Founders, investors urged to agree to targets from start

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As a struggle rages over the management of the Chongqing-based NVC Lighting Technology Corp, experts are saying that entrepreneurs and equity firms should come to mutual understandings before trying to work together.

TECHNOLOGY

They also say it is important that private equity and venture capital firms seek returns in the short run from the companies they invest in, and that they offer needed services without interfering greatly in how businesses are run.

Their comments come about a month after employees and distributors with NVC Lighting organized strikes in the company's headquarters in Chongqing and manufacturing bases in Chongqing and Guangdong province.

The unrest was in part an attempt to secure the return to the company of Wu Changjiang, the founder and former chairman of NVC Lighting, who some believe was forced out by NVC's board.

"The conflict at NVC Lighting Technology Corp has greatly damaged the company's business and is not good for the interests of entrepreneurs and investors," said Yi Jigang, president of Orient Jiyi Investment, a Beijing-based private equity firm, and the former chairman of the liquor maker Guizhou Dongjiu Co Ltd.

"Investors, before making investments, should have the same views as entrepreneurs about operations and development goals."

Yan Yan, a managing director at the Asian private equity firm SAIF Partners and current chairman of NVC Lighting Technology's board, has been questioned about whether Wu was removed from the company.

Wu, for his part, has been quoted by China Business News as saying that he wants to return to the board and is concerned that the company's business performance has deteriorated sharply during his absence.

Yi said Chinese entrepreneurs have developed their way of doing business amid strong competition in the domestic market. Yi also said investors and venture capital and private equity firms should have respect for the experiences of businesspeople and avoid disregarding entrepreneurs' opinions when they adopt reforms.

"In my 20 years of managing companies, I have rarely seen companies that continue to be operated well once their senior management teams have been replaced by new ones," said Yi.

Wu is still the largest stakeholder in the company, having a 19.53 percent share.

SAIF Partners, for its part, invested $22 million in NVC Lighting in 2006 and another $10 million in 2008, giving it a 18.48 percent share. And Schneider Electric holds a 9.21 percent share, according to information from the Hong Kong Stock Exchange's website.

If Wu does return to the company's board of directors, Yi said, he will have to find a way to work with SAIF Partners and reward his supporters in the company while he struggles to maintain his controlling position on NVC's board.

Shan Qiwu, a partner at Hejun Consulting Group, one of the largest consultancies in China, said Wu is typical of Chinese entrepreneurs of his generation.

Shan said such businesspeople are capable of making their companies stand out among competitors.

"They are very decisive about matters related to their companies and don't easily take orders from others, even when they know their abilities are limited in certain ways," Shan said.

"So if equity investors have decided to work with a particular company, they should help the managers there ensure the company is run well, rather than weakening them and attempting to replace them.

"This is actually a problem that will be resolved with time. After 10 to 20 years, when the next generation of entrepreneurs start to take over companies, they will be more willing to let others have controlling shares and take leading roles."

Conflicts between entrepreneurs and investors have not been uncommon in China.

Last year, Li Yang, founder of Redbaby Information Technology Co Ltd, one of the largest Chinese online retailers of baby-care products, had a row with investors and eventually lost his position on the company's board of directors.

Since 2004, Redbaby has received investments from the venture capital firms Northern Light Venture Capital, New Enterprise Associate, Kleiner Perkins Caufield & Byers.

Zhang Lan, founder and chairwoman of South Beauty, a chain of Sichuan restaurants in China, has said one of the company's biggest mistakes was to receive capital from the investment firm CDH Investments. She said CDH put up relatively little money and yet managed to acquire a large number of the company's shares.

In 2008, CDH invested 200 million yuan ($31.4 million) in South Beauty, giving it a 10 percent stake in the company. Zhang vowed then to set up 100 restaurants by 2009, 50 of them in foreign countries. So far, though, South Beauty has managed to open only about half that many and CDH has expressed dissatisfaction with South Beauty's performance.

