BUSINESS

Choice market
Publicly listed firms prefer HK for issuing yuan shares
> MARKETS & INVESTING B2

Sunny outlook
California firm cheered by electric car sales in HK
> CORPORATE B4

Snapshot: change on the week
H-share index: 9,033.09
-1,216.11 points, 11.87%
Top blue-chip mover:
Esprit Holdings
-32.65%

Hang Seng Index
9.18%
• Close 17,668.83
• Down 1,786.48

Burning issue
The quest to raise the heating value of coal
> BACK TO BUSINESS B10

BUSINESS DIGESTS

PCCW expects up to HK$10b from spin-off plan

PCCW expects to raise net proceeds of HK$6.8 billion to HK$10 billion from the spinning off of its core telecommunications unit as a business trust, resulting in a minimum market capitalisation of HK$28.6 billion, the company said in a circular yesterday. There would be a shareholders meeting on October 12 to approve the spin-off plan. PCCW said it would keep 55 per cent to 70 per cent of the trust's shares. The listing timetable has not been fixed. Enoch Yiu

XCMG Construction scraps plans for HK share sale

XCMG Construction Machinery, China's biggest crane maker, scrapped plans to raise about US$1.1 billion in a share sale in Hong Kong after some underwriters backed out of commitments to buy any unsold stock, three people with knowledge of the matter said. Bankers on the deal may meet today to try to restructure the offering. Bloomberg

Another fall in number of Hong Kong home sales

The number of transactions in 10 of Hong Kong's biggest private developments fell amid homebuyer concern over slowing global economic growth. The number of deals in the secondary market recorded on September 24 and 25 in projects including Tai Koo Shing and Mei Foo Sun Chuen dropped to 10 from 22 a week earlier, according to Centaline Property Agency. Bloomberg

IMF and EU return to Greece for fiscal audit

Greece and the euro head for a week of trials from today as European and International Monetary Fund experts return to Athens for a fiscal audit that will decide whether the debt-hit country can escape default next month. European Union giant Germany on Thursday holds a key vote on reforming a permanent EU stability fund to enable it to engage in debt restructuring, a fallback the euro zone looks increasingly likely to need. AFP

LENDING

SLIPPERY PRODUCTS FOR BANKS' CLIENTS

Wealth management is big business on the mainland but some suspiciously high yields carry risks for both investors and lenders

Illustration: Martin Megino

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Worried about the mainland's housing bubble and his low-yield bank deposits, Chen Wei, a 51-year-old chemical company manager in Beijing, sold one of his properties and signed up for wealth management products offered by his bank.

He sold an apartment for 2.6 million yuan (HK$3.15 million), and in May plowed about 1.95 million yuan into wealth management products, one of which was tied to funding infrastructure projects and highways, according to his bank relationship manager.

It promised Chen an interest rate of 4.6 per cent per year and maturity of 26 days. He earned 6,389 yuan, more than double what he would have gotten from leasing out the apartment, and nine times what he would have received on a bank deposit over the same period.

It looked like a great deal so Chen did not inquire about potential risks. But the question, according to ANZ Bank's chief China economist Liu Ligang, was: "With most investment channels providing such low returns, how is it possible that some wealth management products provided annualised returns as high as 7 per cent per week?"

These products – such as mutual funds, investment and insurance – took off on the mainland last year, and Chen is among tens of thousands of mainlanders trying to cash in.

The explosive growth in the market has the mainland's banking regulator grappling to rein in practices that threaten investors and raise concerns about transparency in the banking system.

Data compiled by private research provider Chengdu Benefit showed Chinese commercial lenders issued 8.51 trillion yuan worth of wealth management products in the first half of 2011, compared to about 7.05 trillion for the whole of last year.

To put that in perspective, the amount of wealth management products sold in the first six months of this year exceeded the total 8.36 trillion yuan in new loans mainland banks made last year.

Many of the products sold this year have been loans that banks repackaged and "securitised" to resell to customers like Chen. For a bank, that has the added advantage of reducing the number of outstanding loans on its books so it can lend more. However, it can be risky, as investors who bought securitised assets ahead of the 2008 US subprime loan crisis found out.

Wealth management products are also offered on the mainland through trust companies, which deal with high-net-worth individuals. Banks have often worked with these firms to create financial products.

The tenor of the wealth management products offered by both banks and trust firms ranges from a couple of days to several years, and analysts point to three reasons why yields have been so high on many of them.

First, some investors' funds were used for companies and projects that would otherwise have had a hard time obtaining credit and hence were willing to pay high interest rates.

Second, some banks topped up the yields of wealth products for customers from the banks' coffers to attract funding. And third, some banks have used newcomers' money to pay off old investors.

In situations where banks have promised higher returns than the investments can generate, the wealth management products "take on characteristics of Ponzi schemes", says Victor Shih, a political science professor at Northwestern University and author of *Factions and Finance in China*, a book about how politics influences China's banking system.

Such products – some of which do not come with a guarantee that the principal will not be lost – have been marketed as substitutes for relatively safer bank deposits.

For instance, when Han Xue, 42, another Beijinger who invested 350,000 yuan in wealth management at a large state-owned bank, called up her wealth manager in July, she was told that even though the contract did not guarantee return of her principal investment, "in reality it does because the risks are quite low".

> CONTINUED ON B2

GOVERNANCE

HKEx strips bid to cap board seats from reform plan

Exchange will continue to push proposal to boost the minimum share of independent directors on boards

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The stock exchange has dropped plans to limit the number of directorships any one person can hold, but will go ahead with a proposal to raise the minimum number of independent directors on company boards, people familiar with the plan said.

