Zeppelin's

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A Newsletter by Zeppelin Real Estate Analysis Limited of the Zeppelin Group
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USA interest rate rises, China macro economic measures, and the Hong Kong real estate market: After seeing significant price gains since 3Q 2003, especially in portions of the residential, office, and retail sectors, the real estate market has generally stabilized, with transaction volume cooling a bit. Nonetheless, there is still much liquidity though investors have grown cautious in view of the interest rate rises and the macro economic tightening measures that are begin adopted in Mainland China.

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We are very honored to have Dr. E. Yegin Chen, PhD(MIT), Founder of Asia Clipper, an independent investment analysis bulletin publication in the USA, who would share with us his experience and insight on Hong Kong / China stocks listed in the USA. We would also like to hear from prospective readers / writers who wish to share their real estate knowledge and experience with us.

This quarterly (January, April, July and October) newsletter is circulated freely via email to over thousands of readers including real estate developers, investors, owners, users, financiers, top executives, senior managers, prominent academics and related professionals from Hong Kong and abroad. Our content is / has also been published in newspapers and web portals such as **China Daily**, **Hong Kong Economic Journal** (a Chinese daily), **21st Century Business Herald** (China), **MITCRE Alumni Newsletter**, the **Surveying Newsletter** of the Hong Kong Institute of Surveyors, **Centanet.com, Netvigator.com, Hongkong.com, E-finet.com, Red-dots.com, Realtradex.com, FrogPondGroup.com, Icfox.com**, **PacificProperties.net**, **Soufun.com** and **House18.com**. We had also been quoted in the **Asian Wall Street Journal** and interviewed by **Radio Hong Kong**. We also publish monthly articles and analyses in the months between. This newsletter is now into its **8th year** and **31st** issue.

We also operate a website www.real-estate-tech.com through which we intend to share some of our real estate knowledge and ideas with interested parties. We also make available charts, tables, spreadsheets, reports, and the like for reference, the majority of it being free with some requiring a token fee.

Zeppelin Real Estate Analysis Limited is involved in real estate development, investment, and asset management with a focus on **independent analysis**, investment strategy, and portfolio management. It can also assist in setting up real estate analytical computer systems, software applications and content development. It is part of the Zeppelin Group of Companies which collectively also offers project management, facility management, marketing management, architecture, and capital management services.

Investing In China / Hong Kong Through Dragon Shares: A View From States-Side
By Dr. E. Yegin Chen, PhD(MIT), Founder, Asia Clipper
Real Estate Tech, July 2004
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INDEPENDENT ASIAN INVESTMENT ANALYSIS

Real Estate Tech Editor's Note = we are very honored to have Dr. E. Yegin Chen, who has a PhD in Managerial Economics from MIT Sloan School, as our invited guest writer for this issue. Dr. Chen will share with us his experience and analysis on Dragon Shares, a term he coined to describe equity stocks listed in the USA but related to Chinese companies from Hong Kong / China. Dr. Chen is not only the founder of Asia Clipper, but also runs Cardinal Investment Advisor, Inc. in Boston, USA. Please note this article is meant for basic reference only and is not intended to solicit any business, investment, capital, and / or stock trading.

Investing in China / Hong Kong Through 'Dragon Shares'

The dramatic economic growth and development of China/Hong Kong has enabled many of its leading companies to successfully access global capital markets, including those of the United States. **Shares of these Chinese/Hong Kong companies traded in the U.S. (dubbed 'Dragon Shares' by Asia Clipper) represent an increasingly important opportunity for investors with U.S. brokerage accounts**. Long-term investors seeking to benefit from the dynamic transformation of China/Hong Kong should give strong consideration to putting Dragon Shares into their portfolios.

Starting from a mere handful only a decade ago, **the number of Dragon Shares has grown to 64 major counters** with an aggregate market capitalization in excess of US$300 billion (US$300,000 million). The Dragon Shares include shares of Chinese/Hong Kong companies such as PCCW (NYSE: PCW) listed on major U.S. exchanges, American Depository Shares (ADSs) of Chinese enterprises such as PetroChina (NYSE: PTR), and shares of international companies with major operations in China/Hong Kong, such as HSBC Holdings (NYSE: HBC).

