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# China News Alert Issue 293

## Capital Markets

### IPO rule favours small investors

China's securities regulator recently revised the draft rule on its new initial public offering (IPO) mechanism in a bid to improve market fairness and protect small investors.

A single investor will be allowed to have just one stock investment account, the China Securities Regulatory Commission (CSRC) said.

Previous regulations allowed investors with over 5 million yuan in capital to have more than one account, which consequently gave them a greater chance of purchasing new shares in an IPO.

"The revision is expected to improve market fairness and protect small investors' interests," a CSRC spokesman said at a news conference.

The CSRC said it was also considering trimming the amount of locked-up shares in an initial offering and increasing the tradable shares in the market.

Other changes include increasing the flexibility of the shares issuance system, giving brokers more freedom to terminate the issuance of new shares and allocating a subscription quota among investors.

"The new IPO rules require investors to choose either online subscription or offline subscription, thus effectively preventing institutional investors, who usually subscribed via offline channels, from competing with small investors via online subscriptions. But the new rules would not fundamentally increase the low lot-winning rate for individual investors since there will still be less shares sold online compared to the huge demand," said Zhang Qi, an analyst with Haitong Securities.

The CSRC announced the draft rule on the new IPO mechanism on 22 May, and sought public opinion until 5 June. The regulator said it had received 1,687 comments on the draft.

The rule takes effect as from 11 June. CSRC officials, however, did not give a timetable for when the first IPO would commence. Analysts said that the performance of the A-share market in the coming weeks would be an important reference point for the regulator.

Zhou Feng, an analyst at China International Capital Corporation, said that the timing was not a big issue. "It will have no major impact on the market because investors already have expectations regarding this," Zhou said. "Considering the fragile economy, investors - individuals or institutions - actually lack confidence in the current market," he said.

One of the most notable issuer of an impending IPO is China State Construction Engineering Corporation (CSCEC), the country's biggest homebuilder.

Two brokerages, Everbright Securities and China Merchants Securities, are likely to raise about 10 billion yuan and 80 billion yuan, respectively, and may end up becoming the second and third-largest fundraisers in the new round of IPOs.

Analysts said large companies like CSCEC are not likely to list immediately after the resumption of IPOs due to concerns that a massive equity supply could stifle a rally in the market.

[Source: CRI](http://english.cri.cn/6826/2009/06/11/1721s492277.htm) ([see archive](IPO_Norms_Favor_Small_Investors.pdf))

### GEB rules to take effect on 1 July but uncertainties remain

China's Shenzhen Stock Exchange issued the final version of the listing regulations for the Growth Enterprise Board (GEB), on 5 June, which will take effect on 1 July, but experts doubt if the market will be open by then.

Compared with the original draft, the newly issued rules place more focus on information disclosure of to-be listed companies, and several amendments have been made regarding efficiency, market supervision and protection of investors' benefits.

At present there exists an expectation that IPOs on the A-share market, which have been suspended since September 2008, will be opened before the GEB.

The China Securities Regulatory Commission (CSRC) recently said it would end the suspension as of 5 June, but market anticipation for A-share IPOs to restart is September 2009, which is two months after the GEB rules come into effect.

Apart from the unscheduled date for GEB's opening, companies will also need time to prepare for going public. "Once the rules take effect, investment banks can start handing in materials to relative departments. But the process from handing in materials to finally going public on GEB will take at least two to three months," said a brokerage trader.

According to Cao Fengqi, head of the finance and securities research center at Peking University, listing in batches should be carried out to speed up the pace of going public on GEB.

Listing in batches will require supervision by the market, enterprises, investors and the bourse over the quality of the companies to be listed. "If companies can't be listed in batches on GEB, the existence of this market will not be helpful to the large number of cash-starved high-potential companies," Cao added.

Commenting on the threshold of entering GEB, which is considered by many as too high, Zhou Kejun, an analyst with Guosen Securities, said it was appropriate and investment banks should consider "sound performance" as the top requirement for the first batch of companies to be listed on GEB. "The first 30 to 50 companies listed on GEB should have very strong operations and be of a smaller scale than that of the small and medium-sized enterprises (SMEs) board," Zhou was quoted by China Business News as saying. "Over time GEB will become a paradise for start-up companies."

Cao also warned against excessive speculation on GEB on its first trading day. Excessive speculation will harm the market as well as small shareholders," Cao said.

Chen Hongqiao, deputy general manager of the Shenzhen Stock Exchange, said the bourse has been instructing investors about the new board for the past two months and has made ample preparation for the launch.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/09/content_8263471.htm) ([see archive](GEB_rules_to_take_effect_on_July_1_but_uncertainties_remain.pdf))

### Regulator rolls out rules for GEB investors

Prospective investors in the country's to-be launched NASDAQ-style Growth Enterprise Board (GEB) are required to have at least two years of share trading experience, the securities watchdog said recently.