Hong Kong Exchanges and Clearing decided to forgo the cap on directorships after reviewing responses to the corporate governance reform plan it rolled out earlier this year in an effort to bring the bourse in line with other international markets.

"Many comments we received said that if someone was retired and was making a full-time job out of independent directorships, one should be able to accept several," one person at the exchange said.

The proposal – along with the effort to improve the independence of boards by increasing their share of outside members – was one of the most controversial elements of the reform package. HKEx is expected to release the final plan soon.

As of August last year, there were 45 people who sat on the boards of six or more Hong Kong-listed companies. Mainland regulators, meanwhile, limit to five the number of board seats a individual can hold.

HKEx will, however, follow through on plans to raise the proportion of board seats held by independent directors to a third of all seats, the individual said. The rule – designed to improve checks on executive decisions – will likely take effect by the end of next year.

"We have received many comments supporting this proposal," the person said. "Companies before the end of next year can either hire more independent directors or they can cut down the number of executive directors to meet the target ratio."

Currently, companies must have at least three independent directors, but there is no set ratio. That lags behind Singapore, the United States and Australia, where a majority of board members must be independent. Britain requires at least half.

Some locally listed companies have already begun to prepare.

Earlier this year, three of Sino Land's 10 directors – or 30 per cent – were independent. Now, the Singaporean-owned property developer has four independent directors out of 12, bringing it in line with the potential new rule.

Lo Ka-shui, chairman of the Chamber of Hong Kong Listed Companies, said the organisation could support the rule, but wanted more time – perhaps as many as five years – to train new board members.

"Cutting the number of executive directors is not that easy since Hong Kong companies, like many in Asia, often have single families as major shareholders," Lo said.

About 80 per cent of locally listed companies had boards that could meet the one-third proposal as of August last year. But the rest – about 300 companies in all – fell below the one-third threshold.

Those include some blue chips: Cathay Pacific Airways (23 per cent), New World Development (26 per cent) and Sun Hung Kai Properties (21 per cent).

ADVERTISING

Record HK$91.5 million spent on promotion of mooncakes

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Advertising spending in Hong Kong for mooncakes, the traditional Mid-Autumn Festival delicacy, reached an all-time high this year.

The share of campaigns for the popular "snowy", fruit-filled and other non-traditional mooncakes, which are served cold, closed the gap with those for the diet-busting, salted duck's egg-based traditional ones.

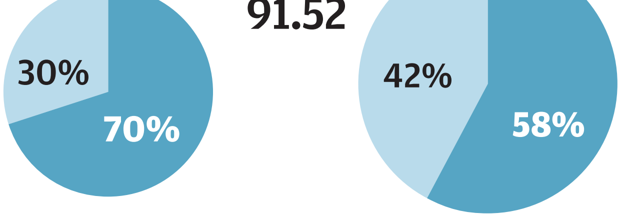
Media-monitoring firm admanGo estimated spending on mooncake-related advertising was a record HK$91.51 million from May to August this year, up 59.75 per cent from HK$57.28 million a year earlier. It said the much-improved economy and growing influx of mainland shoppers spurred the overall increase in local advertising for mooncakes.

"Hong Kong-made mooncakes have become a must-buy souvenir for mainland travellers in the run-up to the Mid-Autumn Festival," said Jennifer Ma, the director of sales and marketing at admanGo.

In a survey published in February by market research firm Nielsen, the average expenditure per stay of mainland tourists in Hong Kong was calculated to be HK$12,000. Some 59 per cent of that amount is allocated for shopping.

Ivy Wong, a researcher at admanGo, said marketers opted to widen the variety of mooncakes being advertised, which resulted in the non-traditional version of the Mid-Autumn pastry gaining a 42 per cent share of spending in May to August from 30 per cent the previous year. Traditional mooncakes took a 58 per cent share during the same period, down from 70 per cent a year ago.

Over the moon
Spending on mooncake advertising in Hong Kong (HK$m)



Source: admanGo
SCMP

Wing Wah emerged as the most prominent advertiser. Its campaigns totalled HK$17.86 million in May to August. The top advertiser for non-traditional mooncakes this year was Maxim's Caterers, Hong Kong's largest food and beverage firm and restaurant chain. The firm, a subsidiary of Dairy Farms International Holdings, saw its campaigns grow 160 per cent year on year to HK$9.99 million.

It outspent last year's non-traditional mooncake advertising leader Wing Wah, a restaurant chain operator that started selling mooncakes at its Yuen Long shop in the 1950s. Second-ranked Wing Wah, which first sold its so-called icy mooncakes in 2007, posted a 65 per cent advance in spending to HK$9.07 million.

Taipan Bread & Cakes, which introduced the world's first snowy mooncakes in 1989, took third place again this year. The company, however, recorded the highest rate of increase in spending at 235 per cent to HK$8.4 million.

Hong Kong's biggest advertiser for traditional mooncakes remains Kee Wah Bakery, which has versatile Hong Kong actor Eric Tsang Chi-wai as its pitchman. The family-run Kee Wah's campaigns grew 29 per cent year-on-year to HK$11.93 million.

It was followed by Hong Kong-listed Tao Heung Holdings, which operates restaurants, bakeries and food-catering services. Campaigns by Tao Heung, which also owns acclaimed egg tarts vendor Tai Cheong Bakery, advanced 58 per cent to HK$9.62 million.

Third-ranked Wing Wah, which was the first in the market to start using vegetable oil and lotus seed in traditional mooncakes in 1963, increased its campaigns by 35 per cent to HK$8.78 million.