-percent fall for September, the Commerce Department said.

Consumer spending in the US is slowing, to be sure.

This is the way that things shaped up in other Asian markets, last Tuesday:

| | |
|-------------|--------------------|
| Thailand | Minus 0.24 percent |
| Indonesia | Minus 1.86 percent |
| Malaysia | Minus 0.28 percent |
| South Korea | Minus 0.39 percent |
| Singapore | Minus 0.18 percent |
| Taiwan | Minus 0.08 percent |
| Japan | Closed |

Wednesday

The success of the spin-off of a subsidiary of The Wharf (Holdings) Ltd on Wall Street, via ADRs – American Depository Receipts – caused quite a commotion in the HKSAR since i-Cable Communications Ltd is not exactly the hottest number since Marilyn Monroe.

The market price of i-Cable Communications rose on The Stock Exchange of Hongkong Ltd from its Offer Price of \$HK10.39 per share to \$HK16.70 per share, and then closed at about \$HK15.75 per share.

Such is the madness for anything, closely resembling high-tech, these days.

That there was no way in the history of the world that this company's shares could be worth anywhere near a 60-percent premium over the Offer Price is unquestionable, but logic did not seem to matter to the punters, both in New York and the HKSAR.

i-Cable Communications was, without doubt, one of the '*darlings*' of The Stock Exchange of Hongkong Ltd, accounting for about 10.14 percent of the Total Turnover of about \$HK12.82 billion.

Notwithstanding i-Cable Communications, the HKSAR did not have a very good day, from the Hang Seng Index's point of view, if one could be forgiven for ascribing a personality to a stock-market benchmark, with The Index, falling 85.92 points to close at 15,307.28.

The Market followed, just about, the same pattern of the past few months, with just a few counters, pulling up, or pushing down, The Index.

Last Wednesday, it was newcomer, i-Cable Communications and the old standbys, HSBC Holdings plc, China Telecom (Hongkong) Ltd, Hutchison Whampoa Ltd and Cable and Wireless HKT Ltd, which, together, accounted for about 34.56 percent of the Total Turnover.

And of this statistic, one third of the 34.56 percent could be credited to i-Cable Communications, alone.

The market was transfixed by the success of i-Cable Communications, rightly or wrongly, and the Li Ka Shing '*magic*' was put on the back burner while speculators took a punt of Mr Peter Woo's latest offering.

In The Land of the Rising Sun, the Japanese yen reached a record high against the Euro and neared a 3-week high against the US dollar.

The yen-Euro rate was 106.25 and the yen-US dollar rate was 104.72.

The Chief of Japan's Economic Planning Agency, Mr Taichi Sakaiya, sounded a warning about Japan's economy, stating that Japanese private demand was waning on his reading of household spending statistics.

While Japan's economy may be emerging from recessionary forces, it is far from being a healthy economy, the Director-General's warning seemed to say.

However, in Tokyo, the Nikkei-225 managed to tease the 19,000 level, closing at 18,896.21 for a gain on the day of about 74 points.

In the US, the Commerce Department announced that it was raising its sights on economic growth during the third quarter, reflecting larger inventories than first thought, along with an improved trade picture.

The Gross Domestic Product rose at a 5.50-percent annual rate, up from the US Government's previous estimate of 4.80 percent.

The Commerce Department was quick to point out that the growth was on the back of very little inflationary tendencies.

It is important that the US economy is seen to be healthy since the rest of the world is watching for the first signs of a crack in that economy, one which could lead to an international fissure.

While there was a great deal of excitement on The Stock Exchange of Hongkong Ltd, in other Asian capitals, things were not pleasant at all.

This is how things shaped up in Asia, last Wednesday:

| | |
|-----------------|--------------------|
| Thailand | Minus 1.53 percent |
| Indonesia | Minus 3.03 percent |
| Malaysia | Plus 0.09 percent |
| The Philippines | Minus 0.39 percent |
| South Korea | Minus 0.49 percent |
| Singapore | Minus 0.92 percent |
| Taiwan | Minus 1.55 percent |
| Japan | Plus 0.39 percent |

Thursday

The Hang Seng Index shed 2.02 percent, coming to rest at 14,998.77, on a Total Turnover of \$HK12.34 billion.

i-Cable Communications, which was listed on Wednesday for the first time, was under a great deal of selling pressure throughout the day, and, though it was in the Top 10 Most Active List of The Stock Exchange of Hongkong Ltd, it lost a great deal of its sparkle, shedding more than 20 percent at one point in trading.

i-Cable Communications finished the session at \$HK12.75 per share, down from Wednesday's \$HK15.75 per share.

More than 52.24 million i-Cable Communications shares changed hands, during Thursday's bloodletting, accounting for about \$HK700 million of the Total Turnover, equal to 5.67 percent.

Once again, just a handful of counters accounted for the lion's share of trading, and, once again, it was HSBC Holdings plc, Cable and Wireless HKT Ltd, China Telecom (Hongkong) Ltd, Hutchison Whampoa Ltd and Cheung Kong (Holdings) Ltd which were right up there, hugging the Top 10.

Between the above-mentioned giants, they accounted for about 26 percent of the Total Turnover.

The Hang Seng Index's losses came on the back of 2 newcomers to join the ranks of The Growth Enterprise Market – The GEM-- of The Stock Exchange of Hongkong Ltd.

