

Chinese Investment Fund warns Lehman Woes to Hurt

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SHANGHAI, China: A Chinese investment fund warned Tuesday of potentially heavy losses from the bankruptcy of U.S. investment bank Lehman Brothers, while the country's financial markets tracked regional declines.

Hua An Fund Management Co., one of a number of funds operating foreign investment funds under China's "qualified domestic institutional investor," or QDII, program, said it might face losses from after Lehman Brothers filed for bankruptcy protection in the U.S. Monday. It did not say how much might be at risk.

Hua An's International Balanced Fund is invested in dollar-denominated principal protected structured notes provided by Lehman Brothers. The notes are linked to various types of assets, including bonds, shares, real estate and commodities, managed by Lehman Brothers Asset Management.

According to the fund's interim earnings report, the fund had about US\$97.4 million under management by the end of June. It is one of a dozen funds worth 72.6 billion yuan (US\$10.6 billion) managed by Shanghai-based Hua'an.

"If Lehman Brothers Holdings is unable to fulfill its duties for the principal protected structured notes, this could severely affect continued operation of the Hua An Balanced Fund," the company said in a statement seen Tuesday on its Web site.

China restricts overseas share investments, while limiting investments by foreigners in its own stock markets. But it has gradually eased some limitations as its financial markets have grown.

Hua An Fund Management was the first fund approved to conduct overseas investments under the QDII program, just as China's share markets were beginning to take off in 2006. It was given a foreign exchange quote of US\$500 million for such investments.

China's stock market peaked in mid-October of last year and have since fallen by more than 60 percent.

The benchmark Shanghai Composite Index fell 4.5 percent Tuesday to 1,986.64, tracking heavy losses on other regional markets. It was its lowest close in 22 months.

Shares in banks and other financial companies were pummeled, with Bank of China, which reportedly holds some loans to Lehman Brothers, sinking 9.2 percent to 3.17 yuan.

Other banks took worse hits, with China's biggest lender, Industrial & Commercial Bank of China hitting the 10 percent daily limit to close at 3.80 yuan while Shanghai Pudong Development Bank also dropped 10 percent to 14.34 yuan.

Source: IHT