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# China News Alert Issue 320

## Capital Markets

### Train maker CNR raises 13.9b yuan on the Shanghai Stock Exchange

Train maker China CNR Corp raised 13.9 billion yuan ($2 billion) selling shares on the Shanghai Stock Exchange, completing the country's status as the world's biggest market for initial public offerings (IPO) this year.

CNR sold 2.5 billion shares at 5.56 yuan apiece, the top of its price range, according to a filing to Shanghai's stock exchange yesterday.

The sale brings the amount raised by Chinese companies in mainland IPOs to at least 187 billion yuan this year, according to data compiled by Bloomberg, as record lending and government stimulus revive the economy.

CNR will use funds to boost train production as China spends 5 trillion yuan to expand its rail network to a total 120,000 km by 2020.

Proceeds from the IPO "will allow CNR to expand production and develop new products while the government is trying to boost railway building", said Ping Jingwei, an analyst at Shanghai Securities Co CNR will "no doubt benefit from the share sale".

The analyst rates shares of China South Locomotive & Rolling Stock Corp, CNR's main competitor, "in-line" according to Bloomberg data.

The IPO, China's fourth largest this year, values Beijing-based CNR at 49.2 times its 2008 earnings a share, according to the filing. That compares with the 32.4 average ratio of the benchmark Shanghai Composite Index and 34.3 for China South Locomotive.

High-speed network

Institutional investors ordered 62.1 times the 35 percent of the shares available after a so-called clawback arrangement through an offline sale. The remaining 1.625 billion shares were 74 times oversubscribed to both retail and institutional investors in an electronic tranche.

CNR plans to use the proceeds to make high-speed trains and parts and to import technology, according to a prospectus filed to the Shanghai bourse on Dec 10.

China will own more than half of the world's high-speed railways under the plan to expand its network. The nation accelerated its high-speed-rail development plan last year in the wake of the global financial crisis.

Spending on railroads in China is growing faster than on any other area of investment, climbing 80.7 percent to 464.6 billion yuan in the first 11 months of the year from the same period in 2008, according to the National Bureau of Statistics.

In March, the Ministry of Railways made a 39.2 billion yuan agreement to buy 100 high-speed trains from CNR and one of its units for the Beijing-Shanghai high-speed railway.

CNR is 91.2 percent owned by China Northern Locomotive, one of the 136 companies overseen by the State-Owned Assets Supervision and Administration Commission. The company was reorganized from State-owned China Northern Locomotive & Rolling Stock Industry (Group) Corp in 2008.

China South Locomotive sold shares in an initial public offering in Hong Kong and Shanghai in August 2008, raising $1.48 billion.

China International Capital Corp, Huatai Securities Co and Huarong Securities Co are arranging CNR's share sale.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-12/24/content_9222878.htm) ([see archive](Train_maker_CNR_raises_139b_yuan_from_float.pdf))

### BAIC stepping up R&D investment

Light commercial vehicle maker Beijing Automotive Industry Holding Corp (BAIC) yesterday said it would invest 33 billion yuan ($4.8 billion) over the next three years for vehicle research and development (R&D) and also hinted that it may launch an initial public offering soon.

The company's renewed R&D commitment comes after it paid $200 million for acquiring technology, including the rights to three overall vehicle platforms and two engine technologies, from Swedish carmaker Saab, a unit of General Motors.

"BAIC is always making efforts to develop its own car brand and models. Someone said the purchase of Saab's intellectual property would shorten the development period for BAIC's own-brand passenger vehicles by four to five years," BAIC Chairman Xu Heyi said in Beijing. "And I agree with it."

Xu said BAIC posted net profit of 6 billion yuan on revenue of 116 billion yuan for 2009, selling 1.24 million vehicles.

BAIC, which has a 20 billion yuan line of credit from Bank of China, is also contemplating an initial public offering, Xu said, without providing details.

Last week the Swedish brand reached an agreement with BAIC to transfer production equipment and intellectual property related to two older Saab models, the 9-5 and 9-3, including the rights to three overall vehicle platforms, two engine technologies and two transmission technologies.

"Saab is a high-end car brand in Europe. We hope to develop models, based on Saab's technologies, for Chinese consumers through localization and further R&D," said Xu.

“It would be a worthy deal if BAIC not only produces models based on Saab 9-3 and 9-5 cars, but also boost its own R&D capability for the next generation and design of its own cars using the Saab technology," said Zhong Shi, an auto analyst.

BAIC aims to sell 100,000 self-developed passenger vehicles in 2011, including sedans and SUVs (sports-utility vehicles), after it starts the development and production of its new model.

