MARKETS & INVESTING

INFORMER

EVENTS

Today: American Chamber of Commerce breakfast: "The Peter Drucker way: The elements of management effectiveness". American Club.

American Chamber of Commerce lunch: "Pioneering mobile broadband in Hong Kong". Bank of America Tower.

Joint chamber evening: "China seminar: China 2020". Hong Kong Banker's Club.

Hong Kong Securities Institute lunch: "Vice-premier's package of new measures to support Hong Kong as an offshore RMB business centre and RMB internationalisation". Hong Kong Securities Institute.

Tomorrow: German Chamber of Commerce lunch: "Investment opportunities during the crises: Why Vietnam is still a good place to invest". Lippo Centre.

Monday, October 24: Canadian Chamber of Commerce lunch: "Poorly made in China. Book talk by author". Kinwick Centre, Central.

Tuesday, October 25: Canadian Chamber of Commerce lunch: "Winning strategies in a global recession through smart supply-chain solutions". Kinwick Centre, Central.

RESULTS

October 20 3rd Quarter: China Kingstone Mining Holdings, Maanshan Iron & Steel, Shandong Xinhua Pharmaceutical, Zhuzhou CSR Times Electric
AGM: Hopewell Highway Infrastructure, Hopewell Holdings

October 21 1st Quarter: Comtec Solar Systems Group
3rd Quarter: China Coal Energy, China XLX Fertiliser, Dongfang Electric Corporation, Northeast Electric Development, Shanghai Electric Group, Xinjiang Goldwind Science & Technology, Xinjiang Tianye Water Saving Irrigation System, Yanzhou Coal Mining
Final: Capital Estate, China Medical and Bio Science

October 24 Interim: I.T, Le Saunda Holdings
3rd Quarter: Asia Cement (China) Holdings Corporation, SITC International Holdings

October 25 3rd Quarter: Aluminum Corporation of China, Anhui Conch Cement, Chongqing Rural Commercial Bank, Datang International Power Generation, Guangshen Railway, Huadian Power International Corporation, Huaneng Power International, Inc., Jiangxi Copper, Regent Manner International Holdings, Viva China Holdings

MARKETS

		Close/ Chg %
▼	**Bangkok**	**938.19**
	SET	-1.53
▲	**Hong Kong**	**18,309.22**
	Hang Seng	+1.29
▲	**Jakarta**	**3,685.306**
	Composite	+1.75
▲	**Kuala Lumpur**	**1,450.25**
	FBM KLCI	+0.72
▲	**Manila**	**4,193.55**
	Composite	+0.87
▲	**Mumbai**	**17,085.34**
	Sensex	+2.01
▲	**Seoul**	**1,855.92**
	Korea Composite	+0.93
▼	**Shanghai**	**2,377.512**
	Composite	-0.25
▼	**Singapore**	**2,720.21**
	Straits Times	-0.16
▲	**Sydney**	**4,213.7**
	S&P/ASX 200	+0.64
▼	**Taipei**	**7,353.37**
	Weighted	-0.08
▲	**Tokyo**	**8,772.54**
	Nikkei-225	+0.35
▲	**Wellington**	**3,300.03**
	NZX 50	+0.64

NOTICES

More announcements in Classified Notices
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PROPERTY

LOW BIDS SHOW DEVELOPER CAUTION

The winning bid to develop a prime West Kowloon site is below forecasters' price range, providing growing evidence of a wary construction industry

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Sun Hung Kai Properties has won the tender for the MTR Corp's prime residential and commercial site above Nam Cheong station on the West Rail line with a bid lower than expected, in the latest sign of caution among developers.

Sun Hung Kai won the site with a bid of HK$11.8 billion, or HK$4,470 per square foot. This was lower than surveyors' forecast range of HK$13.04 billion to HK$15.85 billion, or HK$5,000 to HK$6,000 per square foot in gross floor area terms.

The development can yield gross floor area of 2.64 million square feet.

