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# China News Alert Issue 330

## Capital Markets

### HSBC 'ready' for Shanghai listing when China decides

HSBC Holdings Plc is "ready" for listing on the international board in Shanghai and will use the proceeds from the planned initial public offering to invest in China, its chief executive officer has said.

"Obviously we are interested when the authorities feel it's right to list international companies here in Shanghai," HSBC CEO Michael Geoghegan said. "We will certainly welcome the opportunity to participate in that process. It is a matter for the Chinese government as to when, but HSBC is ready when China is ready."

He said its A share IPO proceeds will be invested in China, where it has already poured in more than US$5 billion. It was reported earlier that the bank plans to raise US$5 billion in the Shanghai listing.

The international board is part of China's efforts to position Shanghai as a global financial hub by 2020.

Europe's biggest bank moved Geoghegan to Hong Kong from London last month to sharpen its focus on Asia, especially in the growing Chinese mainland market.

In February, he also became chairman of the Hong Kong and Shanghai Banking Corporation, the Asian arm of HSBC.

"There's no secret why HSBC moved its management headquarters to Hong Kong," he said. "It's because we believe China is on the right direction."

HSBC made profits before tax of US$1.63 billion on China's mainland in 2009, up 2 percent from a year ago, according to the bank's annual report.

HSBC offers personal, commercial, global banking and markets services on the mainland mainly through its local subsidiary, HSBC Bank (China) Company, whose registered capital stood at 8 billion yuan (US$1.2 billion).

HSBC also holds stakes in the Bank of Communications, Ping An Insurance Company and the Bank of Shanghai.

The British bank is committed to participating in the Bank of Communications, Geoghegan said.

Shanghai-based BoCom, with 19 percent held by HSBC, said earlier that it will raise as much as 42 billion yuan to bolster its capital and support expansion through a rights offer in Shanghai and Hong Kong.

"We will announce our decision in due course. But our commitment is that Bank of Communications is our number one banking entity associate in China," he said.

The bank opened 19 new outlets on the mainland last year to bring its total on the mainland to 99. The 100th outlet will be opened soon. It is also due to move into new headquarters in Lujiazui in Shanghai in June.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=431486) ([see archive](HSBC_ready_for_Shanghai_listing_when_China_decides.pdf))

### Shanghai may allow foreign investment in yuan funds

Shanghai's financial district may begin trials for allowing foreign investment in yuan-denominated private equity funds, the Oriental Morning Post has reported, citing an unidentified person familiar with the situation.

Foreign capital may be allowed to invest in the funds through a qualified foreign limited partnership scheme, the Shanghai-based newspaper reported. The trials would be set in Shanghai's Pudong district, according to the report.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-03/18/content_9609439.htm) ([see archive](Shanghai_may_allow_foreign_investment_in_yuan_funds.pdf))

## Finance and Insurance

### BOC and Temasek join hands in a proposed joint venture

Bank of China Ltd (BOC) and Temasek Holdings Pte may invest as much as 20 billion yuan (US$2.9 billion) to build a rural-banking business in China, according to two people with knowledge of the matter.

The companies are in talks about setting up as many as 400 rural banks, the sources said, declining to be identified because the discussions are private. Bank of China, the country's third-largest lender by market value, would own a controlling stake in the joint venture, they said.

Bank of China, which pulled out of rural banking in the late 1990s, is returning to a market that's attracted HSBC Holdings Plc and Citigroup Inc as the government pushes to improve the living conditions of China's 700 million rural dwellers. The majority of the 118 countryside lenders set up since 2006 had become profitable by 30th June, according to the China Banking Regulatory Commission.

Zhang Jianping, a spokesman for Bank of China, said the Chinese lender is in talks with Temasek to expand into rural-banking services. He declined to comment on the size of the investment. A Temasek spokesman declined to comment.

Temasek, Singapore's US$123 billion investment company, would own more than 20 percent of the venture, the sources said. Setting up a rural bank in China requires approval from the banking regulator.

Temasek bought a 4.8 percent stake in Bank of China in August 2005 and has provided the company with expertise in lending to small- and medium-sized businesses.

China plans to set up a total of 1,027 rural banks, 106 loan companies and 161 rural credit co-operatives in the three years ending 2011.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90860/6922011.html) ([see archive](BOC_Temasek_join_hands.pdf))

### Mainland financial institutions allowed to enter Taiwan

The Taiwan financial regulator has issued a draft regulation allowing cross-Straits operations and investment for mainland financial, securities and futures, and insurance businesses, according to Xinhua News Agency.

According to the draft, qualifying mainland banks, brokerage companies and insurance institutions would be allowed to set up branches on the island or have a stake in the island's financial firms.

Taiwan's market will be gradually opened to mainland financial institutions, the draft said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-03/17/content_9603675.htm) ([see archive](Mainland_financial_institutions_allowed_to_enter_Taiwan.pdf))

## Corporate

### State firms told to exit real estate sector

In a move to curb soaring property prices, the State-assets watchdog has told major State-owned enterprises (SOEs) whose core business is not real estate to quit the market.

With the exception of 16 SOEs which are purely real estate developers, 78 enterprises under the direct supervision of the State Assets Supervision and Administration Commission (SASAC) will speed up restructuring and pull out of the property sector.

However, many analysts expressed doubts about whether the move will have a significant impact on the sector.

