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# China News Alert Issue 322

## Capital Markets

### More Chinese firms launch foreign IPOs

A total of 176 Chinese mainland companies launched initial public offerings in global markets last year, compared with 113 firms in 2008.

They raised a combined US$54.65 billion, advancing 150 percent from a year earlier, from the mainland and nine overseas equity markets, Zero2IPO Research Center said.

Among them, 77 mainland firms were listed in overseas markets, rising by 40 firms from 2008, to raise US$27.14 billion, up 292 percent, the report said.

"Recovering global equity markets and new share sales encouraged mainland firms to launch IPOs overseas last year," the research house said.

Hong Kong became the major market for mainland companies to float. Last year, 52 companies raised a combined US$24.84 billion from IPOs in Hong Kong.

Meanwhile, the Nasdaq attracted eight mainland companies, raising US$1.48 billion and the New York Stock Exchange attracted five companies raising US$459 million.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=424787) ([see archive](More_Chinese_firms_launch_foreign_IPOs.pdf))

### ChiNext releases business memorandum to regulate use of over-raised funds

In order to regulate the use and management of raised funds by ChiNext listed companies, especially over-raised funds, enhance the safety and use of raised funds by listed companies and protect the rights and interest of investors and the interests of listed companies, the Shenzhen Stock Exchange (SZSE) has recently released the “Business Memorandum No. 1 for ChiNext Information Disclosure: Use of Over-raised Funds”.

The Memorandum sets out stringent restrictions regarding the use of over-raised funds and emphasises that over-raised funds shall be used for the main business of listed companies, not for high-risk investment such as engaging in securities investment, entrusted finance management, derivatives investment, venture investment and financing other parties or individuals.

The Memorandum also requires that listed companies shall properly make plans for the use of over-raised funds in light of the company's development planning, actual production and operation needs within 6 months after the aforementioned funds are collected. The Memorandum sets forth that before a listed company puts over-raised funds into use, the company shall perform duties including carrying out corresponding procedures for consideration by the board or the general meeting, and information disclosure in accordance with the requirements of the “Rules of Shenzhen Stock Exchange for ChiNext Stock Listing”.

The Memorandum gives specific provisions with regards to information disclosure and the procedure for consideration in relation to changes in projects to be invested in by over-raised funds or plans for the use of over-raised funds, or using over-raised funds to temporarily replenish working capital.

[Source: SZSE's official website](http://www.szse.cn/main/en/AboutSSE/MarketNews/39741636.shtml) ([see archive](ChiNext_releases_Business_Memorandum_to_regulate_use_of_over-raised_funds.pdf))

## Finance and Insurance

### Chinese insurers approved for AAA-rating unsecured corporate bond purchase

The China Insurance Regulatory Commission (CIRC) has recently released a circular permitting Chinese insurance firms to invest in AAA-rated unsecured corporate bonds floated on the local interbank market.

The circular publicised by the CIRC on 31st December showed that the industry regulator has decided to adjust the bond investment policies of insurance institutions.

The CIRC had previously merely allowed several qualified local insurance firms to invest in unsecured bonds. Specifically, the enlargement refers to AAA-rated unsecured corporate bonds assessed by local credit rating agencies or unsecured corporate bonds whose issuers enjoy AAA-equivalent long-term credit ratings.

Meanwhile, one insurer cannot invest more than 60 percent of the issue volume of one unsecured corporate bond. The total bond investment of one insurer must be less than 20 percent of its net assets, the circular said.

Regarding the purchase of bonds sold by local insurers' affiliates, the maximum investment value must be less than 10 percent of their net assets. The circular highlights requirements for the public auction of unsecured corporate bonds to fix their market-accepted coupon rates, saying that insurers cannot procure illegitimate interest via directional subscriptions.

The circular also increased the corporate bond investment proportion of insurers from 30 percent of their total assets at the previous quarter end to 40 percent.

So far, Chinese insurance firms' bond investments are enlarged to cover Treasuries, municipal bonds, mid-term notes, and corporate bonds and convertibles sold by large state-owned enterprises in Hong Kong and the AAA-rating interbank debentures.

[Source: iStock Analyst](http://www.istockanalyst.com/article/viewiStockNews/articleid/3748844#) ([see archive](Chinese_insurers_approved_for_AAA-rating_unsecured_corp_bond_purchase.pdf))

### Index futures likely to debut in March

Equities have risen following reports that the regulator would introduce futures contracts on the country's stock indexes as early as March, with securities firms recording sharp gains.

The benchmark Shanghai Composite Index rose 1.2 percent to close at 3,282.18. CITIC Securities gained 4.9 percent to 32.82 yuan while Everbright Securities hit the 10-percent daily trading limit to 27.24 yuan.

Sources close to the securities regulator told China Daily that the new financial mechanism is ready to be launched, but did not give an exact date.