David Ng, a property analyst at Macquarie Capital Securities, said Sun Hung Kai could make a reasonable profit selling flats at the project for around HK$7,000 per square foot. That price would be slightly higher than the going rate for new flats being sold in Tseung Kwan O, Sai Kung.

"The bidding price is considered cautious given the project is located in the city centre," said Ng, and was not good news for the industry.

Sun Hung Kai is selling flats at its Imperial Cullinan development in nearby Tai Kok Tsui for more than HK$18,000 per square foot.

Ng said the Nam Cheong development was a mass housing development, which could be a reason why developers made cautious bids.

The site covers 497,297 square feet and allows about 2.31 million square feet of residential gross floor area and 297,732 square feet of commercial gross floor area.

To increase the supply of small and medium-sized flats, the government has stipulated that 75 per cent, or 2,485, of the flats will have to have a saleable area under 538 sq ft. The remaining 828 units can be built to an average size of 1,572 sq ft.

The low bid follows nervous bidding at land auctions. A Tseung Kwan O site recently sold for HK$3.12 billion, 2.5 per cent below the lowest forecast and 24.3 per cent below the highest. That followed the sale of a site for luxury housing in Kau To Shan in Sha Tin, and that of a commercial-residential site in North Point, both of which fetched prices below market forecasts.

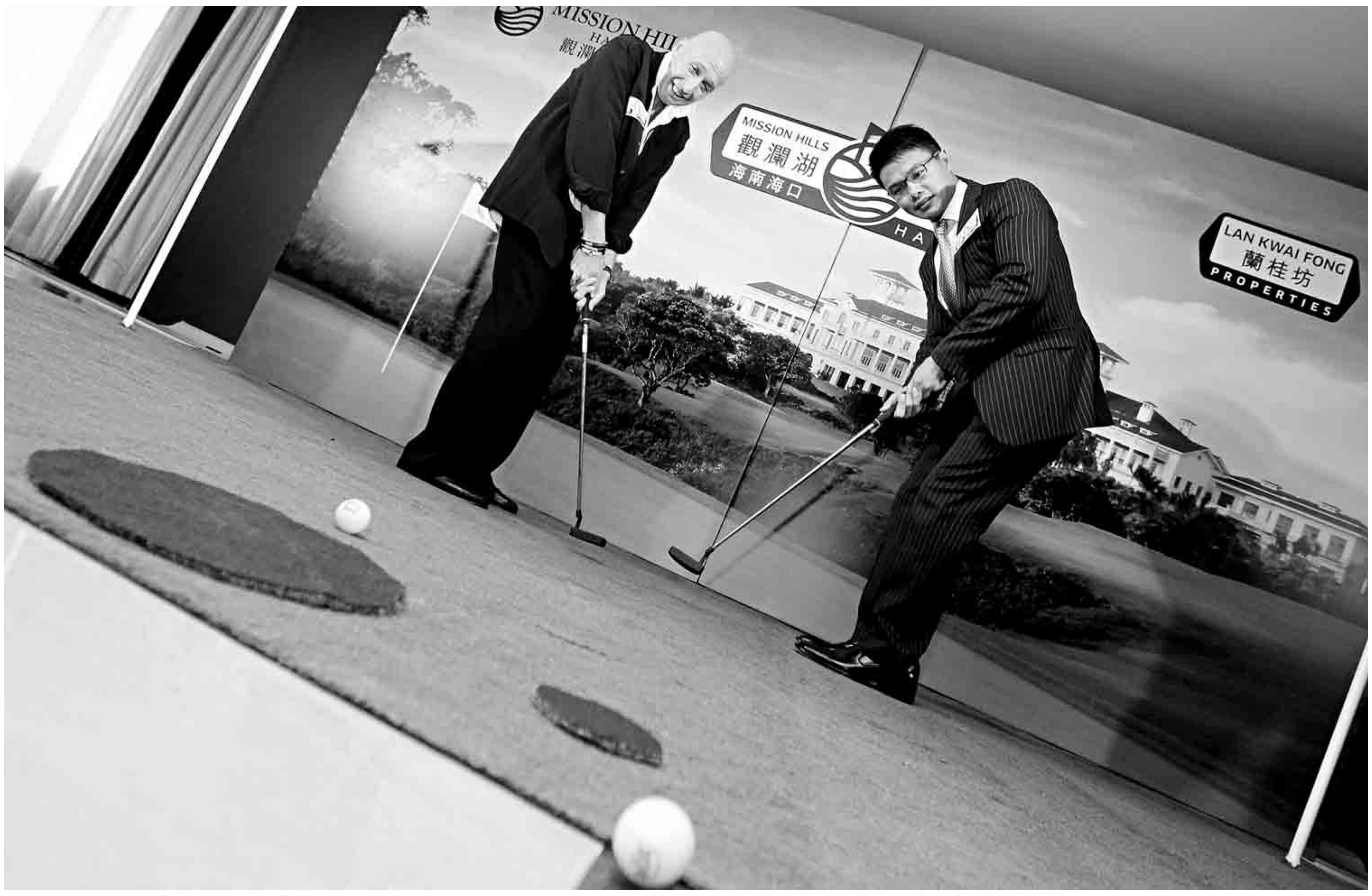
Sun Hung Kai said HK$11.8 billion was a fair price for the Nam Cheong site considering it would have to pay additional interest charges because railway construction and the relocation of a bus terminus would delay the project's completion.

