

BUSINESS



Partners in fun
Lan Kwai Fong joins Mission Hills in Hainan venture

> MARKETS & INVESTING B2

Bargain bid
Nam Cheong station site sells for less than expected

> MARKETS & INVESTING B2

Snapshot:
H-share index: 9,449.14
+108.71 points, 1.16%
Top blue-chip mover:
Li & Fung
-4.57%



Under pressure
Spain's double-notch downgrade puts strain on EU leaders

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FINANCE

CHINESE LENDERS IN CAPITAL RUSH

Mainland banks may struggle in the face of bad loans and global market uncertainty to raise billions of yuan needed to meet new asset rules

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Driven by souring loans and regulatory demands to boost their capital bases, banks – including Chinese lenders – are poised to tap international capital markets for hundreds of billions of US dollars.

Lenders around the globe are grappling with new rules known as Basel III that require them to substantially increase their capital between 2013 and 2019, and some of the biggest banks may be landed with an additional capital surcharge.

In the meantime, sovereign debt troubles from Greece to Spain threaten the solvency of some European financial institutions, prompting the International Monetary Fund to call for an “urgent recapitalisation” to cope with an estimated US\$400 billion in potential losses.

Chinese banks – relative newcomers, having listed on global markets mostly in the past six years – are adding to the competition for funds, helping push costs higher.

Many of these mainland banks face a slew of potential bad debts stemming from an 18 trillion yuan (HK\$21.9 trillion) lending spree in 2009 and last year that was aimed at stimulating growth in the wake of the 2008 global financial crisis.

Much of that debt has been piling up in so-called local government financing vehicles, which used the funds to build infrastructure projects that have not generated enough income to service the loans. Shaky real-estate loans also loom as a threat, forcing banks to set aside more loan-loss provisions. That will pinch their profits and ability to increase capital.

Still, John Tang, UBS China strategist, said this round of capital-raising among mainland banks was driven more by the banking regulator wanting lenders to save for a rainy day than an urgent need for capital. “The lesson from European banks is if you don’t raise money when you can, then it will be very hard when you really need it,” he said.

The problem is that “everybody is going to need capital at exactly the same time”, said Noel Gordon, a global banking consultant at advisory firm Accenture. Even though Basel III gives banks more time to comply, in reality most banks have to meet the terms a lot faster. “So the crisis of capital is really going to be over 2012 to 2014,” he said.

In late September, Industrial & Commercial Bank of China (ICBC), one of the world’s biggest banks by market capitalisation and listed in Shanghai and Hong Kong, signalled its intent to raise up to US\$11 billion by next June in a bond sale. That followed a July announcement by dual-listed China Merchants Bank (CMB), the mainland’s sixth-biggest lender by market capitalisation, to raise up to US\$5.4 billion from a rights issue in Hong Kong and Shanghai.

Analysts, including research firm Sanford C Bernstein, think Agricultural Bank of China, the mainland’s third-biggest lender by market cap, may also need to raise capital to meet Basel III requirements. The bank’s investor relations department brushed aside concerns it would need an early

> CONTINUED ON B2

ELECTRONICS



Kevin Packerham, Samsung Electronics' senior vice-president of product innovation, introduces the new Galaxy Nexus smartphone. Photo: Felix Wong

Samsung's latest Galaxy to hit market next month

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Unfazed by its ongoing patent battle with Apple, Samsung Electronics will start selling next month a line of smartphones that run the latest version of Google's Android mobile operating system.

Samsung's top-of-the-line Galaxy Nexus smartphone was unveiled yesterday at a global launch in Hong Kong with a promise that it will bolster the lead in global sales of Android-based handsets against arch-rival Apple's popular iPhone.

“Our close alliance with Google has played a major role in Samsung

becoming the number one Android smartphone provider,” said Shin Jong-kyun, the president of Samsung's mobile communications business.

Shin said the Galaxy Nexus “will be our strategic product for the year-end holiday season as [Apple's] iPhone 4S just came into the market”.

Samsung had delayed the new product launch, which was supposed to be held in California last week, out of respect for Apple co-founder Steve Jobs, who died on October 5.

Apple and Samsung are embroiled in a global legal dispute over smartphone and tablet patents.

The new Galaxy Nexus will be available in two versions: one for

high-speed 4G networks based on the standard called long-term evolution (LTE) and another for 3G networks on the evolved high-speed packet access (HSPA+) standard.

LTE mobile networks can theoretically provide peak internet access

speeds of up to 100 megabits per second.

The Galaxy Nexus 3G connectivity supports HSPA+ networks that offer up to 21Mbps connection, which is what 3G operators already deliver in Hong Kong.

Google hopes Android adoption by mainland smartphone makers would expand as developers make use of its more advanced features, such as face-recognition security.