"This is important to control skyrocketing land prices. But it will not have the immediate effect of cooling down prices," said Carlby Xie, associate director at property firm Colliers' North China division.

With easier access to bank loans and buoyed by the US$586 billion stimulus package unveiled in late 2008, the SOEs have set many records in land auction bids. Many believe the SOEs have pushed up land prices, which in turn sent house prices soaring.

Half of the proposals put forward during the recently-concluded annual session of the top legislature and the political advisory body, were targeted towards rising housing prices. But they do not appear to have dampened the enthusiasm of land-thirsty developers.

In the past several days, three plots of land up for auction in Beijing were grabbed by SOEs, all for record prices.

Meng Qi, market analyst with US-headquartered real estate brokerage Century 21, said the SASAC's new policy is more symbolic than substantial. The SOEs under SASAC are not major players in the real estate market, he said.

Official figures show that such SOEs' sales income from real estate business stood at 220.9 billion yuan (US$32.4 billion) last year, accounting for only 5 percent of the country's total. In terms of floor space sold, the figure was only 3 percent.

If the central authorities really want to rein in housing prices, "what is important" is to put curbs on State firms at the local level, Meng said. But he interpreted the latest move as a warning to SOEs that "the watchdog has noticed serious problems in the property sector".

Prices in 70 major cities rose 10.7 percent year-on-year in February, the fastest pace in almost two years, fueling concerns that an asset bubble is forming.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-03/19/content_9611273.htm) ([see archive](State_firms_told_to_exit_real_estate_sector.pdf))

### Geely faces hurdles in its quest for Volvo

Financing and technology issues could delay Zhejiang Geely Holding Group, the parent of Geely Automobile, in its plan to acquire the Volvo brand from US automaker Ford Motor Company, said sources familiar with the matter.

According to the sources the chances of a short-term deal now looks bleak, unless the two sides make major concessions.

"The two parties are yet to reach a definitive agreement due to unsolved obstacles and uncertainties," the sources said, without elaborating.

In December, the two companies had said a definitive agreement would be signed by the end of March and the whole deal would be completed by 30th June this year.

Geely was immediately unavailable for comment, but its President Li Shufu had last week told Reuters that the agreement with Ford would be signed as planned. The deal, when completed, would be the largest overseas purchase by a Chinese car company.

A major problem that is compounding the deal is the relatively weak position that Geely is in now compared to last year. "Last year Ford had cash flow problems. But the situation has changed now and Ford is on a strong wicket," he said.

The US automaker had lost US$30 billion in the three years starting from 2006 and put Volvo up for sale in late 2008 to help pay off its debts.

Sales of Ford vehicles, however, increased 43 percent in February and its shares jumped to US$13.34 on Monday from US$2.1 a year ago.

Another bone of contention between the two sides is the technology transfer issue. "It is hard to say whether Ford will transfer the platform technologies to Geely along with the deal," said John Zeng, an analyst with Shanghai-based Global Insight.

Ford's reluctance primarily stems from the fact that its platform technologies are closely aligned with that of Volvo. For instance, the Volvo S40 compact car and Ford Focus have the same platform. This is also the case with Volvo S80 sedan and the Ford Mondeo, Zeng said.

"If Geely is unable to get the platform technologies for these key models, the deal will not have much meaning," he said.

But the silver lining could be the fact that Ford has decided to focus on its flagship brand alone and shed its luxury brands. "That is a compelling reason for Ford to sell the Volvo brand," Zeng said.

The third stumbling block for the whole deal is whether Geely would be able to secure the funds required to complete the deal.

Geely has so far managed to secure US$2.1 billion worth of financing. Most of the funds have been raised from unidentified financial institutions and local governments, said reports.

Analysts say therein lies the problem for Geely. The funds from local governments may take some time to materialise and that could delay the deal.

Even if Geely does manage to get the funds it will have greater challenges in continuing the Volvo brand, said Li Daguang, an analyst with Nomura Research Institute Shanghai Limited.

After acquiring the brand from Ford, Geely would have to spend at least US$1.4 billion to finance car development, marketing, production and distribution next year, said Bloomberg reports, citing Volvo union officials and board members.

Last month, Sichuan Tengzhong Heavy Industrial Machinery Company withdrew its bid for GM's Hummer brand after the deal failed to get government approval within the stipulated time.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90860/6921918.html) ([see archive](Geely_faces_hurdles_in_quest_for_Volvo.pdf))

## Others

### Rio Tinto staff to stand trial

Four members of mineral trader Rio Tinto's staff, namely Stern Hu, Wang Yong, Ge Minqiang, Liu Caikui, detained last year for stealing commercial secrets and taking bribes, will face trial, according to documents released by Shanghai No.1 Intermediate People's Court yesterday.

Zhai Jian, Ge Minqiang's counsel, confirmed that he and Ge have received the notice of trial.

If found guilty, the four will face a maximum penalty of seven years in prison and a fine for stealing commercial secrets, and more than five years in prison for bribery, said a lawyer.

Tom Albanese, the CEO and board member of the Rio Tinto Group, will visit Beijing, and attend this year's China Development Forum, which will be held on 20th March.

Albanese's China tour may focus on the company's relationship with China, said an analyst.

"I believe this case will result in a lawful and just outcome,'' Foreign Ministry spokeswoman Jiang Yu said at a press conference in February.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/6923372.html) ([see archive](Rio_Tinto_staff_to_stand_trial.pdf))

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