The tender for the site, which closed on Tuesday, attracted four bids from developers, including Henderson Land Development.

The tender closed a month after 13 developers and consortiums, including Cheung Kong (Holdings), Sino Land and Nan Fung Development, submitted expressions of interest in the West Kowloon site.

Hang Lung Properties earlier said it had submitted an expression of interest seeking details of the sale, but had no intention of bidding.

LEISURE



Allan Zeman (left), chairman of Lan Kwai Fong Group, celebrates the new venture yesterday with Ken Chu, chairman and CEO of Mission Hills Group. Photo: Felix Wong

Lan Kwai Fong set for Mission Hills, Haikou

2b yuan retail-entertainment complex will be part of the massive golf resort development in Hainan

Sandy Li
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Allan Zeman's Lan Kwai Fong Holdings – developer of Hong Kong's iconic stretch of bars and restaurants – will expand to Haikou, Hainan Island. The company has formed a partnership with Mission Hills Group, owner of the world's largest golf club in Shenzhen, to develop a new retail-entertainment complex at a total investment cost of two billion yuan (HK$2.43 billion).

With a total area of 240,000 square metres, the new project will include a Lan Kwai Fong entertainment zone of more than 50,000 square metres, a lake, 35,000 square metres of outdoor and indoor retail space, a 25,000 square metre retail complex in a 1920-30s Shanghai art deco setting, and a 10,000 square metre traditional southern Chinese town selling local crafts and traditional gifts.

The new retail-entertainment complex, named Mission Hills-Lan Kwai Fong – Haikou, due to open in 2013, is part of a six billion yuan golf resort development.

The Mission Hills Haikou International Golf Resort, comprising 10 18-hole golf courses, a mineral-rich natural springs reserve and a 538-room luxury hotel, opened for business last year.

It is the group's second Lan Kwai Fong in the mainland after Chengdu. "We will bring some operators from Hong Kong, the mainland and overseas, as we did successfully in Chengdu," Zeman said.

He hopes the Hainan complex can boost tourist arrivals in Haikou by 20 per cent in 2014, its first full year of operation.

Last year, Haikou attracted seven million visitors.

Ken Chu, chairman and chief executive of Mission Hills, said that the group would provide financing for the project while Lan Kwai Fong would manage the complex.

He declined to disclose the shareholdings, but said: " We are a perfect match, as I'm a day club operator [for golf] while he [Zeman] is a nightclub operator.