The construction of a production base with annual capacity of 150,000 units of passenger vehicles will be completed in 2011, BAIC said.

Dutch luxury carmaker Spyker had earlier said that it was still in talks with GM to buy the Saab unit.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-12/24/content_9222926.htm) ([see archive](BAIC_stepping_up_RD_investment.pdf))

### China's outbound investment is expected to reach $42 billion in 2009

BEIJING, Dec. 22 (Xinhua) -- China's Ministry of Commerce (MOC) said Tuesday that annual overseas direct investment (ODI) from non-financial sectors is expected to top 42 billion U.S. dollars in 2009.

Non-financial ODI in the first 9 months stood at 32.87 billion U.S. dollars, up 0.5 percent year on year, according to the MOC.

Investment in the overseas market includes establishing marketing networks, securing advanced technologies from overseas countries and overseas acquisitions in the first 9 months, with overseas acquisition contributing to 43.5 percent of the total, said the ministry.

China reported 64.77 billion U.S. dollars of business volume in the overseas-contracted projects in January-to-November period, up 37.5 percent from the corresponding period last year.

New contracts valued at 106.5 billion U.S. dollars were signed in the first 11 months, up 20.9 percent from a year earlier.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-12/22/content_12689627.htm) ([see archive](Chinas_outbound_investment_to_hit_42_bln_in_2009.pdf))

### China to encourage securities firms to venture abroad

BEIJING, Dec. 22 (Xinhua) -- China will encourage securities and futures companies to go abroad when the risks are controllable, the top securities regulator said Tuesday.

The move would involve companies in international competition through which they would gain managerial experience and international influence, said Shang Fulin, chairman of the China Securities Regulatory Commission (CSRC) at a forum on development and reform in China's financial sector, but he did not explain what he meant by "going abroad".

Shang said China would further expand its corporate bond market, but he did not give detailed information about the expansion.

Shang said the CSRC would bring into full play the function of the market and further strengthen supervision and control of the country's capital market to better serve the economy.

The turnover of China's futures market in the first 11 months reached 113.3 trillion yuan (16.59 trillion U.S. dollars), up 72.57 percent from a year earlier, said Shang.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-12/22/content_12688135.htm) ([see archive](China_to_encourage_securities_firms_to_venture_abroad.pdf))

### Shanghai to overtake Hong Kong as king of IPOs in 2010

BEIJING, Dec.22 (Xinhua) -- The Shanghai Stock Exchange (SSE) is expected to overtake Hong Kong as the world's number one center for initial public offerings (IPOs) in 2010, the China Daily reported on Tuesday.

The forecast is part of a report by accounting firm Ernst & Young, saying that the SSE will raise 380 billion yuan (55.6 billion U.S. dollars) in 2010.

"With the economy and the capital markets becoming more stable, coupled with a strong IPO pipeline and market liquidity... we forecast that for the SSE alone, IPO value will increase more than two fold in 2010," said Philio Leung, regional managing partner of China Central, Ernst & Young.

The SSE raised 14 billion dollars in the first 11 months of this year, becoming the world's third largest IPOs center after the Hong Kong Stock Exchange and the New York Stock Exchange.

IPOs in construction sector and financial sector lead the SSE, raising 71 billion yuan and 22 billion yuan respectively so far this year.

Ernst & Young predicted the SSE to raise 118 billion yuan this year, an increase of 62 percent from last year's 73 billion yuan.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-12/22/content_12686628.htm) ([see archive](Shanghai_to_overtake_Hong_Kong_as_king_of_IPOs_in_2010.pdf))

## Corporate & Commercial

### China consumes a quarter of the world's luxury goods

"China will replace the U.S. as the world's second largest luxury goods market this year," said Robert Polet, CEO of Gucci Group. "Last year, the wealthy from the Chinese Mainland purchased one quarter of the world's luxury goods."

Chinese customers are young and have strong consumption potential for the world's luxury brands. According to relevant statistics, Chinese customers purchased 60 percent of their luxury goods when they traveled overseas. "Traveling abroad has become the important factor in boosting luxury goods consumption."

According to Liu Jinshan, director of the Economics Department of Jinan University, three factors accounted for the upward trends in luxury goods consumption in China. Firstly, there is a group of newly affluent people who seek high-level and personalized goods. Secondly, they set an example for huge numbers of white collar workers who are acting as loyal slaves to the luxury brands. Thirdly, children of these rich families can afford the high-end products with their parents' financial support.

As for the developing trend of China's luxury goods market, insiders estimate that Chinese people will spend up to 14.6 billion U.S. dollars on luxury goods in the next five years, marking China's status as the world's largest luxury goods market.

