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# China News Alert Issue 225

## Capital Markets

### China to open a second growth enterprise market in first half of 2008

Securities regulators hope to open a new stock market in the first half of the year aimed at growth enterprises, chairman Shang Fulin of the China Securities Regulatory Commission (CSRC) said recently.

His comment was the first official confirmation of a time frame for the establishment of the long-anticipated second growth enterprise market.

At the national work conference on securities and futures regulation, he said that China would strive to diversify its financial markets to satisfy a variety of needs. Although he didn't elaborate, previous media reports have said that the new exchange is intended to be a NADSAQ-like growth enterprise board to help small startups, especially high-growth and high-tech firms, to raise funds.

Listing thresholds will be lower than the main board.

Nearly 200 companies were listed on the Shenzhen small and medium-sized enterprises (SMEs) board, whose market capitalisation surpassed 883.6 billion yuan (US$120 billion) as of 11 December, more than four times the market capitalisation for the same time the previous year, when only 101 companies were listed.

In 2007 alone, 93 companies were listed on this board, with the debut of Ningbo Bank yielding the largest proceeds of 4.14 billion yuan.

Shang said that China would also strive to boost the expansion of bond markets this year by speeding up approval for corporate bond issuance, enriching bond products and strengthening creditor protection.

Another task facing the CSRC is to smooth the operation of stock index futures and to gradually strengthen the futures market by facilitating the coordinated growth of financial and commodities futures, he said.

On 9 January, gold futures made a strong debut in Shanghai, raising the city's prospects of becoming another key player in the international gold market. Gold was the fifth new futures product approved last year, after zinc, rapeseed oil, polyethylene and palm oil.

Shang said that the CSRC had started futures investor training and would optimise operating systems and regulation. New futures products are being studied.

[Source: China.com](http://english.china.com/zh_cn/news/china/11020307/20080117/14621952.html) ([see archive](CSRC_chairman_China_to_open_second_board_market_in_first_half.pdf))

### CBRC says foreign banks may list in China

The China Banking Regulatory Commission (CBRC) has finished its initial feasibility study of foreign banks listing domestically, CBRC chairman Liu Mingkang said. The evaluation process will be completed within the year.

At a forum on the corporate governance of Chinese firms amid globalisation, Liu said foreign banks will soon be able to raise funds on the Chinese stock market if they register as a local corporate entity. Liu also disclosed that regulators have decided on the commercialisation of the China Development Bank, but declined to elaborate further.

Liu attached great importance to corporate structure and responsibility for successful corporate governance in Chinese banking, as well as their decision making processes, incentive mechanisms, information disclosure systems, and information transparency.

According to Liu, Chinese banks have improved significantly in governing and restructuring their business over the last two years. In the coming years, Chinese banks will be urged to learn more from their foreign peers and establish a set of Chinese standards.

[Source: china.org.cn](http://www.china.org.cn/english/business/240254.htm) ([see archive](CBRC_Foreign_banks_may_list_in_China.pdf))

### Banks' reserve ratio raised to 15%

The central bank recently raised commercial banks' reserve requirement ratio―or proportion of money they must hold in reserve―by 0.5 per cent; the first increase this year.

It is the 11th increase since the start of 2007 and will push the ratio up to 15 per cent, effective from 25 January.

The People's Bank of China said in a statement that the move implemented the nation's policy of strengthening macroeconomic measures, tightening liquidity in the banking system, and reining in excessive money and credit growth.

The government pledged at the Central Economic Work Conference in early December 2007, that it would implement measures to prevent the economy from overheating and to prevent price rises from leading to rapid inflation.

As the economy is expected to have expanded by about 11.5 per cent during 2007, excess liquidity has become a concern for policymakers as the trade surplus continues to expand, although growth is slowing.

"It [the move] supports our view that liquidity will be the main target of the central bank's 'tight' monetary policy this year," said Sun Mingchun, economist with Lehman Brothers in Hong Kong, who expects the ratio to be raised to 18 per cent by the end of this year.

Sun noted that after a series of reserve requirement increases, liquidity has become tight at small banks, and further rises may hurt them more than big banks. "Therefore, the central bank may consider introducing differential policies," he said.

