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\$4b sought for China ventures

By EVA TO

COMPANIES doing business on the mainland are seeking about HK\$4 billion in overseas financing.

Negotiations have been continuing in earnest since the West lifted 16-month-old economic sanctions against China.

Banks are said to be reviewing the proposals with "reasonable optimism", although tough bargaining on pricing lies ahead.

Borrowers want to keep funding costs low, while lenders are demanding a substantial rise in yield because of the higher risks associated with last year's political turmoil.

The planned financing includes 100 million Deutschmarks (about HK\$530 million) for Volkswagen's joint venture in Changchun, Heilongjiang; about US\$60 million for Philips' integrated circuit joint venture in Shanghai, and about HK\$3 billion for New World Development's power-and-road project in Guangdong.

The Changchun and Shanghai projects are likely to come through first, given the keen interest shown by German and Dutch banks.

Volkswagen's loan has special appeal to German

banks while Philips has attracted Dutch banks.

Banks usually try to lead overseas financing for companies from their home countries.

New World's loans seem a longer way off, with bankers complaining about the company's reluctance to commit itself on even basic borrowing terms and conditions, and are awaiting further details from New World before making further moves.

They said it would be very hard for banks to design meaningful borrowing packages if the borrowers would not firm up targets such as the borrowing tenor, the ratio of borrowing to equity, the interest margin or guaranteed structure.

As the planned road for Guangzhou city northward is similar to Hopewell Holdings' US\$800 million super-highway which will link Guangzhou, Zhuhai and Shenzhen, similar risks are involved and banks will not want to undertake too much within a short period of time.

Banks have not shown great enthusiasm for financing New World's project so far, but said their caution was more a result of unwise timing than a lack of interest.

Negotiations for Volks-

wagen's and Philips' loans, however, are moving ahead despite the hard bargaining on terms.

Volkswagen's loan is targeted for a period of six to eight years. To keep the cost low, the loan may be raised by Bank of China (BOC) before being passed on to the joint venture.

In line with BOC's tradition, it has tried to keep borrowing terms very tight.

BOC wants to cap the interest margin at 0.5 percentage point (over the London interbank offered rate) but bankers says this is not enough to cover current risks.

But BOC is reluctant to grant any concession because it raises huge funds for mainland firms every year and any pricing set could have great implications for future borrowings.

The Volkswagen funding is believed to be BOC's first substantial loan since last year's political turmoil.

To diversify risks, banks are considering a joint mandate for the Volkswagen deal with more than one bank as arranger.

Philips hopes to raise between US\$50 million and US\$60 million for more than five years for the Shanghai semi-conductor integrated circuit factory.