[Source: People's Daily](http://english.people.com.cn/90001/90782/6850399.html) ([see archive](China_consumes_14_worlds_luxury_goods.pdf))

### China to continue pricing reform on oil

China announced Wednesday that it will continue to reform the pricing mechanism on its oil production based on changes in the domestic and international markets.

"The reform of refined oil pricing and affiliated fuel tax incentives has produced prominent results in the past year. The significant measures spell out China's resolution to save energy and balance energy consumption," the National Development and Reform Commission (NDRC), the nation's economic planning agency, said in a statement on its website.

On Jan. 1, the government started to change benchmark retail prices of oil products when the international crude price rises or falls by a daily average of 4 percent over 20 days.

The new mechanism aimed to indirectly link domestic prices to global crude prices "in a controlled manner," after domestic refiners suffered huge losses because of a gap between government-set retail prices and soaring global crude prices.

The new measures reflected international price fluctuations, corporate production costs, domestic demand, and oil resource scarcity, and were also conducive to environmental protection and introduced competition in distribution, the statement said.

The benchmark price of gasoline is currently 7,100 yuan per tonne and diesel at 6,360 yuan per tonne, after five price rises and four cuts in the past year.

As more than half of China's domestic oil supply depended on imports, the new measures helped ensure adequate domestic supply and played a positive role in the economic growth, it said.

The reform also annulled six types of fees for road maintenance and management, which removed more than 1,400 toll stations along 77,400 kilometers of road.

Consumption tax revenue rose almost 80 percent to 355 billion yuan (U.S. 52.21 billion dollars) in the first nine months after the rise in gasoline and diesel consumption tax, the statement said.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/6850576.html) ([see archive](China_to_continue_oil_product_pricing_reform.pdf))

### China's central bank reaffirms its monetary policy for 2010

BEIJING, Dec. 23 (Xinhua) -- The monetary policy committee of China's central bank has reiterated the government's decision to maintain the moderately easy monetary policy in 2010 and improve the focus and flexibility of the policy according to circumstances.

The committee also agreed at a quarterly meeting that the government would manage the growth of credit increase next year to avoid big fluctuations in lending, according to a report posted on the website of the People's Bank of China Wednesday.

During the 2008 Central Economic Work Conference (CEWC), the annual economic planning meeting, the government decided to shift to the moderately easy monetary policy in 2009 to boost economic growth. The government decided at the 2007 CEWC to implement a tight monetary policy in 2008 to avoid overheating the economy.

According to the central bank, China's new yuan-denominated lending in the first 11 months this year totaled 9.21 trillion yuan (1.35 trillion U.S. dollars), 5.06 trillion yuan more than the corresponding period last year.

The 13-member committee, headed by the bank's governor Zhou Xiaochuan, agreed that more financial support should be given to the transformation of the economic development pattern and adjustment of economic structure.

The committee also asked the country's lenders to firmly control loans to new projects, energy-consuming and polluting industries and those facing overcapacity.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-12/23/content_12694253.htm) ([see archive](Chinas_central_bank_reaffirms_moderately_easy_monetary_policy_in_2010.pdf))

## Other

### China loses appeal on WTO ruling

BEIJING, Dec. 22 (Xinhua) -- China's Ministry of Commerce (MOC) Tuesday expressed regret over the loss of China's appeal against a World Trade Organization (WTO) ruling that its control over imported publications violated trade commitments.

The characteristics of cultural products, which featured both commercial and cultural value, determined that they should be managed differently to other imports, Yao Jian, spokesman of the MOC, said in an online statement.

The statement did not give any indication as to the Chinese government's next move.

The WTO's top arbitration body Monday upheld a previous panel ruling against Chinese regulations on the import and distribution of books and audio-visual products, saying the Chinese regulations failed to comply with world trade rules.

China lodged an appeal against the panel ruling on Sept. 22, after the arbitration body issued a ruling on the U.S.-China dispute in August, in which the United States accused China of not providing enough access for imports of publications and audio-visual products.

Like the WTO expert panel report issued on Aug. 12, the Appellate Body report issued Monday largely supported the U.S. allegations.

It called on China to revise its import regulations so as to bring them in line with WTO rules.

In China, the imports of publications and audio-visual products must be approved by the relevant authorities and state-owned companies were authorized to manage the imports of such products.

China had imported approximately 500,000 publication titles of all kinds every year since joining the WTO in 2001, as promised in its entry agreement, according to the Chinese Commerce Ministry.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-12/22/content_12688373.htm) ([see archive](China_regrets_over_WTO_appeal_ruling_on_publication_imports.pdf))

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