[Source: English People's Daily Online](http://english.people.com.cn/90001/90776/6339750.html) ([see archive](Banks_reserve_ratio_raised_to_15.pdf))

### CSRC issues rule on information disclosure by securities brokers

The China Securities Regulatory Commission has issued a revised rule requiring securities firms to adopt new accounting standards in their information disclosure in order to improve information quality for public investors.

The Annual Report Content and Format Standards for Securities Companies (2008 Edition) requires securities brokerages to make tables in preparation for asset depreciation and notes on entries in consolidated financial reports from subsidiaries or projects. Separate audit reports by certified public accountants are needed for subsidiaries or projects if they are entered into the consolidated financial reports of the parent listed broker.

A securities firm has to disclose its definition of "commonly-accepted" value and explain how its financial assets are categorised in the annual report. Innovative financial businesses, such as the issuance of financial derivatives including shares, bonds and warrants, and details of the funds raised through these activities, should be reflected in the report. The company's current capital should also be identified as either the company's own capital or the client's capital.

A securities company must include the quantities and distribution status of its operation outlets and service centers in the annual report, along with the name and contact details of its president. The report must disclose the company's net assets and its risk control parameters. The company is also required to reveal the operating performance of its different businesses, summarise its competition and position in the market, and point out its competitive advantages.

[Source: cs.com.cn](http://www.cs.com.cn/english/markets/200801/t20080117_1349526.html) ([see archive](CSRC_issues_rule_on_securities_brokers_information_disclosure.pdf))

## Real Estate

### Property prices in major Chinese cities up 10.5% in December

The average property price in China's 70 large and medium-sized cities in December increased by 10.5 per cent from the same month of the previous year, sources within the National Development and Reform Commission (NDRC) said recently. The growth rate was roughly the same as the November level, the sources added.

Prices for new apartments in those cities jumped 11.4 per cent, 0.8 percentage points lower than that of the previous month.

Housing prices in Urumqi, capital of the northwestern Xinjiang Uygur Autonomous Province, had the largest increase of 25.3 per cent in December, followed by Beihai, in southern China's Guangxi Zhuang Autonomous Region, with a rise of 19.3 per cent.

Prices in Beijing increased by 17.5 per cent in December, and the prices in southwest China's Chongqing were up 15.9 per cent.

In December, the average price of second-hand homes in the 70 major cities increased by 11.4 per cent over the same period of last year and the price of buildings for commercial use increased 7 per cent.

[Source: cs.com.cn](http://www.cs.com.cn/english/ei/200801/t20080118_1350675.html) ([see archive](Property_prices_in_major_Chinese_cities_up_105_in_Dec.pdf))

### China specifies farmland-use tax standards

With a view to guiding local tax offices, China has specified regional farmland-use tax standards after quintupling the tax rate on the use of arable land for non-farming purposes.

The average tax amount was set at 45 yuan (US$6.2) per square meter in eastern Shanghai, the highest in the nation.

Beijing and Tianjin came second and third with 40 yuan and 35 yuan, respectively. The northern Inner Mongolia Autonomous Region was offered the most lenient tax rate of 12.5 yuan, said a circular issued jointly by the Ministry of Commerce and State Administration of Taxation (SAT).

Yang Suizhou, deputy director of SAT's local taxation department, said in early January that aside from the existing tax, local governments would raise the average tax on farmland use by up to 75 per cent in special economic zones where farmland is scarce.

In December, the government issued an ordinance stipulating that in places where per capita arable land was below one mu (0.067 hectare), investors must pay a land-use tax of between 10 yuan and 50 yuan per square meter, compared with the previous two yuan to 10 yuan.

Investors will only need to pay between six yuan and 30 yuan for each square meter they use if local per capita arable land ranges from two to three mu.

The lowest tax rates of between five yuan and 25 yuan will apply to areas where per capita arable land stands above three mu.

The ordinance also scrapped the previous "zero-tax" treatment for the construction of railways, airport runways and parking areas, and imposed a rate of two yuan per square meter for such usage.

China's land for cultivation has shrunk by 4.6 million mu from the end of 2006 to 1.827 billion mu, slightly higher than the danger mark of 1.8 billion mu (120 million hectares) set by the government as the minimum needed to feed its people.