Zhang found it difficult to produce the returns CDH expected to see and has expressed a desire to terminate the two company's agreement. Meanwhile, instances of mutually beneficial cooperation have not been entirely absent.

Sky Network Technology Co, the largest mobile application store in China, was founded in 2005 and was listed on the NASDAQ in 2010. Between those years, the US-based venture capital firm Sequoia Capital LLP invested $3.5 million in Sky Network and now holds a 28.1 percent share in the company.

"I believe entrepreneurs prefer investors who provide capital and value-added services but don't get excessively involved in a company's business and stir up trouble," said Song Tao, chief executive officer of Sky Network Technology.

"Entrepreneurs are good at selling products, but they may find it difficult to further develop a company once it has grown to a certain size," said Wu Kezhong, president of the private equity firm PreIPO and a shareholder in NVC Lighting.

"Companies and investors should seek common ground and overcome their differences," said Zhou Wei, a partner at the venture capital firm Kleiner Perkins Caufield & Byers.

what's news

PAN SUOFEI / CHINA NEWS SERVICE

Shanghai residents line up for Hot-Star Large Fried Chicken from Taiwan in Shanghai on Thursday. Since its opening on Wednesday, the owner said, more than 1,000 fried chickens were sold everyday at that restaurant.

Arc, Bonavista seen as Sinopec takeover targets

The need of China Petroleum & Chemical Corp, or Sinopec, for new oilfields is making companies such as Arc Resources Ltd and Bonavista Energy Corp takeover candidates, an industry report says.

Sinopec must buy assets to help its parent meet a target of more than doubling its overseas crude output by 2015, Mirae Asset Securities said. The calgary-based Arc Resources and Bonavista, along with Afren Plc of London, are all logical acquisition candidates for Sinopec, according to Sanford C Bernstein & Co.

The State-run Sinopec increased its reserves by only 4.5 percent during the past decade, even as China's oil consumption doubled, according to data compiled by Bloomberg. That left Sinopec's oil and gas reserves in December at a level representing 9.3 years of output, the second-smallest stockpile among the world's 10 largest integrated oil and gas producers, the data show.

Supply of Olympic pin badges for 2016 Games

Beijing Huajiang Culture Development Co Ltd has secured a contract to provide Olympic pin badges for the 2016 Olympic Games , with a partnership agreement signed in London over the weekend.

Beijing Huajiang, also known as Honav, has been awarded the license to become the official provider of pins for the Olympic and Paralympic Games by the Rio 2016 Olympic and Paralympic Games Organizing Committee.

Honav Chairman Jack Chen pledged that his company is embracing the opportunity to be part of the Rio de Janeiro 2016 Olympic and Paralympic Games.

"We are becoming an increasingly significant part of the Olympic community," he said.

UBS predicts gain for China stocks as Haitong sees loss

UBS AG says China's benchmark stock index, this year's worst performer in the largest emerging market, will increase as much as 20 percent by year-end, while Haitong Securities Co expects the market to keep tumbling as economic growth slows.

At least one more interest rate cut by Chinese policy makers in the third quarter would help the Shanghai Composite Index rebound from a 13 percent drop since early March, said Chen Li, UBS' head of China equity strategy, in an interview.

Chen Ruiming, an equity strategist at Haitong Securities, China's second-biggest brokerage by market value, said he expects the Shanghai Composite to fall below 2,000 this year, or another 6 percent, as exports slump and government measures to curb property prices harm the industry.

"We are cautious about the market, and there won't be many investment opportunities this year," Haitong's Chen said.

Employees to have 30% of wages paid in shares

China plans to let workers have as much as 30 percent of their wages be paid as shares of their publicly traded employers, as regulators broaden measures to boost investor confidence in the stock market.

The stock used to pay employees must be acquired from the secondary market, according to a draft of rules posted on the China Securities Regulatory Commission's website on Sunday. Employees who receive shares as salaries or bonuses will have to hold them for at least 36 months.