"With lifestyle and fashion elements injected into this new project by Lan Kwai Fong, visitors can now immerse themselves in a myriad of shopping, entertainment, dining and cultural activities while enjoying a golfing experience in one venue. It will definitely double the fun and is truly a 'whole-in-one'!"

He said the group preferred Haikou to Sanya since Haikou is the provincial capital and the climate is similar to Hong Kong.

"The Chinese don't like heat," he said. "And the resort is about 15 minutes' drive from the airport, so it will be a very convenient holiday destination for families too."

Asia set to lead world in wind power

Region will have more turbine capacity than Europe by next year, industry body says

Eric Ng in Beijing
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Asia, led by China, will overtake Europe as the world leader for wind-power generating capacity next year, according to the Global Wind Energy Council. That's three years earlier than it initially forecast.

And by the end of 2015, the region's use of wind power is also expected to exceed that of Europe by 26 per cent, the association's secretary general, Steve Sawyer, told the China Wind Power conference yesterday.

"A few years ago, we expected Asia to overtake Europe in 2015, but this was revised to 2014 a couple of years ago, 2013 last year and 2012 this year," he said.

Asia is anticipated to have 107.6 gigawatts of installed capacity by the end of the year, against Europe's 107.3 GW and North America's 61.2 GW. The three regions will account for an estimated 96.5 per cent of global cumulative installations this year.

The expansion of renewable power, such as wind and solar, is highly reliant on government subsidies, since the cost of generating clean energy is higher than fossil-fuel power. However, sharp falls in equipment costs means the need for subsidies will disappear within five years, some analysts have estimated.

Prices of Chinese wind power equipment have fallen by 20 per cent in the past year, according to a report by US brokerage Sanford C. Bernstein. Its analysts said cost advantages made Chinese turbines half the price of European ones.

They estimated that after accounting for transport costs, Chinese turbines are 20 per cent cheaper than European ones, a gap expected to widen to 30 per cent next year, making Chinese turbine makers formidable competitors internationally.

The Global Wind Energy Council has forecast Asia's wind generating capacity will rise at an average annual rate of 24.7 per cent until 2015, compared with 16.3 per cent in North America and 11.1 per cent in Europe.

The main driver behind Asia's growth has been China, whose 44.8 GW of capacity overtook the US' 40.2 GW last year.

But capacity growth in China, at more than 100 per cent in each of the four years to 2009, slowed to 49.5 per cent last year, because of bottlenecks in power distribution capacity and infrastructure problems. About 30 per cent of the nation's 44.7 GW of installed capacity at the end of last year was not generating power last year because of delays in connecting wind farms to the power grid.

Growth is expected to slow further to 26.8 per cent this year, with capacity growth forecast to fall a third to 12 GW this year from last year, according to a Citi research report.

This is partly because the central government has taken back responsibility for approving new wind farm approvals in a bid to rein in disorderly expansion. Another reason is that state-owned regional power monopolies have, for now, stopped connecting wind farms to power grids to allow for shortcomings in equipment and manufacturing to be sorted out.

Beijing hopes China will have 100 GW of wind power generating capacity by 2015. To achieve the target will require additional capacity of just 11 GW a year until then.

Shi Lishan, deputy director of the renewable energy division of the National Energy Board, said technical failures had exposed the industry's vulnerability to unpredictable wind resources.

In each case, hundreds of wind turbines suddenly dropped off the grid, threatening electricity supplies to entire regions.

CONTINUED FROM B1

Mainland banks to raise capital

rights share issue, saying: "We do not have plans to raise equity before the end of 2012. This has always been the plan and it remains unchanged."

Agricultural Bank grabbed headlines last year with a dual listing in Shanghai and Hong Kong that raised US$22 billion in what ranked then as the world's biggest initial public offering.