The China Securities Regulatory Commission (CSRC), Shenzhen Stock Exchange and the Securities Association of China recently jointly released draft regulations for investors on the second board and will solicit public opinion on it until 23 June.

"Investors with over two years of share trading experience have a better understanding about the risks, as they have experienced the bull market in 2007 and have become more rational in the sluggish capital market," said an official with the Shenzhen Stock Exchange, who declined to be named.

To highlight the investment risks for GEB, all investors are required to watch a special announcement about risk disclosure at a securities brokerage. The brokerage firms' operators are required to witness the process. Two days later, the securities companies will inform clients whether they are qualified to invest or not.

The regulations do not block investors that haven't accumulated enough investment experience, but do place stricter requirements upon them.

Inexperienced investors must write a much longer risk disclosure announcement and sales department executives at the brokerage firm must sign it. In addition, investors have to wait five days for permission to invest.

The Shenzhen Stock Exchange said it would soon roll out detailed rules to specify the application formats for GEB. "The transaction regulations will be consistent with the listing regulations for new share issuance and can be released after the listing regulations roll out," said the CSRC's spokesman.

The CSRC wrapped up public feedback for the stock exchange listing reform guidelines on 5 June. The IPO market, which has been suspended since September 2008, will be resumed after the formal listing rules are rolled out.

[Source: China.org](http://www.china.org.cn/business/news/2009-06/09/content_17912974.htm) ([see archive](Regulator_rolls_out_norms_for_GEB_investors.pdf))

## Corporate & Commercial

### Outbound funds rule tweaked

China's foreign exchange regulator recently announced revised rules relaxing controls on companies' overseas investments in a bid to enable more enterprises to venture out of the country.

Domestic Chinese companies can use their existing foreign exchange reserves or purchase fresh foreign exchange to fund the operations of their overseas subsidiaries from 1 August, the State Administration of Foreign Exchange (SAFE) announced on its website.

According to an October 2004 SAFE rule, large multinational companies were allowed to use their foreign exchange reserves to lend to overseas ventures but with heavy restrictions.

"Now, with the new rule, SAFE will allow all companies, including privately owned smaller firms, to purchase foreign currency to fund their overseas subsidiaries," Liu Guangxi, director of SAFE's capital account management department, said.

The new rule states that the total amount of money the parent can lend to its overseas subsidiary should not exceed 30 per cent of the former's equity base. Overseas subsidiaries will not be permitted to borrow more than the total amount of their investment registered with the administration, from their parent companies.

SAFE said the rule aims to support the overseas expansion of domestic firms, which have had trouble raising funds abroad due to the financial crisis. The new rules will also simplify approval procedures for outbound investment.

SAFE also said it would establish a risk control mechanism to monitor these outbound investments and ensure that money was being properly used. "The ease of control on the outflow of foreign currency will not have a major impact on China's foreign reserve position," SAFE said in the statement.

China has ample cash on hand to support overseas investment, with US$2.9 trillion in foreign financial assets, including both official foreign exchange reserves and private holdings, as at the end of 2008.

"We have carried out a stress test, and the maximum possible capital outflow from this new mechanism will be US$30 billion," another SAFE official, Sun Lujun, said.

China's outbound investment has been very tepid compared with the inflow from foreign investors, but the pace has started to pick up, nearly doubling to US$52.2 billion in 2008 from US$26.5 billion in 2007.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/10/content_8267214.htm) ([see archive](Outbound_funds_rule_tweaked.pdf))

### Minsheng Bank readies for Hong Kong float

The robust Hong Kong capital market, which has gained some 60 per cent in the past several months, has offered an attractive funding option to mainland enterprises, particularly banks, at a time when the ban on new share issues on the mainland is yet to be lifted.

The lending spree in the past few months has required some mainland banks to boost their capital adequacy ratios, thereby constricting their loan growth.

The first mainland bank to come calling for new capital could be China Minsheng Banking Corporation Limited, which indicated that it has initiated the process for an initial public offering (IPO) in Hong Kong.

The bank, China's first listed private lender on the Shanghai stock exchange, said it plans to issue up to 15 per cent, or 3.32 billion H shares, of its expanded capital, for public subscription in Hong Kong. There will be a green shoe option to increase the issue by an additional 15 per cent, raising the total issue to 3.82 billion H shares.

The total amount raised is likely to exceed the equivalent of 20 billion yuan, taking into account the prevailing pricing disparity between Hong Kong listed H shares and the listed A shares of mainland enterprises.

The bank said the funds raised would be utilised to augment its capital, boost the capital adequacy ratio, and improve profitability and its ability to withstand risk.