Benefits to Investors in Both U.S. and Asia

Through Dragon Shares, investors in the U.S. enjoy the ready ability to diversify their portfolios and access leading companies in rapidly-growing China/Hong Kong without having to use their passports or open an overseas brokerage account. U.S. investors can trade these shares as readily as those of U.S. companies using the same brokerage accounts and procedures. They may also enjoy greater confidence investing abroad because the Dragon Shares are subject to U.S. Securities and Exchange Commission (SEC) reporting standards. Further, the financial statements of Dragon Share companies are usually audited by internationally-recognized accounting firms according to U.S. or international accounting standards.

Investors based in Asia, including Hong Kong, can also benefit from these Dragon Shares. Through Dragon Shares traded in the U.S., Asia-based investors can access **several China/Hong Kong companies whose shares are not traded in Asian stock markets**. Leading China/Hong Kong businesses that can be invested in only via Dragon Shares include China Internet leaders Sina (NASDAQ: SINA), Sohu (NASDAQ: SOHU), NetEase (NASDAQ:NTES), and others. Similarly, several smaller Hong Kong-founded firms (typically in manufacturing) such as Deswell Industries (NASDAQ: DSWL) and Intac International (NASDAQ: INTN) have their shares traded in the U.S. but not in Hong Kong.

Dragon Share Historical Performance

In 2003, the Dragon Shares tracked by Asia Clipper provided a median gain of 145 percent, more than doubling, as the underlying businesses exhibited strong fundamentals in a booming economy (Table 1). Several counters related to commodities and automobiles posted returns well in excess of the median gain.

TABLE 1: TOP DRAGON SHARES IN 2003

Company	US Ticker	Business	One Year Return
China Yuchai Development	CYD	Diesel engine manuf.	+621%
Ivanhoe Energy	IVAN	China/US energy developer	+620%
China Automotive Systems	CAAS.OB	Steering system manuf.	+437%*
Aluminum Corp. of China	ACH	Alumina & aluminum	+434%
Sina	SINA	Online media	+358%

Median Return of the 59 Major China/HK Counters in US: +145%

Table only includes Dragon Shares with period-end market capitalization in excess of US$100 million.

* This company was newly listed in 2003. Returns are calculated from the first trading day's close and are not annualized.

However, in the first half of 2004, the Dragon Shares corrected, posting a median loss of 15 percent in the first half of 2004 (Table 2), as investors reacted to China's steps to slow an overheating economy. A few shares (mostly related to the automotive industry) declined by more than 50 percent in the first half of 2004, highlighting the risks that often accompany banner returns of the sort enjoyed in the previous year.

TABLE 2: TOP DRAGON SHARES IN 2004 (JANUARY 1 TO JUNE 30, 2004)

Company	US Ticker	Business	Six Month Return
Sunday Communications	SDAY	HK mobile svcs. & phones	+57%
I-Cable Communications	ICAB	HK pay-TV & broadband	+57%
Qiao Xing Univ. Telephone	XING	Telecom. equipment	+36%
Shanda Interactive	SNDA	Online game operator	+28%*
Radica Games	RADA	Electronic games manuf.	+19%

Median Return of the 64 Major China/HK Counters in US: -15%

Table only includes Dragon Shares with period-end market capitalization in excess of US$100 million.

*This company was one of five Dragon Shares newly listed in 2004. Returns are calculated from the first trading day's close and are not annualized.

Prospects

In coming years, the number and importance of Dragon Shares will only increase. A growing number of **leading Chinese/Hong Kong companies in a wider range of industries will continue to tap U.S. capital markets to fuel their growth, and the well-managed firms will deliver superior long-term returns to Dragon Share investors**.

Long-term investors should only include Dragon Shares in well-diversified portfolios, for investing in emerging markets such as China can result in a highly volatile ride. A host of political, economic, currency, and company-specific factors suggest that Dragon Shares may not be appropriate for all investors. **The stellar overall performance of Dragon Shares in 2003 (median gains in excess of 100 percent) will not be repeated in 2004 or in the foreseeable future.** In particular, two major Dragon Share risks now are China's entering a period of government-led efforts to moderate economic growth as well as important differences still remaining in corporate governance practices for some Chinese companies compared to their U.S. counterparts. Nevertheless, Dragon Shares offer the world's investors a solid and convenient way to benefit from substantial growth in the world's most dynamic region.