Stock index futures are agreements to buy or sell an index at a preset value on an agreed date.

Bloomberg reported that the State Council has given the China Securities Regulatory Commission approval "in principle" to introduce index futures and the first contract, based on China's CSI 300 Index, may begin trading after the annual National People's Congress in March.

The new instrument would allow Chinese investors to profit from declines in share prices and hedge risks for the first time. It will also help curb volatility in a market that slumped nearly 65 percent in 2008 and rebounded over 80 percent last year.

Analysts said while the new mechanism would trigger a bull rally in blue-chips and heavyweight shares, it could also lead to a possible correction. "Blue chips usually lead the gains prior to the launch of index futures as they are the most sought-after stocks by institutional investors," said Liao Qing, an analyst with Sealand Securities. "But once the mechanism is in place, the market is likely to see a correction as investors would face pressures to sell," he said.

It is expected that margin trading and short selling would also be launched soon as part of the preparations for introducing index futures.

But Liao said it would be feasible to have index futures first as market rules and conditions are already ripe and the introduction of margin trading and short selling can wait till more detailed regulations are announced. "Details of margin trading and short selling are still not clear and the business is much more complicated than index futures as it involves each individual stock and securities firm," he said.

Analysts feel that the new financial mechanism may not be open to qualified foreign institutional investors for now as the regulator intends to protect the interests of domestic investors first.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/06/content_9271053.htm) ([see archive](Index_futures_likely_to_debut_in_March.pdf))

### China to open three consumer financing companies

China's banking regulator has approved the establishment of the country's first three consumer financing companies, which are scheduled to be started in Shanghai, Beijing and Chengdu, according to the financial services authority in Shanghai.

The Bank of China, Bank of Beijing, and Bank of Chengdu are the promoters of the three pilot consumer financing companies, which are expected to offer personal loans to finance purchases of durables without taking deposits, said sources from the financial service authority of Pudong New Area, Shanghai.

The China Banking Regulatory Commission issued in May 2009, a draft rule on the establishment of consumer financing firms, in an attempt to further spur the country's domestic consumption.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/07/content_9278839.htm) ([see archive](China_to_open_three_consumer_financing_companies.pdf))

### PBOC sets targets for 2010

China's central bank will closely monitor the property market, curb loan volatility and manage inflationary expectations this year to ease credit risks as part of its main targets for 2010, it has announced.

The People's Bank of China will implement its housing loan policies to ensure that funds in the real estate market will grow healthily, it said on its Website as it gave details of its main goals and measures this year. The PBOC, which wrapped up its two-day annual work meeting, will curb credit risks while keeping an easy monetary policy this year.

Property prices and transactions rose rapidly last year prompting regulators to take measures to cool the market, including tighter credit to the sector.

Banks require housing loan applicants to follow the minimum 40 percent down payment condition on second homes in a bid to drive out speculation and rampant investment. Speculation is also growing that a new tighter policy governing real estate development finance may be introduced.

In December, new housing prices in Shanghai rose to 20,187 yuan (US$2,956) per square meter on average, up 8 percent from November.

Nationwide, urban housing prices rose in November by the most in 16 months. The prices in 70 major cities jumped 5.7 percent in November from a year ago. The nationwide data for December is not available.

The PBOC will seek to prevent abnormal volatility in lending between quarters and at month ends, it said.

In general, banks will boost lending to seek quicker returns. Therefore the quarterly credit issued in the first half of the year can be much more than that in the second half. Some banks will also quickly extend loans at month ends to avoid a possible tighter policy in the coming month.

The PBOC didn't disclose its target for growth in money supply and lending.

China had targeted growth in new credit of 5 trillion yuan for 2009 at the beginning of last year. However, in the first 11 months of 2009, banks in China have granted 9.21 trillion yuan of local-currency loans, up 5.06 trillion yuan from a year ago.

With such rapid growth, the new credit in 2009 is likely to be between 9.5 trillion yuan to 10 trillion yuan, economists said.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=424956) ([see archive](PBOC_sets_targets_for_2010.pdf))

## Corporate

### China to further promote investment in 2010

The Chinese government will continue encouraging outbound investment while attracting foreign investment in 2010 for "stable and relatively fast" growth of the country's economy, a government official has said.

Outbound investment, or the "go-global" strategy, should aim at making use of overseas resources, markets and advanced technologies, to help facilitate development of China's domestic economy, Zhang Xiaoqiang, vice minister in charge of the National Development and Reform Commission, said in the speech posted on the commission's website.

The remarks were made at a conference held in Beijing on foreign investment on 11 December, but were not released until recently.

In the first three quarters of 2009, China's overseas investment stood at US$32.87 billion, up 0.5 percent year-on-year, according to the Ministry of Commerce (MOFCOM).

