MARKETS & INVESTING

INFORMER

EVENTS

Today: Canadian Chamber of Commerce event: "The art of persuasion: The art of selling services, concepts and ideas." Duke of Windsor Building, Wan Chai.

Tomorrow: German Chamber of Commerce breakfast: "Social media: How SMEs can use social media to stand out." American Club.

British Chamber of Commerce lunch with Visiting Justices of the Supreme Court of the UK. Renaissance Harbour View Hotel.

RESULTS

Today Interim: Hongguo International Holdings, Tenfu (Cayman) Holdings
Final: China Financial International Investments, China High Precision Automation Group, Continental Holdings, ePRO, Magic Holdings International, Paladin, PINE Technology Holdings, Solartech International Holdings
AGM: Timeless Software, Zhi Cheng Holdings

Tomorrow 1st Quarter: Cosway Corporation
Interim: Xiao Nan Guo Restaurants Holdings
Final: China Outdoor Media Group, China Vanguard Group, CIL Holdings, Heng Xin China Holdings, New World Department Store China, Ngai Hing Hong, Tanrich Financial Holdings, United Gene High-Tech Group, Vision Values Holdings
AGM: CEC International Holdings, Century Ginwa Retail Holdings, King Fook Holdings, Tonic Industries Holdings

MARKETS

		Close/ Wk chg %
▼	**Bangkok**	**958.16**
	SET	-7.28
▼	**Hong Kong**	**17,668.83**
	Hang Seng	-9.18
▼	**Jakarta**	**3,426.346**
	Composite	-10.66
▼	**Kuala Lumpur**	**1,365.94**
	FBM KLCI	-4.54
▼	**Manila**	**3,885.96**
	Composite	-9.42
▼	**Mumbai**	**16,162.06**
	Sensex	-4.56
▼	**Seoul**	**1,697.44**
	Korea Composite	-7.75
▼	**Shanghai**	**2,433.159**
	Composite	-1.98
▼	**Singapore**	**2,698.8**
	Straits Times	-3.24
▼	**Sydney**	**3,903.2**
	S&P/ASX 200	-5.93
▼	**Taipei**	**7,046.22**
	Weighted	-7.01
▼	**Tokyo**	**8,560.26**
	Nikkei-225	-3.43
▼	**Wellington**	**3,282.71**
	NZX 50	-0.3
▼	**London**	**5,066.81**
	FTSE 100	-5.62
▼	**New York**	**10,771.48**
	Dow Jones Indu Avg	-6.41
▼	**Nasdaq**	**2,483.23**
	Composite	-5.3
▼	**S&P 500**	**1,136.43**
		-6.54

LISTINGS

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SHARES

Traders on the floor of the Hong Kong stock exchange, which has allowed companies to trade in both yuan and Hong Kong dollars. Photo: EPA

COMPANIES FAVOUR HK ARENA OVER SHANGHAI

In battle of the bourses, currency limits and strict rules in the mainland make HKEx more attractive for yuan-denominated stock issues

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Companies would prefer to issue yuan-denominated shares in Hong Kong instead of on a new stock exchange planned to be launched in Shanghai, according to the Chamber of Hong Kong Listed Companies.

The Shanghai Stock Exchange's proposed international board will allow foreign companies to list on the mainland, but no time frame for its launch has been set.

"I think only those companies, such as HSBC, which want to raise awareness in the mainland market would prefer to list on the international board," said Lo Ka-shui, head of the chamber.

"If Hong Kong companies list in the mainland, they will need to follow both the mainland and Hong Kong listing rules."

Lo said the Shanghai bourse could be less attractive for investors due to certain mainland regulations, particularly capital controls that limit market access to overseas firms.

Chinese companies are also prohibited from bringing back to the mainland yuan accumulated offshore, discouraging them from issuing yuan shares.

Hong Kong Exchanges and Clearing (HKEx) in July announced rules allowing companies to apply for initial public offerings in both yuan and Hong Kong dollars. It also issued guidelines earlier this month allowing listed companies to issue yuan-denominated shares.

To facilitate yuan shares trading, the HKEx will also introduce banking facilities aimed at providing yuan to stockbrokers, allowing investors who do not hold the currency to trade in yuan shares.

The yuan is not yet fully convertible, but since 2009, the mainland has allowed companies to use the currency to settle cross-border trade.

A landmark relaxation in July last year allowed the currency to be transferred between the bank accounts of individuals and financial companies, encouraging the launch of yuan-denominated investment products such as insurance, funds and bonds.

However, the first yuan initial public offering in Hong Kong, by Hui Xian Real Estate Investment Trust, disappointed investors when it dropped 9.35 per cent on its debut in April.

