

# BUSINESS

**Joint embrace**  
Online video merger  
viewed as first step  
on road to survival

> MARKETS & INVESTING B2



**Mortgage move**  
Mainland banks  
dangle discount  
carrot to new buyers

> BANKING & FINANCE B3

**Snapshot:**  
H-share index: 11,356.28  
+130.37 points, 1.16%  
Top blue-chip mover:  
New World Development  
+4%



**Trademark attack**  
Apple accuses rival  
of misleading courts  
and consumers

> CORPORATE B6



## BUSINESS DIGEST

### Japan's vote of confidence in international yuan

Japan will buy 65 billion yuan (HK\$79.6 billion) of Chinese government debt, the first major economy to do so, adding to the credibility of the yuan as an international currency. Other countries are investing in China through state agencies, but Japan's investment is by far the biggest in the yuan. As a currency with limited convertibility, such bets are symbolic of the shift in global power towards China. Reuters

### Russia rejects investing in yuan until it floats free

Russia would not invest in the yuan until China liberalised the exchange-rate policy and eliminated capital controls, central bank first deputy chairman Alexei Ulyukayev said. "We'll have not one yuan in the reserves until then," he told the official *Rossiiskaya Gazeta* newspaper. Bloomberg

### Hebei Lingyun buys Germany's Kiekert

Chinese car parts maker Hebei Lingyun is buying German peer Kiekert for an undisclosed sum, Kiekert said yesterday. The merger would create a company with a turnover of €1 billion (HK\$10.1 billion), Kiekert said. Reuters

### Retail sales point to a strengthening US

Retail sales in the US rose in February by the most in five months, reflecting broad-based gains that indicate the world's largest economy is picking up even as petrol prices climb. The 1.1 per cent advance followed a 0.6 per cent rise in January. Bloomberg



### Haeco declares dividend of HK\$5.30 per share

Hong Kong Aircraft Engineering Company yesterday declared a dividend of HK\$5.30 per share for the second half, including a HK\$3.40 special dividend. The company saw net profit rise 17 per cent year on year to HK\$821 million last year. Charlotte So

## RESOURCES

### Chairman quits in battle for Rusal

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Rusal chairman Viktor Vekselberg has quit the aluminium giant, after locking horns with the Hong Kong-listed firm's biggest shareholder and chief executive, Russian tycoon Oleg Deripaska.

Vekselberg, Rusal's second-largest shareholder with 24.42 per cent, said in his resignation letter that the company faced a "deep crisis, as a result of which Rusal has deteriorated from an international aluminium leader into a company overburdened with debt and entangled in numerous lawsuits and social conflicts". He slammed management, saying he disagreed with decisions in Rusal's strategic development, modernisation of production and human resources policies, "some of which were adopted by management without board approval and in breach of shareholder agreements".

## CROSS-BORDER BANKING



# HOT MONEY'S GROWING UNDERGROUND FLOW

Waves of people in Hong Kong and the mainland are turning to informal remittance agents to tunnel under regulations and send cash over the border

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Along a narrow lane in Hong Kong's Western district sits a clutch of money changers doing more than swapping banknotes for tourists. They are quiet channels of illicit "hot money" that flows between the mainland and Hong Kong.

Today, a young investment banker is visiting the lane for the first time to do a deal that will skirt the mainland's tight capital controls and, the banker hopes, pay off big time. The 28-year-old mainlander, identified only by his family name of Li, plans to wire about HK\$300,000 to his bank account in Beijing and then invest the money in stock market index futures. Li figures he can reap an annual gain of roughly 9 per cent from his bets, bringing him closer to his goal of having the seed capital to set up his own hedge fund on the mainland.

Hot money travels across the border in various ways, from suitcases to doctored trading invoices. Li is part of a groundswell of individuals in Hong Kong opting to move cash through local money changers, many of whom also act as remittance agencies, handling two-way trade and mimicking the hawala banking networks that operate in South Asia and the Middle East.