The 2 entries to The GEM, added last Wednesday, were Timeless Software Ltd – please see [TARGET Intelligence Report, Volume One, Number 142, published on November 22](#) -- and China Agrotech Holdings Ltd – please see [TARGET Intelligence Report, Volume One, Number 140, published on November 18.](#)

Both of these issues, in TARGET's opinion, were hardly worth a second look, but it appears that the gambling madness was upon some big players of the HKSAR.

The market price of Timeless Software shares rose 80 percent over the Offer Price on its debut, to \$HK5.40 per share, while the market price of China Agrotech gained 60 percent over the Offer Price, to \$HK1.92 per share.

No further comment is needed.

In Tokyo, the Nikkei-225 lost ground, falling about 174 points, or nearly one percent, coming to rest at 18,721.78 in hectic trading.

As in the HKSAR, it was interest in the so-called technology issues, which caught Japanese investor attention, especially the speculative element there.

Many of the solid industrials and trading companies, listed on The Tokyo Stock Exchange, were put on the back burner.

For a change, the Japanese yen did not make headway against the Euro or the US dollar.

Whether or not the HKSAR was undergoing a violent correction remained to be seen, but Europe was riding high, last Thursday, on suggestions that European economies were on the mend.

This is the way that things shaped up in Europe, last Thursday:

| | |
|-----------------|--------------------|
| Thailand | Plus 1.35 percent |
| Indonesia | Minus 1.84 percent |
| Malaysia | Minus 0.30 percent |
| The Philippines | Minus 0.09 percent |
| South Korea | Plus 0.35 percent |
| Singapore | Plus 0.51 percent |
| Taiwan | Minus 0.22 percent |
| Japan | Minus 0.92 percent |

Friday

While the Hang Seng Index, officially, put on 275.76 points, or about 1.84 percent, last Friday, the Total Turnover was such that important questions could be asked as to whether or not one should put much credence to The Index's gain.

The Total Turnover fell to about \$HK9.24 billion with, yet again, 4 counters, accounting for nearly one quarter of the total trading activity.

And, as usual, HSBC Holdings plc, was right up there, accounting for a huge slice of the gains on The Index.

Two more listings were added to The GEM – TS Telecom Technologies Ltd and SIIC Medical Science and Technology (Group) Ltd.

TS Telecom is a company, engaged in power-monitoring systems, while SIIC Medical Science is a company, engaged in producing and selling patent medicines (cure-alls).

Investors warmly received both new entries, with TS Telecom, managing to attract investors who applied for about 200 times the number of shares on offer, and SIIC Medical Science was said to have attracted investors to the tune of about 500 times the number of shares on offer.

It was becoming more and more evident that logic was not playing much of a role in the investment climate on The GEM, with some people, sounding the warning bell.

It was unofficially announced, on Friday, that a number of big moguls of the HKSAR had been adding to their personal investment portfolios, over the past few months.

Mogul Li Ka Shing was said to have been stocking up on shares within his Empire – Hutchison Whampoa Ltd, Cheung Kong (Holdings) Ltd, etc – with directors of Henderson Land Development Company Ltd, taking a little splurge, also.

The Deputy Finance Minister of Thailand, Mr Pisit Leeahtam, announced that HSBC Holdings Ltd was out to try to grab Bangkok Metropolitan Bank.

This will set The Bank back about \$HK2.72 billion, it was stated in an official Press Release.

Perhaps, the most important piece of news, released last Friday in the HKSAR, after the stock market had closed, was that the economy of the HKSAR had grown by about 4.50 percent during the third quarter of this year.

The news was hailed as being the end of recession in the HKSAR.

However, some more deep-thinking economists raised the question as to whether or not the worst was over; or, was the news just a flash in the pan, to be followed by disappointing news at the end of the year.

Of perhaps more importance, internationally, was the strength of the yen against the Euro.

The Euro, launched in January, fell to one Euro against one yen at one point in European trading, last Friday.

In the week, ended November 27, the Euro had lost 5.60 percent against the Japanese yen and about 1.50 percent against the US dollar.

As a matter of international pride and the pride of the members, within a united Europe, there were questions being raised as to the reasons that international investors would prefer to hold the Japanese currency to the European unified currency when the unified European economy has, potentially, a lot further to go than the Japanese economy.

In terms of the US dollar, the yen reached a 4-year high of 102 yen.

The Bank of Japan was tipped to intervene in the marketplace when trading resumed on Monday, November 29.

It was in such turmoil in international foreign exchanges that people went home last Friday afternoon, wondering what the following week would bring.

That there was unhealthy speculation on The GEM was a given, but, with Japan about to get in the neck with regard to its ever-strengthening currency, which is bound to slice into Japanese corporate profits, it was a matter about which nobody could find an answer since intervention by national banks has never been shown to be the answer to curb international money speculation in the past.

This is how things came to rest in Asia for the week, ended November 27:

| | |
|-----------------|--------------------|
| Thailand | Plus 1.91 percent |
| Indonesia | Plus 1.31 percent |
| Malaysia | Plus 0.99 percent |
| The Philippines | Minus 0.15 percent |
| South Korea | Minus 2.42 percent |
| Singapore | Plus 1.54 percent |
| Taiwan | Minus 3.91 percent |

| | |
|-------|-------------------|
| Japan | Plus 1.03 percent |
|-------|-------------------|

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