The country would also continue to attract foreign investment, he said. "Social stability, huge market potential and low cost of productive resources are still advantages for foreign investment," he said.

The country would see more advanced technologies and talent from foreign countries and foreign investment would better serve the structural reform of the country's economy.

Zhang said the government would stress national economic security while seeking to increase foreign investment. "We have to properly handle new challenges and situations when further opening sectors, including finance and telecommunications."

China's foreign direct investment shrank 14.26 percent from the same period last year to US$63.77 billion in the first nine months as foreign companies cut spending amid the global economic downturn, according to the MOFCOM.

In the speech, Zhang also said China's currency was facing renewed pressure to appreciate because of the quantitative easing of monetary policy in developed countries, a weakening dollar and the recovery of China's economy.

The pressure would likely spur massive inflow of speculative money, making liquidity management more difficult.

Premier Wen Jiabao also said in December, in an interview with Xinhua, that the yuan faced appreciation pressure. "China will not yield to foreign pressure for the appreciation of its currency yuan in any form," Wen said. "A stable Chinese currency is good for the international community," Wen said.

[Source: China](http://www.chinadaily.com.cn/bizchina/2010-01/06/content_9274383.htm) ([see archive](China_to_further_promote_investment_in_2010.pdf))

## Others

### Road-map for private capital in publishing

Non-public capital will be permitted in publishing fields like science and technology, finance, text books, music and arts, and children's books through content suppliers or partners, according to a policy document published by the General Administration of Press and Publication (GAPP) and cited by the China Securities Journal.

China previously only allowed limited private investment in the publishing industry. With the new policy document, China, for the first time, explained in detail how private funds could go to the sector.

Domestic publication companies will also be encouraged to invest abroad by setting up branches overseas, takeovers or working as partners. The central government will provide support in policy, resources, information and other services, the policy document added.

It also encourages publishing companies to finance themselves by issuing corporate bonds, absorbing foreign investments and going public.

[Source: China](http://www.chinadaily.com.cn/china/2010-01/05/content_9269139.htm) ([see archive](Road-map_for_private_capital_in_publishing.pdf))

### China to expand pilot property tax program

China will expand a pilot property tax program nationwide, according to an unidentified source at the State Administration of Taxation quoted by the Shanghai Securities News, but analysts said it remains uncertain when the program will be expanded and whether or not it will cool the real estate market.

The pilot program has already been run in Beijing and Liaoning Province for more than six years, the newspaper reported. Currently, China does not have the sort of property tax present in Western countries like the United States, where a tax is levied annually on the value of property holdings.

Calls to the State Administration of Taxation's press office were not answered.

Patrick Chovanec, an associate professor at Tsinghua University's School of Economics and Management, said he is optimistic about the program, and the Chinese government could learn from the Western world, especially the United States. "In China, local governments are dependent a lot on land sales as a kind of revenue source, and that means they have the incentive to boost the property price, but it is not a sustainable kind of revenue, because land sales are a one-time thing," Chovanec said. "Ideally, I think the property tax goes to replace land sales income."

But analysts said some issues remain to be resolved before a property tax is put into practice nationwide.

The issues of how to estimate property values and how to create a full database of properties to be shared with developers and taxation administration departments need to be resolved, Ding Yun, a professor at Capital University of Economics and Business, said. She added that educating citizens about the tax would also take time.

The Shanghai Evening Post said in its report that there are two methods for calculating property taxes. One is imposing a tax of 1.2 percent on 70 percent of the estimated property value; another is imposing a tax of 12 percent of the property's rental returns. The tax threshold for the pilot program has not been decided on.

Zheng Xinye, a professor at Renmin University of China, said that resolving such technical issues would be easy but that other problems, like the huge cost involved in implementing a property tax, would be tougher.

Property developers, afraid that the tax will decrease property demand, and homeowners, wary of additional expenses, would likely challenge the program, Chovanec said.

Analysts also said expanding the pilot program would have little immediate impact on the hot real estate market.

Zheng, of Renmin University of China, said the program was just another warning from the central government to the property sector.

Chovanec said the government was moving cautiously because the real estate industry has contributed to a large percentage of the country's GDP.

Property sector shares dropped in response to the news. Vanke slumped 2.26 percent to 10.36 yuan (US$1.52) on the Shenzhen Stock Exchange. Poly Real Estate Group, the second largest developer, declined 2.9 percent to 21.27 yuan (US$3.12) on the Shanghai Stock Exchange, its lowest close since 31 August. Greentown China Holdings dropped 1 percent to HK$11.72 (US$1.51) in Hong Kong.

[Source: China.org.cn](http://www.china.org.cn/business/2010-01/06/content_19188253.htm) ([see archive](China_to_expand_pilot_property_tax_program.pdf))

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