The country's concern over inefficient land use and shrinking farmland was demonstrated in 2004 by a central government order to adopt the strict management of land resources.

[Source: Rednet.cn](http://english.rednet.cn/c/2008/01/17/1422032.htm) ([see archive](China_specifies_farmland_use_tax_standards.pdf))

### Estate agency closes 1,000 branches

The founder of a leading real estate agency said recently that the closure of more than half of its branches was part of a "weight-losing scheme" needed if it was to survive in a declining market.

Chuanghui, which bills itself as the country's largest property agency, said it had closed 1,000 of its 1,800 branches since November.

"Our business expanded too fast last year in a market that has been badly affected by the central government's macro-control policies," Lin Fenghui, a director and founder of Chuanghui, said in an interview.

"We had funding problems and made the decision to close the branches in November."

Lin said the sale of its property assets was necessary for the firm to survive.

"Our properties are valued at more than 50 million yuan (US$6.9 million) and we don't take bank loans. It is not a long-term problem," he said.

Although operations had been suspended at nearly 200 outlets in Shanghai, Liu said that 300 branches in Shenzhen and others in Guangzhou, Huizhou, Changsha and Wuhan were running as normal.

According to the Guangzhou-based South Metropolis Daily, more than 200 Chuanghui employees in Dongguan filed complaints at their local labour departments saying the company owed them commission on sales they had made.

Other disgruntled employees, as well as a number of customers, staged protests outside Chuanghui branches, the newspaper said.

In Guangzhou, a man was stopped by police as he attempted to take a computer from a Chuanghui branch, saying it was compensation for the 2,000 yuan he had paid the company in October to find him an apartment.

Chuanghui is the latest high-profile agency to feel the pressure of a slowing property market. In recent months, several firms in Beijing, Guangzhou and Shenzhen have been forced to close branches, while others have seen their owners fleeing or being arrested.

While the Spring Festival season is traditionally a slow time for property sales―agencies often lay off staff over the holiday period―property experts have said the overall decline in property prices is the main reason for the troubles faced by estate agents.

Wang Feng, deputy director of the Shenzhen Real Estate Research Center, said in a report published recently that property prices in Shenzhen have been in steady decline for the past four months.

[Source: Ministry of Commerce](http://english.mofcom.gov.cn/aarticle/counselorsreport/europereport/200801/20080105341941.html) ([see archive](Estate_agency_closes_branches.pdf))

## Corporate & Commercial

### Government intervenes to curb price rises

The government has started to temporarily intervene in order to control the prices of a range of daily necessities such as grain and meat, in an attempt to control inflation.

The price of grain products, edible oil, pork, beef, mutton, milk, eggs and liquefied petroleum gas are being monitored and any rises are subject to government approval as from 15 January, the National Development and Reform Commission (NDRC) said on 16 January.

The move highlights rising concern over the surging consumer price index (CPI), a key gauge of inflation, which jumped 6.9 per cent last November, the highest increase for a decade.

The NDRC said it expects to help curb "unreasonable price hikes" and reduce "the public's inflation expectations".

Major producers need to obtain government approval before raising their prices and major wholesalers are required to file a statement with government agencies if they raise prices by 6 per cent within 10 days or by 10 per cent within a month.

"The measures will be lifted once prices ease," said the commission. "But for now, it's necessary for the government to intervene as the price of some products has risen substantially."

The CPI is expected to reach 4.5 per cent for the whole of 2007, the China Academy of Social Sciences has forecast. Food, which accounts for a third of the CPI basket, has been the main driver of inflation.

According to the NDRC, the retail price of soybean oil has increased by 58 per cent, pork by 43 per cent, beef by 46 per cent and mutton by 51 per cent, year-on-year in the first half January 2008.

"Surging food prices have put a strain on low-income residents," said Wang Tao, a Beijing-based economist with Bank of America. "The temporary measure came about partly because the government is trying to prevent large price increases in the run-up to the Lunar New Year."

The Ministry of Commerce said earlier that the authorities would continue to release stockpiled pork into the retail market before the Lunar New Year holiday, which starts on 6 February.

