TAIPAN

China's Century

Getting Filthy Rich Before the Red Dragon's Downfall

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Be warned: The 21st century will witness dramatic changes to the behemoth economy of China. You see, following its trajectory growth of the last five years, we at *Taipan* are predicting a drastic slowdown over the next five. In fact, we believe that China is heading toward an economic crash that could trigger a deep global recession after 2009—a recession that will change the economic balance of power forever and last at least a decade longer.

China's collapse could be triggered by a combination of factors similar to those responsible for turning the Japanese bubble boom of the late 1980's into shambles:

A corrupt, inefficient and protected banking system, rampant real estate speculation—as well as factors inherent to China, like a strong militaristic bent, continued social repression, not to mention rampant shenanigans at the corporate level…

But the purpose of this report is NOT to describe China's impending downfall, but to let you in on where you can still make amazing returns—safely—in this treacherous economy.

One of the problems is that there aren't very many ways for the average investor to play the Chinese market. Most of us don't have trading accounts in Hong Kong, but that may actually be a good thing.

You'd have to be very familiar with the Chinese markets to avoid getting wiped out. Stocks make huge moves on unsubstantiated rumors. Insider trading is rampant. And creative bookkeeping à la Enron is not uncommon.

China is making strides in legitimizing its markets, but for the time being, foreign investors (that's us) will do well to stick to the big companies with US listings. That also means it's important to focus on large demographic trends… and identify the companies with the products and services a growing segment of the Chinese will be demanding.

We believe, quite simply, that there is no better opportunity to play China than in wireless communications. An explosion of cell phone and Internet usage is under way… and it's not too late to get in. Read on.

China Unplugged

The following are some of the strongest Chinese companies providing cellular and Internet services to a huge population. These are companies we've written about in the past and that we stand by as continuing opportunities.

But let's take a step back for a minute…

With 1.3 billion people, China is the biggest market in the world for just about anything you can think of. And that's part of the reason, despite the risks, it still looks like such a tantalizing opportunity.

As you might guess, not many Chinese have cell phones… yet. Shanghai has the highest penetration rate in China, around 30%. And in the rest of China, cell phone penetration is only projected to be about 24.5% by the end of the year. Compare that to the 70% penetration in Hong Kong and you can see that even a modern, on-the-go city like Shanghai has tremendous room for growth.

In China as a whole, the potential for wireless telephones is huge. There are 136 million cell phone users, compared to 123 million in the US. About 100,000 new subscribers sign up *every day*.

The flood of new subscribers should keep the new phone market strong, with 30-50 million phones sold a year for the next few years. Wireless subscriber rates are slowing in the US and Europe. There are only so many potential customers left.

Not so in China. China's cellular market will be strong for years to come. And **China Unicom (CHU:NYSE)** is the best way to play the inevitable growth here.

Inside the Numbers

Despite dropping over 30% in 2001, China Unicom still trades at a slight premium over US wireless carriers. We consider the premium to be a growth charge.

In the areas where China Unicom operates, penetration rates will end the year around 17%. China Unicom controls around 16% of the market.

Perhaps that's why China Unicom is already planning to add capacity to its CDMA network. With the added capacity, Unicom's network will continue to grow, and as of January 2005 the company hosted over 110 million subscribers.

Despite all this promising growth, China Unicom has recently encountered less than desirable figures, but this is actually good news for interested investors. Recent lower prices create a great opportunity for investors to buy shares before the company regains higher ground.

Go Where the Growth Is

Last year we identified four Chinese Internet stocks… the biggest, most undervalued and fastest-growing stocks in the sector. They all have ADRs and are easy to trade. And they're still looking good.

You see, the Chinese are completely bypassing old-school landlines and going straight to high-tech wireless and DSL. Last year China became the world's largest DSL market. The Gardner Group recently reported that the "Chinese broadband market has built up huge momentum during 2003, making it the fastest-growing DSL market… penetration is still relatively low and the carriers are offering their customers some of the cheapest broadband services in the world, down to $6 per month to attract users."