Lo said the market slump made another yuan IPO less likely, with investors "not interested in buying anything".

But he said many companies listed in Hong Kong were expected to issue yuan stocks to finance mainland projects in the long-term.

Vice-Premier Li Keqiang, during his three-day visit to Hong Kong last month, said foreign firms would be able to invest yuan holdings directly into mainland projects. The details of this measure have yet to be released.

"China will allow the currency to be freely convertible in five to 10 years," Lo said. "When that happens, it will make sense for companies in Hong Kong to issue yuan shares."

¥1tr
The estimated amount of yuan expected to flood the Hong Kong market by the end of this year, according to Reuters

CONTINUED FROM B1

Wealth management may carry 'Ponzi' risks

Investors often believed there was an implicit commitment from banks to repay investors upon the products' maturity, said Charlene Chu, senior director of financial institutions for Fitch Ratings. However, such repayment obligations are not often included anywhere in the banks' financial statements, and thus represent a hidden call on banks' liquidity.

"While China's large, highly liquid banks may be able to manage these obligations, smaller banks could encounter strains," Chu warned.

Conflict between clients and banks has already surfaced. The China Banking Regulatory Commission (CBRC) launched a hearing in May concerning a complaint against China Citic Bank. One of the lender's clients, Gao Yanhong, said the bank made a loss on her original investment, according to a report in a newspaper managed by the mainland's official Xinhua news agency.

However, after two rounds of appeals, Gao lost her case and the court ruled that there was no misconduct on Citic's part. The lender declined further comment for this article.

The CBRC has also been worried about banks using wealth management products as a means to free up space on their loan books, evading Beijing's efforts to tighten credit and dampen inflation.

Last year, when these products were selling like hotcakes, the majority of them were credit-backed, meaning loans were transferred off the balance sheet and repackaged into investment products.

That, in turn, distorted credit growth figures and understated banks' exposure to credit losses, according to Xiao Fang, an analyst at the data provider Chengdu.

The CBRC has been moving to better monitor the wealth management product industry, including tightening rules on selling practices. Since 2009, the regulator has issued several written notices and verbal warnings covering various aspects related to the creation of wealth management products, according to bankers contacted by the CBRC.

But according to global accounting firm KPMG, the most onerous regulation came out in January: lenders were required to bring onto their books by the end of this year all financing-type products made in cooperation with trust companies and kept off balance sheets.

The effect of this order, according to Simon Topping, head of financial risk management at KPMG, is to basically reverse the securitisation of those products.

The CBRC also said in cases where assets could not be brought back onto balance sheets because of conflicts with accounting rules, lenders should make loan-loss provisions.

Since the regulator began cracking down, the number of credit-backed wealth management products that have loans as the sole underlying asset has dropped. For instance, in July there were just nine such products out of a total 1,213 new products sold, according to data compiled by Chengdu Benefit.

But Wen Chunling, a Fitch analyst, said that while the issuance of wealth management products backed only by loans had dropped, the issuance of mixed-asset products continued to grow.

Information disclosure remains extremely poor, she said, but mixed-asset products could include a large portion of credit-related assets, including repackaged loans.

And there is another major concern.

How much of investors' money in wealth management products is tied to loans to local government projects such as highways and roads, some of which appear unable to service their debt?

ANZ Bank's Liu thinks local government projects will seem like prime candidates for repackaging and that a large proportion of the investment products could be related to local government debt.

However, some mainland bankers, who requested anonymity, said it was highly unlikely that state-backed banks would sell products tied to low-return local government projects because they wouldn't want to risk social unrest if the products went sour. They added that only the lowest-risk loans were repackaged into wealth management products.

If that is true and banks have sold off their best assets, it raises questions about the credit-worthiness of what is left on bank balance sheets, said Chu of Fitch Ratings.

Today, Chen, the investor, is still heavily into wealth management products, though he is seeing a gradual decline in the return rates offered each week.

"The stock market is dangerous, the property market has a bubble and deposits rates" aren't keeping pace with inflation, Chen said. "With all that going on, wealth management products really don't seem like a bad option."

Wealth management products really don't seem like a bad option
CHEN WEI, CHEMICAL FIRM MANAGER

THE INSIDER
ROBERT HALILI

Firms lead rise in buybacks amid lingering slump

Directors' activity is high, but 60 companies rack up HK$961 million worth of stock repurchases

Buying of their own company shares by directors intensified last week after the steep drop in the market, with 97 companies reporting 544 purchases worth HK$962 million based on filings from September 19 to 23.

The figures were up from the previous week's four-day totals of 70 companies reporting 358 acquisitions worth HK$530 million.

Selling, on the other hand, was low; with only four companies posting 14 disposals worth HK$9.6 million. The figures were sharply down from the previous week's 10 companies and 30 disposals valued at HK$93.6 million.