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Asia: Office Rentals Jive With GDP
Real Estate Tech, July 2004
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This refers to the Grade A Office markets in Asia, including Hong Kong, Shanghai, Beijing, Singapore, Kuala Lumpur, Bangkok, Jakarta, Sydney, Melbourne, and Auckland. Data and information have been abstracted from published market reports and web-pages, and one objective is to see which factor(s) or element(s) is / are crucial to office rentals. Here are a few findings:

a) Office rentals have little to do with the overall supply = that is to say, rental levels do not fluctuate with supply, or putting it another way, it does not follow that a larger size office market will definitely experience rental pressures simply because of the huge amount of floor area it has. As long as there is sufficient demand to use up the supply = no rental pressures.

b) Office rentals have little to do with population size = as in the residential market (which your humble author had mentioned before), the population size does not affect the office market not its rental levels.

c) Office rentals have much to do with GDP levels = this is not surprising as a comparatively high GDP may imply a higher level of economic activity, liquidity (hot money) etc, which in turn may help boost business transactions and thus enhances market sentiment, leading to higher rentals and prices. A similar situation applies to GDP per capita, and once a city reaches a certain GDP per capita level, like Hong Kong for instance, its office rentals will not be too low, even if the vacancy is relatively larger.

d) Office rentals have less to do with vacancy rates = this needs clarification in a sense that vacancy does affect the individual office rental market (more vacancy = more competing premises = lower bargaining power for landlords = lower rentals), yet from a macro cross-market angle, the office rental levels have little to do with vacancy rates.

Summing up, one method to assess which office market(s) bears the best investment feasibility would be compare its GDP to its rental level, and the higher the ratio the better the prospect. From this angle, Hong Kong and a few more developed cities seem a better bet though caution is highlighted as market circumstances may change.

Life Expectancy, Men to Women Ratio, and 3G

Real Estate Tech, July 2004

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Recent news and reports published in the Hong Kong media suggested increased life expectancy, further gap in the men to women ratio, the prospect of 3G, and the web status. Your humble author is not facile with any of the foregoing topics, nonetheless wishing to share some of his thoughts on them. Here they are:

a) **On increased life expectancy** = it is projected that women can expect to live to 88 years old in the next 30 years or so, and men can also be expected to have an average life span of close to 83. The impression, though unverified, was that such projected figures were the results of using the current average life spans x some observed rates of increase. There is nothing wrong with this approach, and such projections do have a certain probability of becoming reality. However, there are also other trends that may decrease the chance of having higher life expectancy. One such trend is the "baby-boomers" (those born from the end of WWII in 1945 to around 1960) are so numerous that neither the earlier nor the latter generation could match them in numbers. Even assuming the current medical / hospital / health care (hereafter lumped as 'health care') resources, whether public or private, are sufficient to cope with present needs, there is no guarantee that these resources will be enough to meet the demand of the baby-boomer generation when they get older (the first batch is approaching 60 already). Putting it another way, the average health resources that can be enjoyed by a baby-boomer may fall, thus affecting life expectancy negatively. One may argue that more resources can be spent on health care by then, whether via further taxes, higher health insurances, and / or medical fees, and this implies the probability of putting people of lesser means (and some middle class too) in jeopardy gets higher = higher chance of dying earlier than projected = decreasing the overall life expectancies. The demand for better health care may also push up the expenditure required. In any event, a graying population tends to spend more on health-related consumption, and thus relatively less capital may be available for investments, real estate ones included.

b) **On men to women ratio** = currently there are more men than women and the gap is expected to get wider in the next 30 years when there will only be 70 men for every 100 women. Nonetheless, guys, do not celebrate too soon for right up north in Mainland China there are currently 107 men to every 100 women and the projection in the decades to come is that there will be 117 men to every 100 women, and China has a population of [1,200,000,000 / 6,800,000] times that of Hong Kong. With increased merging into the Mainland, especially the nearby Pearl Delta Region (9+2), there is no need for Hong Kong women to select only from Hong Kong men, assuming people then will be as keen to marry etc. In short, this local Hong Kong problem may not be as huge as it sounds.

c) **3G** = there are the believers and there are the doubters. Your author does not possess enough knowledge on the technology to make meaningful comments yet as a potential user, sees the real contribution of 3G [and any related technologies] NOT in its capability in letting us "see" one another (lovers may object to this) but rather in its ability to provide speedier / higher communication volume (in terms of data etc) and easier to use interfaces thus enhancing business and operational efficiency ultimately. Also, it does not matter whether the medium gadget is a mobile phone, a computer notebook, or a Palm, as long as it is easy to carry and use.

The above is your humble author's two cents worth of input. Shape up guys, challenges ahead.