Next up, **China.com (China:NASDAQ)**. We wrote, "This company is a leading integrated enterprise software and mobile applications company focused on China. The company has more than 1,400 employees with operations in over 14 countries." Paid subscriptions in China were about 6 million last year, with direct connectivity with local mobile operators in 17 provinces. China has launched services including China News SMS, Business Elite (business, finance and market information), Military SMS, enhanced free and paid mail services, and the popular X-City I and X-City II services. It also has a strategic investment in an online gaming company, 17 Gaming.

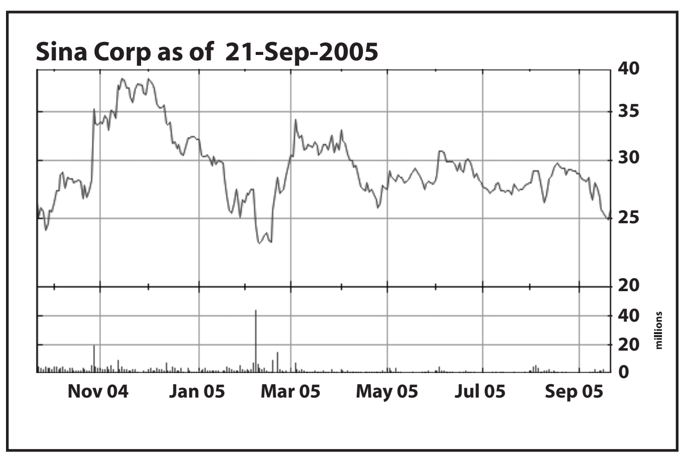
Most recent year-over-year quarterly revenue growth was 43%. We believe this could easily be a $10 stock.

Netease.com, Inc. (NTES:NASDAQ) is another online and wireless company which has shown significant price growth in the last year, but is

primed for more, we think.

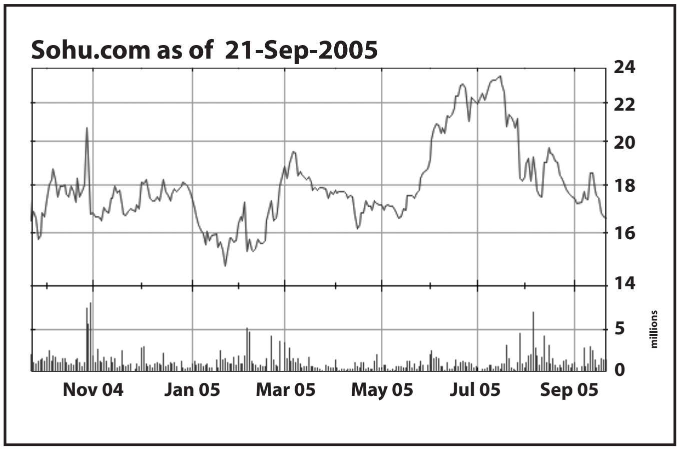
It has a $2.7 billion market cap and a PEG ratio of just .74. As you know, any PEG under 1.0 is good. Profit margins are at 53%. Year-over-year quarterly revenue growth is 81%. Better yet, year-over-year earnings grown is 147%!

Another online media company we still like is



Sina Corporation (SINA:NASDAQ).

It offers online portals, mobile services, email, online games, ISP and e-commerce. It's currently trading under its historical 30 P/E and will continue to be a strong player in the Chinese market.



Sohu.com (SOHU:NASDAQ) owns a bunch of Chinese Internet properties that offer content, advertising, e-subscription and e-commerce services. It has a forward P/E of 16.8. Revenue and earnings growth are off somewhat. This one might fall back to $10 before going back to $40, but maybe not. Just buy and wait a year.

Not Your Older Brother's Internet Stocks

This is not like buying Internet stocks in the US five years ago. China is the most consistent fastest-growing market for wireless telecom and Internet services in the world. The stocks in this sector still have both growth and value going for them. If you want one sector that will outperform over the next several years, this has got to be it. ■

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