

BANKING & FINANCE

PROPERTY



Real estate in Shanghai is set to take off again with the introduction of lower mortgage rates for first-home buyers. Property developers are happy too. Photo: Bloomberg

STATE BANKS CUT RATES FOR FIRST-HOME BUYERS

Potential property owners in Shanghai get 10 per cent discounts as lenders push to develop mortgage business in one of the mainland's richest cities

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The mainland's big state banks and their smaller rivals in Shanghai have rapidly revived efforts to attract local mortgage clients, offering first-home buyers discount rates much lower than last year's industry average.

The move comes at the same time as cashed-up Shanghai locals use a loophole in the mortgage approval system to buy a second or even third home as investments, gambling on the uptrend of property prices in China's richest city this year.

At least three of the Big Four state-owned banks - Agricultural Bank of China, Bank of China and China Construction Bank - started to offer a 10 per cent discount to the benchmark mortgage rate this month to those who want to buy their first home in Shanghai, according to sources. The minimum requirement of property down payment remains unchanged at 30 per cent.

Agricultural Bank of China's (Agbank) Shanghai branch is understood to have been among the first to announce the mortgage discount a few weeks ago. Agbank's move is seen in the local banking and property industry as a catalyst pushing

more banks to join this latest wave of mortgage business competition.

"It's no longer a secret," said one person who declined to be identified as he was not authorised to speak to the media. "Initially, Agbank staff promoted the 10 per cent discount thing quietly and privately, but now it's public knowledge among property agents and buyers."

It is not known how long such mortgage discounts will last but Agbank's recent strong efforts to promote mortgage business in Shanghai came after a decision from management at the bank's headquarters in Beijing, said one of the people.

Such moves are certainly good news to some cash-hungry property developers as they want quick capital returns to ease financing troubles.

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AN UNNAMED BANKING SOURCE

Beijing had asked domestic banks to support first-time home buyers, the official *China Securities Journal* reported on Tuesday, citing a government document. Share prices of most listed developers rose on the news with some stock even hitting the 10 per cent daily uplimit.

Some smaller rivals of Agbank such as Shanghai Rural Commercial Bank also recently began to offer 10 per cent discount mortgage rates to first-home buyers in the city, said one of the people. Mid-sized China Merchants Bank and Shenzhen Development Bank are mulling similar moves to lure property investors in Shanghai, one of the most expensive cities on the mainland in terms of living cost and property prices.

It is so far unclear whether such policies might spread to other mainland cities as different branches of the big banks had the authority to set mortgage rates above or below the regulatory benchmark rate, said the people. Last year, many banks offered 1.1-1.2 times the benchmark rate amid the government's efforts to curb fast-rising property prices.

Meanwhile those who want to buy second or third home in Shanghai are exploiting an unusual loophole to pretend they are first-home buyers when applying for mortgages.

A technical error in the current approval system has meant the banks can only read ID cards with all Arabic numerals, something they have to do to verify if the ID card holder is a first-home buyer.

This meant someone whose ID card contained the letter "x" rather than all Arabic numerals could apply for as many mortgages as they wanted as a first-home buyer, said a banking source in Shanghai.

"Some rich people are looking for

those so-called XID cards. They want to collect the cards, buy properties then sign an under-the-table deal with those card holders to make sure the rich people are the real owners of these properties," said one banker.

He said this practice reflected the high call for investment properties. The problem has been identified and officials are working to fix it. Additional reporting by Daniel Ren

> RATE CUTS PROPERTY P3

FUNDS

Investors have more confidence in bond funds

Industry's gross sales reach US\$37.5 billion, with the favoured most investment choice taking 44.4 per cent

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Kerry Ching

The low interest rate environment and overhanging uncertainties in the global economy make bond funds an increasingly attractive option as investors look for stable returns, according to the Hong Kong Investment Funds Association.

Equity fund sales remained lacklustre in the first two months of this year despite the steady rebound in stock markets, the association said.

The city's fund industry registered net sales of US\$6.2 billion last year, down 0.7 per cent from 2010. Gross sales increased 30.2 per cent to US\$37.5 billion.

Sales were robust in the first half of the year as high inflation and low interest rates drove investors into stocks, but they dipped in the second half as the euro-zone debt crisis and concerns about the United States economy sent global markets tumbling.

The sell-off saw the industry suffer net outflows of US\$469 million in September and US\$290 million in October. However, moderate net inflows returned towards the end of the year.

Association chairman Kerry Ching Kim-wai said heavy outflows

from equity funds had stopped this year as fund managers finished allocating their assets.

But sales of equity funds remained flat in the past two months even as stocks rebounded.

Interest in bond funds continued to grow steadily last year, with net cash inflows recorded every month.

Bond funds accounted for 77.5 per cent of the industry's net inflows and 44.4 per cent of overall sales.

Ching said money flows could be more volatile with equity bond funds as they mirrored the movements in global stock markets, but bond funds were likely to see steady growth as investors focused on both global bond funds and also the riskier, more rewarding emerging markets high-yield bond funds.

Investors' appetite in greater China equity funds and emerging markets equity funds were especially sensitive to changes in market sentiments.

Greater China equity funds were among the most popular choices of investors, Ching said, but the category suffered the greatest outflows last year among all equity funds, recording a net outflow of US\$566 million. It was followed by emerging markets equity funds, with US\$301 million.