While directors' buying was high last week, buybacks by firms were even higher, with 60 companies reporting 311 repurchases worth HK$960.8 million. The figures were higher than the previous week's 33 companies, that reported 154 trades worth HK$160.3 million.

The repurchases last week pushed buyback totals for the month to date to 69 companies and 623 transactions worth HK$1.381 billion – the highest monthly totals since the recession in the fourth quarter of 2008 with five trading days remaining in September.

Several other key statistics have emerged for the month.

First, nine listed companies have recorded both buybacks and director purchases so far in September; second, a total of 17 firms resumed buying back shares after recording no trades for two or more years; and lastly, 10 companies bought back stock for the first time since listing.

Five of the companies that initiated rare buybacks last week were Fook Woo Group, Sundart International, Up Energy Development, Sun-King Power Electronics and Value Partners.

Paper products recycler and manufacturer Fook Woo Group bought back shares for the first time since listing in March last year, with 17.18 million shares purchased from September 22 to 23 at an average of HK$1.52 each. The initial buybacks were made after the stock rebounded by 13 per cent from HK$1.34 on September 20.

Despite the rebound in the shares price, the counter is still down since July from HK$2.58. Its acquisition price was lower than the initial public offering price of HK$2.30. The stock closed at HK$1.52 on Friday.

Interior decoration and furnishing services provider Sundart International bought back shares for the first time since listing in August 2009, with 734,000 shares purchased from September 22 to 23 at an average of HK$1.27 each. The trades were made after the stock fell by 25 per cent from HK$1.68 on August 18. The counter is down since the last week of April from HK$2.21. The group's buyback price was lower than the IPO price of HK$4.18. The stock closed at HK$1.26 on Friday.

Multimedia firm Up Energy Development bought back shares for the first time since 1992, with 3.23 million shares purchased from September 22 to 23 at an average of HK$1.68 each. The initial buybacks were made on the back of a 32 per cent drop in the share price since July from HK$2.48. The counter is sharply down since March from HK$6.50 and closed at HK$1.73 on Friday.

Electronics components manufacturer Sun-King Power bought back shares for the first time since listing in October last year, with 380,000 shares purchased from September 19 to 23 at an average of 60.2 Hong Kong cents each. The trades were made on the back of a 55 per cent drop in the share price since July from HK$1.34.

The counter is also sharply down since April from HK$1.87.

Buyback totals to date are the highest since the recession in the fourth quarter of 2008

Chief executive Xiang Jie acquired 200,000 shares from June 13 to 14 at an average of HK$1.16 each, which increased his holdings to 429.49 million shares or 31.44 per cent of the issued capital. President Gong Renyuan picked up 60,000 shares on June 13 at HK$1.12 each, which boosted his stake to 25.99 million shares or 1.9 per cent.

Investors should note that the company and the directors' purchase prices were lower than the IPO price of HK$1.93. The counter closed at 57 Hong Kong cents on Friday.

Financial services provider Value Partners bought back shares for the first time since it was listed in November 2007, with 400,000 shares purchased on September 23 at HK$2.84 each. The initial buyback was made after the stock fell by 27 per cent from HK$3.87 on September 16. It is also sharply down since April from HK$7.80. The group's purchase price was sharply lower than the HK$7.63 IPO price. It closed at HK$2.88 on Friday.

Robert Halili is managing director of Asia Insider

Deal Watch

Asia ex Japan private equity investments 2011 year-to-date

	No. of deals	No. of companies	No. of firms	Sum of equity invested (US$b)
Mainland	369	**357**	210	**10.2**
India	223	**210**	152	**3**
South Korea	83	**72**	52	**1.7**
Japan	37	**37**	39	**1**
Vietnam	6	**6**	5	**0.3**
Hong Kong	16	**16**	21	**0.3**
Indonesia	5	**5**	5	**0.2**
Thailand	2	**2**	2	**0.2**
Philippines	4	**3**	3	**0.2**

Asia ex Japan private equity investments top 10 industries

	No. of deals	No. of companies	No. of firms	Sum of equity invested (US$b)
Financial services	50	**46**	59	**3.9**
Chemicals and materials	49	**46**	45	**2.7**
Internet ecommerce	52	**49**	60	**1.8**
Entertainment and leisure	17	**17**	24	**1.4**
Food and beverage	34	**33**	39	**1.2**
Consumer services	32	**31**	43	**0.8**
Internet content	60	**56**	73	**0.8**
Transportation	31	**30**	45	**0.8**
Internet communications	13	**13**	22	**0.5**
Retailing related	9	**9**	18	**0.4**

Deal Watch appears every Monday

Source: Thomson Reuters SCMP