The NDRC noted the intervention is not a "price freeze" and it only intends to intervene in cases of "unreasonable price adjustment".

According to the NDRC, some firms are hoarding goods, raising prices arbitrarily or spreading rumors about price rises to cause panic buying.

The State Council had passed new rules to impose tougher penalties on price manipulators a week earlier. It also decided to freeze the price of public utilities, such as water, electricity and gasoline.

[Source: Ministry of Commerce](http://english.mofcom.gov.cn/aarticle/counselorsreport/internationalorganization/200801/20080105342117.html) ([see archive](Ministry_of_Commerce_of_the_Peoples_Republic_of_China.pdf))

### China signs new FTA agreement

China has signed a new free trade area (FTA) agreement, sources from the Ministry of Commerce disclosed at a national commerce working conference recently.

Commerce Minister Chen Deming said that China has so far signed and implemented agreements on the establishment of six FTAs.

Sources within the ministry said that China has signed a new FTA agreement but declined to elaborate.

To date, China has established five FTAs with Hong Kong, Macao, Chile, Pakistan and the Association of Southeast Asian Nations (ASEAN).

China was also in talks over the establishment of FTAs with the Southern African Customs Union, the Gulf Cooperation Council, New Zealand, Australia, Singapore, Iceland and Peru.

The 13 FTAs involve 29 countries and regions. The trade between China and these countries and regions accounts for about one-fourth of the country's total trade, said Chen.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20080120/14625091.html) ([see archive](China_signs_new_FTA_agreement.pdf))

## Insurance

### Chinese banking regulator urges stringent car loan terms

In a rare move to slow auto credit growth, the China Banking Regulatory Commission (CBRC) recently urged commercial banks to thoroughly examine car loan deals to guard against possible default.

In the wake of increasing disputes between banks and car dealers, who are usually underwriters of the loans, the CBRC called on the banks to strictly control offers of loan contracts with car sellers. It asked lenders to sign the contract with the car purchaser at the scene.

Banks should also improve investigations into the credibility of both underwriters and borrowers, said the commission's circular.

Before granting a loan, banks should instruct underwriters to follow required procedures and research the borrower's credit record.

Pre- and post-loan investigations should be carried out by different loan officers. Banks should standardise the management of loan accounts to avoid embezzlement by underwriters.

Chinese commercial lenders enjoyed rapid growth from 2001 to 2003 with an average annual growth rate of 148 per cent.

However, commercial banks registered non-performing car loans worth more than 100 billion yuan (US$13.7 billion) in 2004, the latest figure available. About 81 per cent of this figure was held by the four largest state-owned commercial banks, according to the National Development and Reform Commission.

Regulators blamed an inefficient credit recording system, distorted market competition and fluctuations in auto prices for the bad loans.

Auto production and sales in China have increased by more than 20 per cent to a record 8.8 million units in 2007, despite weakening sales in global markets, the China Association of Automobile Manufacturers said recently.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20080118/14623265.html) ([see archive](Chinese_banking_regulator_urges_stringent_car_loan_terms.pdf))

## Other

### China to build platform for Internet intellectual property rights monitoring

China's National Copyright Administration (NCA) has launched the first phase in the construction of a monitoring platform for the violation of intellectual property rights (IPR) on the Internet, said an NCA chief official recently.

The monitoring platform, which will be completed in May, will have an automatic search system for music and film products that are being broadcast online without permission, said Yan Xiaohong, NCA deputy-director.

"This will help us to locate and deal with IPR violation cases more accurately and swiftly. We have to resort to new technology to tackle the problems brought about by technological development," he said, adding that the first phase of the project will cost eight million yuan.

Yan said the platform worked like Internet search engines. With authorised film, TV and music products uploaded to its database, it would then be able to identify unauthorised use of those products by surfing online.

Once it has detected such products, it will send a notice to the relevant websites asking them to delete the files.

Yan added the project's second phase is under appraisal.

[Source: China International Electronic Commerce Network](http://en.ec.com.cn/article/newsroom/newsroomtrade/200801/687021_1.html) ([see archive](China_to_build_platform_for_Internet_IPR_monitoring.pdf))

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