Alan Lau, a partner at McKinsey, said a recent survey found 50 per cent of basic handset users on the mainland planned to buy a smartphone in six months.

> UPSETTING THE APPLE CART BIO

Our alliance with Google played a role in Samsung becoming the No 1

SHIN JONG-KYUN, PRESIDENT, SAMSUNG

JAKE'S VIEW
JAKE VAN DER KAMP

Social enterprise doesn't deserve to get a mention

Normal commercial enterprises provide what the public wants, without the moral snobbery

In last year's policy address, Chief Executive Donald Tsang Yam-kuen used the words “social enterprise” nine times. This year he did not mention them even once. This glaring omission highlights how little progress has been made on this front during the past 12 months.

Ming Wong,
Social Investors Club
Insight page, SCMP, October 19

I think he's right. That is to say, he's right about the number of times Donald mentioned social enterprise in these two policy addresses. I checked and couldn't find a single mention this year. I'll take it on faith that there were nine mentions last year.

Well done, Donald. So you've realised what nonsense this really is. I'm beginning to think, sir, that you are actually starting to get it on

matters of commerce. Next stop, drop all the talk about small and medium-sized enterprises and I'll believe your eyes have opened.

I have to confess, however, that I have never been exactly sure what social enterprise means, although this does not greatly bother me as most of its boosters also have trouble defining it. The idea seems to be that it ought to be a business of a sort and should at least try to break even but that its ultimate purpose is to be philanthropic. It must try to do some social good.

This implies, of course, that the normal sort of commercial enterprise does no social good and its shareholders have no concern for the welfare of humanity. It is a very black-and-white view of the world, just what you would expect from the academic and government circles where the idea of social enterprise

has its roots. But let's examine it more closely.

Does your grocer do nothing for you? Is the hugely complicated system of food production and delivery, which puts the meal of your choice on your dinner table every night, in some way a reprehensible enterprise because the people involved in it are to a significant extent driven by motives of personal gain for themselves and their families? Could a social enterprise really do better?

I ask because profit margins in the food business are often very slim, certainly in the real essentials of nutrition if not always in junk food. Your fruit vendor in the wet market works long hours and she is not rich, far from it.

In fact you cannot even talk of profits in her business. She may tot them up that way but they really amount only to a wage, a poor one mostly. So why do we not call her business a social enterprise? It serves an enormously useful social role and

no one walks off with ill-gotten gains. This is particularly notable because Mr Wong's big complaint is that Donald insists social enterprises must be non-profit. Why can't they turn a profit as long as they “seek to achieve social and/or environmental missions?” he asks.

Good question, and I have one for Mr Wong. Who is to decide how we then define a social and/or environmental mission? Will it be his Social Investors Club? Will it be a committee of civil servants? If the fruit vendor is no longer to be eliminated for turning a “profit”, why is her stall not immediately classified as a social enterprise?

What I see here is a pronounced hubris among a small group of people who think they have a transcendent, special understanding of what constitutes social good and believe the public purse owes them money for it. Yes, Mr Wong wants up to HK\$100,000 a pop in seed money.

Take away the non-profit criteria, however, and all you can really have

BUSINESS DIGEST

Banks raided in inquiry into Euribor fixing

The European Commission raided banks, including Deutsche Bank, in a probe into suspected fixing of interbank lending benchmark Euribor. It is the third major investigation of the finance sector by the European Union's executive this year. The commission, which can impose heavy fines if it finds wrongdoing, said it had carried out the searches on concerns the companies involved may have broken anti-trust rules. Reuters

Derivatives turnover shows high risk aversion

Turnover of listed derivatives on the Hong Kong stock exchange reached a record high yesterday amid rising risk aversion. Total turnover was just HK\$57.57 billion, down 19 per cent on the average daily last month. But turnover of call and put warrants and callable bull/bear contracts constituted 41.4 per cent of total turnover yesterday, the highest since February 2008. Amanda Lee

CPI figure suggests US inflation may be slowing

The US consumer price index rose 3.9 per cent in the 12 months ended September, the biggest year-on-year rise since September 2008, Labour Department figures released yesterday show. But on a monthly basis the CPI rose 0.3 per cent, the smallest such rise in three months, signalling inflation may moderate as Fed officials predicted. Bloomberg



“The most efficient solution would be mandatory substantial recapitalisation – seeking private resources first, but using public funds if necessary,” IMF chief Christine Lagarde said in late August.

Earlier this month, the euro zone crisis claimed its first casualty when French-Belgian lender Dexia had to be broken up and partly nationalised as part of a rescue plan.

However, US banks are in much better shape than their European counterparts, partly because they were shored up after the 2008-2009 global financial crisis, and are now less likely to need big bucks.

And while China's economy appears to be in relatively good shape and few people predict a banking crisis, mainland lenders – several listed on international stock markets – are also raising capital.