Replenishing capital at mainland banks is expected to be a "recurring theme" in the foreseeable future, said Yvonne Zhang, a Beijing-based senior banking analyst at Moody's.

Beijing already has stringent capital rules and the bank regulator has stipulated the biggest banks must exceed Basel III capital requirements.

Wu Xiaoling, a former deputy central bank official, said in late August that China's biggest banks might need to raise up to 500 billion yuan in additional capital, mainly to support loan growth, in the next five years. By the end of 2013, "systemically important" banks must maintain a capital level of 11.5 per cent against their risk-weighted assets – a measure of bank assets, including loans, according to their creditworthiness.

Mizuho Securities estimates that the nine mainland banks listed on the Hong Kong stock exchange will need to raise about 250 billion yuan to replenish capital over the next three years. James Antos, who tracks banks at the Japanese brokerage house, cautions that estimating their capital-raising needs involves plenty of guesswork because "analysts do not have enough information to form a consensus view".

Spanish bank BBVA estimates that banks as a whole may have to raise 700 billion yuan over the next five years just to replenish capital that will be depleted by sour loans to local mainland governments. But Stephen Schwarz, BBVA's chief economist for Asia, calls that an "extreme scenario" under which banks will have to bear the full cost of problem loans. He considers the most likely outcome to be a mix of write-offs by the banks and a bailout from Beijing.

What is clear is that mainland banks have been raising large amounts of capital. In the past two years, according to data from Mizuho, the nine mainland banks listed in Hong Kong have raised more than US$91 billion through share and debt issues. Those banks have already announced plans to raise another US$30 billion. Since 2005, mainland banks have raised more than US$272 billion through debt and equity issues globally, data provider Dealogic says. That figure excludes bonds issued by the central bank.

Besides selling non-core assets or making a rights issue, which can dilute existing shareholdings, banks can replenish their capital in other ways. They can issue yuan-denominated, or dim sum bonds, in the offshore market in Hong Kong. Those bonds offer a relatively low interest rate but are subject to a cumbersome regulatory approval process.

Alternatively, banks can issue bonds on the mainland domestic market, for which it is easier to get government approval. But that is more expensive than issuing new shares. Further, under China's planned implementation of Basel III, such bonds will be phased out over a 10-year period from 2013 as contributors to so-called tier one capital, which mainly consists of equity.

Another way is through retained earnings, which could mean cutting dividend payouts. For instance, Bank of Communications, the mainland's fifth-biggest lender by market cap and the first to list outside the mainland in mid-2005, reported in August that six loans worth 429 million yuan to financial vehicles were in default.

The bank, which subsequently also listed in Shanghai, said its first-half profit rose about 30 per cent and that it had no plans to raise funds this year. However, it decided against paying an interim dividend for the first time since 2007 as part of a "strategic plan to preserve capital".

Michael Werner, senior analyst at Sanford Bernstein, said he suspected some mainland banks would trim the proportion of their profits paid out in dividends over the next several years, but he did not think dividends would be slashed.

That is partly because the banks' majority owner, Central Huijin Investment, the domestic arm of China's sovereign wealth fund that holds bank shares, relies on the dividends to service its own debt burden incurred from buying stakes.

Worried in part about a call for capital, investors have sent the price of mainland bank shares tumbling. The nine mainland banks listed in Hong Kong are trading at the lowest levels since the lenders began to go public in 2005, and even below the valuation following the 2008 crisis.

Between January and September, a total of more than HK$1 trillion has been wiped off the market value of the four largest mainland banks, according to data provider S&P Capital IQ. With their shares under pressure, China Merchants Bank president Ma Weihua warned in August that mainland banks could not keep tapping the stock market to fund growth because shareholders might resist.

If you don't raise money when you can, then it will be very hard when you really need it

JOHN TANG, UBS STRATEGIST FOR CHINA

China Merchants Bank has plans to raise up to US$5.4 billion from a rights issue amid efforts by mainland lenders to raise capital. Photo: Bloomberg