The securities regulator has cut trading fees for stocks, expanded a trial for over-the-counter exchanges and allowed futures companies to start asset management businesses. China's stock market is the worst performing this year among the four largest emerging economies.

Coal price snaps 12 weeks of losses as miners cut output

The benchmark price for China's power-station coal snapped its longest streak of declines since at least 2008 as producers idled an estimated 300 million metric tons of capacity amid a slump in demand.

Spot coal with an energy value of 5,500 kilocalories per kilogram at the port of Qinhuangdao was unchanged at a range of 620 yuan ($97) to 635 yuan a ton as by Sunday compared with a week earlier, according to data on Monday from the China Coal Transport and Distribution Association.

Prices had fallen for 12 weeks since the beginning of May, the longest period of losses since Bloomberg started compiling the association's data at the beginning of 2008.

Slowing economic growth has eroded demand for fuel used to generate electricity, prompting miners to halt output rather than sell at a loss.

Tudou reports second quarter loss on rising costs

The online video company Tudou Holdings Ltd reported on Monday a net loss of 19.2 million yuan ($3.01 million) in the second quarter due to an increase in the cost of Internet bandwidth and content.

The NASDAQ-listed company's revenue stood at 171.9 million yuan in the second quarter, up 47.3 percent from a year ago, Tudou said.

Most of the revenue was generated through online advertisement sales, which jumped 47.4 percent to 150.7 million yuan.

The company's costs increased by 123.2 percent year-on-year to 191 million yuan in the second quarter.

Its Internet bandwidth costs totaled 65.1 million yuan, compared with 34.5 million yuan in the same period last year. Content costs hit 100.5 million yuan, up 64.8 million yuan year-on-year, and mobile video service costs rose to 12.3 million yuan, the company said.

Xiamen Airlines buys 40 Boeing 737s

China Southern Airlines Co Ltd said on Friday that its subsidiary Xiamen Airlines signed an agreement with Boeing Co to buy 40 737 aircraft.

The aircraft, which will cost $3.36 billion, will be delivered between 2016 and 2019, said China Southern Airlines, which has a 51 percent stake in Xiamen Airlines.

Xiamen Airlines, which uses only Boeing aircraft, will have a fleet of 121 aircraft after the order.

The new jets will increase China Southern Airlines' transport capability by 7.93 percent, compared with December 2011, it said.

PBOC will strengthen policy fine-tuning

China's central bank said on Sunday it will strengthen the fine-tuning of its monetary policy in the second half of this year, indicating as many analysts believe that more liquidity may be injected into the economy.

The monetary policy should play a countercyclical role in the national economy and credit policies will be improved to shore up the development of the real economy, the People's Bank of China said in a news release on its website.

It reiterated the significance of making the monetary policy more forward-looking, targeted and effective to support steady and relatively fast economic growth.

The statement came as analysts expect further cuts in interest rates and the reserve requirement ratio as China has recently seen weakening demand for its products and easing inflation.

Suntech Power 'was warned to watch out'

A major lender to China's Suntech Power Holdings, a solar panel maker that has been stung by a $690 million fraud linked to its expansion in Italy, financed the expansion despite warnings from a business ally to avoid Italy's scam-ridden solar sector.

US-listed Suntech, the world's largest supplier of solar panels, has lost 40 percent of its market value since revealing on July 30 that 560 million euros ($691 million) in bonds involved in securing the bank financing may never have existed.

Suntech has declined to discuss how the German government bonds in its possession turned out to be apparent forgeries and has hired lawyers to investigate one of the biggest suspected frauds to hit a listed Chinese company.

CNOOC signs $1.56b exploration deal

CNOOC Ltd, China's largest offshore oil producer, has signed a deal to spend 9.93 billion yuan ($1.56 billion) to explore for coalbed methane in China over the next five years as part of a 30-year agreement.