The bank's capital adequacy ratio at the end of 2008 was 9.22 per cent, while its core capital adequacy ratio was 6.6 per cent, against the minimum requirement of 8 per cent and 4 per cent, respectively.

Everbright Securities said in a report that the proposed Hong Kong IPO could raise Minsheng's core capital adequacy ratio by about 2.4 per cent to over 9.5 per cent, which is in line with those of the big four State-owned banks.

In a statement, Minsheng said apart from improving the management and control of capital, the bank needs new funds to finance its expansion plans and to increase its share of the lending market.

An IPO in the international capital market of Hong Kong, the bank said, would not only raise its capital adequacy ratio, but also help improve the standard of governance. Such an exposure could greatly enhance the recognition of the Minsheng brand in overseas markets, the bank said.

Founded in 1996, Minsheng had realised about 70 per cent year-on-year growth between 2000 and 2005. Due to the fast expansion, the bank's capital adequacy ratio has been struggling to meet the regulators' minimum requirements.

Industry experts also said the bank's move is in preparation for overseas mergers and acquisitions and to strengthen the bank's brand in the international market.

"The Minsheng move is more likely a strategic measure rather than having the single purpose of raising capital. The bank's brand will be recognised after listing in Hong Kong, which will benefit its future overseas acquisitions. It can be an ideal capital raising measure when compared with introducing strategic investors and the private offering of additional shares," said Cheng Zhijie, deputy manager of United Securities.

Minsheng had initially planned to list itself in Hong Kong in 2003, but scrapped the move in favour of a private placement carried out in June 2007, by which it raised 18.2 billion yuan.

The bank's Shanghai-listed shares have risen nearly 80 per cent since the start of 2009 while the benchmark Shanghai Composite Index is up more than 50 per cent. Hong Kong's benchmark Hang Seng Index has risen nearly 30 per cent, buoyed in part by prospects of an early recovery by China's economy.

The bank said the timing of the listing would depend on global market conditions and regulatory approvals. The listing will be valid for 18 months following approval by shareholders.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/09/content_8263425.htm) ([see archive](Minsheng_Bank_readies_for_Hong_Kong_float.pdf))

### China Eastern confirms merger plan with Shanghai Airlines

A spokesman for China Eastern Airlines, a leading carrier in the country, confirmed recently that it plans to merge with smaller rival Shanghai Airlines.

"Starting on 8 June, China Eastern and Shanghai Airlines officially began their restructuring procedures," Liu Jiangbo, a China Eastern spokesman announced. He would not provide further details.

Reports about the merger of the two state-owned carriers have been circulating for months.

China Eastern, which is listed in both Shanghai and Hong Kong, issued an announcement recently, saying that trading in shares of the company was suspended as of 8 June, because it is engaged in a "significant restructuring plan" and an arrangement for "further reducing its asset-liability ratio."

Meanwhile, the company said in the announcement that there are still "uncertainties for related matters," as the company needs policy consultation.

Shanghai Airlines, whose shares are traded in Shanghai, also issued an announcement.

Analysts believe the merger would give the new group a 50 per cent market share in Shanghai, the headquarters for the two carriers, and help the combined carrier to be more competitive over its major rivals, Air China and China Southern Airlines.

China Eastern posted a loss of 13.9 billion yuan (US$2.04 billion) last year while Shanghai Airlines reported a loss of 1.25 billion yuan.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-06/09/content_11510761.htm) ([see archive](China_Eastern_confirms_merger_plan_with_Shanghai_Airlines.pdf))

## Other

### China's Cabinet announces plan to boost coastal Jiangsu

The State Council recently announced a plan to boost coastal regions of east China's Jiangsu Province, where growth has long lagged behind some other parts of the booming province.

Coastal Jiangsu, led by the cities of Lianyungang, Yancheng and Nantong, is an important part of the Yangtze River Delta, according to an executive meeting of the State Council, presided over by Premier Wen Jiabao.

The plan aims to build the region into a traffic hub, a coastal industrial base and a desirable place to live. There are also potential development zones as the area is abundant with land reserves and mud flats.

The plan is to accelerate the development of the three leading cities, boost infrastructure such as the power grid and transportation, raise the region's fishing production, and increase exploration of the muddy coast, partly by reclaiming land from the sea.

Lianyungang City is also the starting point for the Europe-Asia railway line that runs through western China before finally reaching Rotterdam in the Netherlands.

Development of the region would help boost the country's less developed central and western areas, and enhance cooperation with Central Asia, Europe and Northeast Asia, according to a statement issued after the meeting.

Meanwhile, another plan was issued to develop the culture of China's ethnic minorities.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-06/10/content_11522641.htm) ([see archive](Chinas_Cabinet_announces_plan_to_boost_coastal_Jiangsu.pdf))

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