In Hong Kong, some people use

remittance agencies to wire funds to the mainland to buy a house, or support their elderly parents, or bet on investment products. Conversely, individuals on the mainland use them as conduits for capital flight, fuelled by worries over the outlook for the Chinese economy. All the activity is drawing unwanted attention from the mainland's regulator, the State Administration of Foreign Exchange.

According to a recent Safe report, the regulator cracked down on 210 underground remittance agencies on the mainland involving more than 100 billion yuan (HK\$122 billion) from 2007 to 2011.

On the mainland, "underground remittance agencies not only violate foreign-exchange regulations, they also undermine macro-governance of China's financial markets and have created avenues for tax evasion and money laundering which are hard to monitor and control", says Patrick Phua, a Beijing-based partner

specialising in financial services and regulatory issues at Australian law firm Mallesons Stephen Jaques.

Peng Jian, director of the Beijing Huahuan Law Firm, says individuals who use their services are usually fined at most 30 per cent of the violation amount, and typically don't face jail time. But the remittance agencies risk being charged with "engaging in unauthorised foreign exchange business" and "evasion of foreign exchange restrictions", and risk severe punishment such as five years or more in prison, he adds.

Last year, for instance, 46-year-old Li Fochan was sentenced to more than seven years in prison for running an underground remittance agency in Dongguan, in Guangdong. She and her five accomplices also were fined about two million yuan in total, according to *Guangzhou Daily*.

The legal situation is trickier in Hong Kong, where there are no laws against such money transfers but participants, at least, violate the spirit of regulations intended to damp hot money flows. At worst, people risk

**This method [of moving money] is difficult to detect and ... impossible to measure**

STEPHEN GREEN, STANDARD CHARTERED BANK

## INVESTMENT

### HKMA sets up pilot platform for bond trade

Joint scheme with Malaysia and Euroclear aims to enhance cross-border investment and settlement

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The Hong Kong Monetary Authority has teamed up with Malaysia's central bank and Euroclear Bank to launch a pilot platform for cross-border bond investment and settlement to boost Asia's bond markets.

The platform will be launched on March 30, and will be expanded in the second quarter when the HKMA links up with JPMorgan and Euroclear to provide cross-border repurchase services, allowing banks to use bonds held through the platform as collateral for short-term funding in yuan, Hong Kong dollars, US dollars or euros. Malaysia's Bank Negara will not initially join this second phase.

More than 30 banks and investment firms in the city have expressed interest in the new platform and other central banks in the region.

HKMA deputy chief executive Peter Pang Sing-tong said the link-up between the clearing houses of the HKMA, Bank Negara and Euroclear would make it easier for investors to trade and settle Asian debt securities, particularly Hong Kong's dim sum

bonds or yuan-denominated debt securities, as well as Malaysia's Islamic sukuk bonds.

"The two products that have caught most attention of global investors are the sukus in Malaysia and the dim sum bonds in Hong Kong," Pang said yesterday.

He said the platform would be able to "connect the global market with the vast and increasingly prominent financial systems in the Islamic world and China".

Issuance of dim sum bonds has surged in recent years, to 172 billion yuan or US\$27.3 billion at the end of last year, just over four years after China started to allow yuan bond offerings in 2007. Sukus in Malaysia rose to US\$113.9 billion from US\$41.3 billion in 2006.

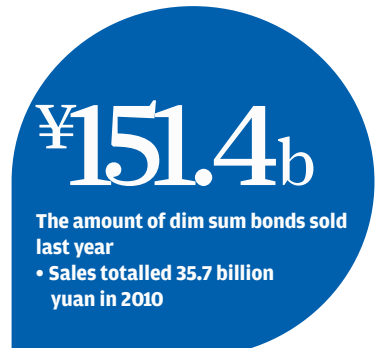
Pang said the platform would boost the debt market and hence improve financial stability in the region by encouraging investors to put more into long-term bonds instead of chasing short-term gains, possibly helping to avert a property bubble by diverting money into debt securities.