Hong Kong equity funds attracted most of the inflows, pulling US\$522 million in net inflows.



CONTINUED FROM B1

Hot money flows go underground

being charged with "the common law offence of conspiracy" for violating regulations of other jurisdictions, which could result in imprisonment, says Charles T L Wong, from Lo, Wong & Tsui Solicitors in Hong Kong.

Legislative councillor Chan Kam-lam says that even if Hong Kong had a law, it would be hard to enforce because there is no physical transfer of money and their operations cannot be traced.

Hong Kong boasts 2,710 remittance agents and money changers, according to registrations filed with local police. Among them, 1,568 were run by companies and 1,142 were owned by individuals.

Speculative inflows, which boost asset prices, complicate mainland efforts to fight inflation. On the flip side, besides facilitating tax evasion, the outflow of liquidity triggers downward pressure on the yuan, and, ultimately, economists say, could destabilise financial markets and the economy itself.

To restrict the flow of funds, the People's Bank of China, the mainland's central bank, set down rules that are overseen by the Hong Kong Monetary Authority. Banks in Hong Kong doing yuan business cannot exchange more than 20,000 yuan a day for individuals. And individual bank account holders in Hong Kong are limited to wiring 80,000 yuan a day to accounts on the mainland held in the same name.

Without special approval, individuals on the mainland cannot receive more than the equivalent of US\$50,000 in their foreign currency accounts annually. According to Safe, mainland residents and non-

residents usually cannot carry more than 20,000 yuan and the equivalent of US\$5,000 at the same time when crossing mainland borders.

Companies that need to transfer money out of the mainland have to show supporting documents for most transactions, such as international trading contracts and invoices from overseas companies to banks.

In addition to serving individuals, remittance agencies are "a common way for [small] businesses to move funds across the border", which is known as hawala-style banking, or money transfer without money



movement, says Stephen Green, regional head of Greater China research for Standard Chartered Bank.

The typical transaction with a remittance agency requires two individuals with mirror needs, funds that need to move in opposite directions, and this depends on trust, Green says. Under mainland rules, the transaction is basically illegal, but because no funds actually cross the border "this method is difficult to detect and, unfortunately, impossible to measure", he adds.

In Li's case, the Hong Kong remittance agency had a partner on the mainland with a bank account. Once Li handed over his Hong Kong dollars, the agent called his partner on the mainland to transfer the equivalent amount of yuan from his account to Li's bank account in Beijing. The whole process took less than half an hour, and no money left Hong Kong.

A similar transaction could easily have taken place in reverse.

Li, who has been working in Hong Kong for three years, first heard about the services offered by Hong Kong remittance agencies from a mainland colleague, who also used them to transfer cash from Hong Kong to buy a flat in Shenzhen as well as to send some of his Hong Kong dollar savings to his parents who needed yuan. All told, the colleague has wired about HK\$200,000 to the mainland and is a satisfied customer.

The remittance agency makes its profit from the spread between the Hong Kong dollar and yuan rates. Generally the agencies don't charge for transactions of HK\$100,000 or more, but add HK\$50 for lesser amounts. One operator said his agency generated annual revenue of about HK\$400,000.

Rates vary slightly between agencies, so Li shops around. Each one of the four he visits says their shop can wire as much as HK\$20 million in one deal. The one Li picks says it transfers roughly HK\$3 million a day between the mainland and Hong Kong.

When a wary Li asks the operator about the risks of getting caught, he replies: "We wire millions of dollars this way every day. But nobody has the time to inspect such small sums."

TRINITY LIMITED
(Incorporated in Bermuda with limited liability)
Stock Code: 097

tailor-made for excellence

highlights of 2011 annual results

- revenue**
2011 HK\$ million: 2,607
+29.6%
Revenue increased by 29.6% driven by continuous retail network expansion and strong same-store sales growth, and licensing income from Cerruti Group.
- gross profit**
2011 HK\$ million: 2,104
+35.6%
Gross margin increased from 77.2% to 80.7% driven by effective brand building and merchandising.
- profit attributable to shareholders**
2011 HK\$ million: 513
+50.5%
Profit attributable to shareholders increased by 50.5% to HK\$513 million.
- dividend per share**
2011 HK cents: 23.0
+53.3%
Full year dividend per share increased to 23.0 HK cents.

Record date and book closure

- For determining members' right to attend and vote at the Annual General Meeting to be held on 11 May 2012:
Record Date: 10 May 2012
Latest time to lodge transfer documents with Share Registrar: 4:30 pm, 10 May 2012
- For determining members' entitlement to the proposed final dividend:
Book Closure Dates: 17 and 18 May 2012
Latest time to lodge transfer documents with Share Registrar: 4:30 pm, 16 May 2012
Expected despatch date of dividend warrants: 24 May 2012

Notes: 1. The Company's Hong Kong branch share registrar is Tristar Investor Services Limited, whose address is 26/F, Treasury Centre, 29 Queen's Road East, Wanchai, Hong Kong.
2. No transfer of shares will be registered during the book closure dates.

The information contained in this announcement does not constitute a results announcement. Full version of the results announcement is published on the website of the Company at www.trinity-limited.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

Member of the Li & Fung Group