A deal on the project was signed between CNOOC Ltd and China United Coalbed Methane Corp Ltd, which is half owned by CNOOC Ltd's parent, China National Offshore Oil Corp, and half owned by China National Coal Group Corp, CNOOC said in a filing with the Hong Kong Stock Exchange.

The two companies aim to explore, develop and produce methane gas in China for 30 years, CNOOC said.

China is investing 100 billion yuan to double coalbed methane output by 2015. Beijing wants gas output from coal seams of up to 30 billion cubic meters by 2020, which would account for 15 percent of China's total gas production, up from 5 percent last year.

CHINA DAILY — AGENCIES

Chinese banks face hurdles to refinancing demands

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Banks in China are facing mounting pressure to refinance as interest rate liberalization moves forward and regulators set higher risk management standards, a recent report said.

Although Chinese banks currently have sufficient capital, pressure to maintain cash flow and to refinance is increasing, according to a report by The Chinese Banker, a Beijing-based monthly publication that focuses on China's banking industry.

FINANCE

For many banks in China, the difference between assets and liabilities will expand in the near future because of stronger regulations and banks' growing difficulties with refinancing, the report said.

The differences for the five biggest banks in China — the Industrial and Commercial Bank of China Ltd, Agricultural Bank of China Ltd, Bank of China Ltd, China Construction Bank and Bank of Communications Co — will be equal to more than 30 billion yuan ($4.7 billion) by the end of this year, and will rise further in 2013, the report estimated.

The report based its estimation on statistics and annual reports provided by these banks, said Zhang Xiaochuan, spokeswoman for The Chinese Banker.

The difference for ICBC will rise from 60.4 billion yuan by the end of 2012 to 69.1 billion yuan in 2013, while that for the Agriculture Bank of China will go up from 63.5 billion yuan to 83.8 billion yuan.

Bank of China's will reach 37.6 billion yuan by the end of 2012 and will double in 2013, reaching 78.7 billion yuan. China Construction bank will see its difference hit 35.4 billion yuan by the end of 2012, and rise to 39.9 billion yuan in 2013, while the Bank of Communications' gap will reach 47.8 billion yuan by the end of 2012, which will further expand to 68.7 billion yuan in 2013.

Banks now remain a major source of fund-

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raising in China's market, and commercial banks, especially the large ones, will continue to issue more loans, which will place increasing demands on capital, according to the report.

Most of the banks face stronger risk management requirements and more pressure to raise capital, the report said.

After two non-symmetrical interest rate cuts so far this year, the liberalization of interest rates has picked up, and so for many banks it is now more difficult to make a profit, said Luo Mengbo, head of the bank and director with Bank of Ningbo Co Ltd.

The People's Bank of China gave lenders permission in June to set deposit rates up to 10 percent higher than the benchmark rates in June. Small and medium-sized lenders, under pressure to attract capital, set their rates for deposits at the ceiling immediately after the announcement went into effect, while some State-owned banks were more conservative, setting their respective deposit rates at about 8 percent higher.

"The non-symmetrical interest rate cuts have squeezed our profit margin, and almost every staff member in the banking industry is feeling the pressure," said Lu Gang, a wealth manager of a State-owned bank in Shanghai.

At the same time, banks are looking for new ways to expand their business while keeping risks under control, Luo said.

New rules announced by the State Council in early June will set tougher capital criteria for lenders at the beginning of 2013.

The tougher standards, which are based on the Basel II and Basel III agreement set by the Basel Committee on Banking Supervision, will require what are deemed to be systemically important banks to have a capital adequacy ratio of 11.5 percent. For banks that are not systematically important, the ratio will be 10.5 percent. The deadline for meeting the requirements for banks in China is the end of 2018.

Banks need to adjust their capital strategy and push forward reforms of their business patterns to meet the requirements of regulators and make profits at the same time, said Luo.

The banking system in China will experience another expansive financial resulting, which is inevitable, said Liu Yuhui, a researcher at the Chinese Academy of Social Sciences.