Muhammad Ibrahim, a deputy governor of Bank Negara, said the platform "marks a major milestone for regional financial integration" and provided banks and investors with "an efficient and cost-effective access to the bond markets in Malaysia and Hong Kong".

At present, investors wanting to trade dim sum and sukuk bonds have to use a variety of banks, which increases costs and settlement time. The new platform will save time, money and risk for banks and investors by setting up a centralised network.

Euroclear will provide Asia debt securities information to users, and Asian investors can also trade and settle the 300,000 securities held at Euroclear.

Anso Thire, a managing director and head of business development at Euroclear, said the cross-border collateral arrangement to be introduced in the second quarter would help banks manage liquidity. "As a result of the crisis in Europe and America, the days of unsecured lending are over," Thire said.



Peter Pang and Muhammad Ibrahim of Bank Negara Malaysia.

## TRADE DISPUTE

### China slapped with WTO complaint on rare earths

Associated Press in Beijing

The United States, the European Union and Japan have filed complaints with the World Trade Organisation over China limiting its exports of rare earths, minerals that are vital to the production of technology components.

China has a stranglehold on the global supply of 17 rare earth minerals that are essential for making hi-tech goods including hybrid cars, weapons, flat-screen televisions, mobile phones, mercury vapour lights and camera lenses.

But Beijing has cut the export quotas of these minerals over the past several years to cope with growing demand at home, though the government also cites environmental concerns as the reason for the restrictions.

US industry officials suggest it is an unfair trade practice, against rules established by the WTO.

EU Trade Commissioner Karel De Gucht said China's export quotas and export duties gave Chinese companies an unfair competitive advantage, and must be removed. "These measures hurt our producers and consumers in the EU and across the world," he said.

The fresh action is part of US President Barack Obama's broader

effort to crack down on what his administration sees as unfair trading practices by China. Senior administration officials said Beijing's export restrictions gave Chinese companies a competitive advantage by providing them with access to more of these rare materials at a cheaper price, while forcing US companies to manage with a smaller, more costly supply.

The three separate, but co-ordinated, filings with the WTO formally request dispute settlement consultation, which is the first step in a WTO complaint. If no resolution is found after 60 days, the dispute can be transmitted to a WTO panel for a ruling. At the end of the process, depending on the outcome, sanctions against China are possible.

In addition to rare earths, the complaints cover tungsten, a very hard metal, and molybdenum, a metallic element used in making different types of steel as well as in other industries.

Anticipating the complaints, China earlier on Tuesday defended its curbs on production of rare earths as an environmental measure. China needed to limit environmental damage and conserve scarce resources, Chinese foreign ministry spokesman, Liu Weimin, said. "We think the policy is in line with WTO rules."



Steel founders work at Rusal's Sayanogorsk Aluminium Mill in Russia. The outgoing chairman claims the company is in deep crisis. Photo: Bloomberg

Tsui said. He said this battle between Norilsk and Rusal posed a risk to Rusal's share price, and their attempts to buy each other were not in their shareholders' best interests.

Tsui said Rusal owed banks US\$11 billion, but that should not be a problem as it has up to 2016 to repay them.

Russian media earlier this month quoted Rusal's third-biggest shareholder, Mikhail Prokhorov, as saying that he and Vekselberg did not agree with Deripaska's policies.

"We are trying to change this, but he has the controlling stake," Prokhorov was quoted as saying. Deripaska owns 57.78 per cent of Rusal.

Prokhorov, a Russian tycoon who lost to Vladimir Putin in the Russian presidential election earlier this month, owns 17.02 per cent of Rusal.

Deripaska is being sued by Ukraine-born businessman Michael Cherny in London over shares.

Rusal's stock was suspended yesterday.

**Rusal conducts a policy which doesn't always target pure value creation**

RUSSIAN BROKERAGE FINAM