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# China News Alert Issue 331

## Capital Markets

### Bank of China reports its fiscal year profit at 81 billion yuan

Chinese banks are likely to maintain their position as the world's most profitable lenders, as record lending last year helped bolster the world's third-largest economy amid the financial crisis, strengthening their profitability.

The Bank of China, the nation's third largest lender by market value, kicked off the full-year earnings season of Chinese banks by reporting a net profit of 81.07 billion yuan for 2009, up 26 percent from a year earlier.

Industrial and Commercial Bank of China and China Construction Bank, the nation's two largest banks by assets, are expected to report earnings of around 128.7 billion yuan and 108.6 billion yuan respectively, Bloomberg reported, based on a survey of 16 industry analysts. Both could beat the US$13.4 billion (91.1 billion yuan) posted by Goldman Sachs.

"The Bank of China made it thanks to brisk credit growth and reduced impairment provisions," Li Lihui, president of the bank told reporters.

Chinese banks dispersed a record 9.59 trillion yuan in new loans last year, about double the previous year, which spurred on a rush by capital-strained Chinese lenders to raise funds from the market.

Bank of China was the most aggressive in advancing loans among Chinese lenders during last year's lending binge.

The bank advanced 1.5 trillion yuan in new loans last year, accounting for 17 percent of the total issued by Chinese banks.

Due to the record credit expansion in 2009, the bank's capital adequacy ratio dropped to 11.14 percent as of the end of last year, barely above the 11 percent regulatory requirement for large Chinese banks.

"We will try to maintain the bank's capital adequacy ratio and core capital adequacy ratio at above 11.5 percent and 8 percent in the next three years," Li said.

The bank stated in a stock exchange filing that shareholders had given the lender the green light to issue up to 20 percent of its existing shares and as much as 40 billion yuan's in six-year convertible bonds in Shanghai.

Li said the bank is targeting a smaller increase in new loans this year, but expects market demand for credit will still be robust thanks to the ongoing export recovery and additional funding requirements for existing projects.

"We will try to keep balanced and moderate credit growth this year and will not seek to grab market share through repaid credit expansion," the president said.

The bank's non-performing loan ratio stood at 1.52 percent at of the end of last year, down from the 2.65 percent at the beginning of 2009.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-03/24/content_9634293.htm) ([see archive](Bank_of_China_FY_profit_at_81b_yuan.pdf))

### Micro-lenders face major obstacles

Micro-finance offers an opportunity for the rural disadvantaged to change their destiny, Wu Xiaoling, former deputy governor of the People's Bank of China, told the 2nd Microfinance Investors Conference in Beijing.

About 54.3 percent, or 721 million people, of the country's population lived in rural areas at the end of 2008, according to the National Bureau of Statistics. The number of rural credit cooperatives (RCC), declined from more than 400,000 in the mid-1980s to less than 5,000 at the end of 2008, according to the China Banking Regulatory Commission (CBRC).

The first micro-credit company was registered in December 2005, and there were 1,284 micro-lenders by the end of 2008.

Micro-credit companies and village banks are confronted with regulatory obstacles.

"State-owned commercial banks are leaving the poor areas, so why should they come back only to create village banks?" said Thorsten Giehler, program director with the China branch of GTZ, a German-based micro-credit institution.

Micro-credit companies are not allowed to attract deposits, according to CBRC regulations. And they have very limited access to financing from banking institutions.

"In China, micro-credit companies have virtually no refinancing from outside, and they are fully financed by the owners," Giehler said.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/6930896.html) ([see archive](Micro-lenders_face_major_obstacles.pdf))

### Stronger yuan 'would hurt world'

Three weeks before the US is to deliver a report on foreign exchange, China and the US are still bogging down the yuan dispute, despite a softening of their war of words, as senior Chinese trade officials launch a wave of diplomacy in Washington to defend China's currency policy.

Vice Commerce Minister Zhong Shan said in a speech after meeting officials with the Treasury and Commerce Departments that the appreciation of the yuan was not "a good recipe" for solving the US-China trade deficit.

It's in nobody's interest to see big rises in the yuan or big declines in the dollar, which will upset the world economy, Zhong noted, adding that Beijing will not bend to "outside pressure."

During his brief 30-hour visit to the US to smooth bilateral tensions, Zhong contacted many government officials, congressmen, businessmen and media outlets. He expressed confidence that a long-term approach and open lines of communication can help solve the problems.

Speaking after the meeting, US Treasury Secretary Timothy Geithner said that he believed China would allow its currency to appreciate over time, but he admitted that the US "can't force them to make that change."

The Wall Street Journal said that the countries struck a more conciliatory tone, though they didn't offer immediate solutions for resolving their differences. The New York Times noted that the Chinese government is giving no indication that it will change its exchange rate policy.

The US Treasury Department will decide by 15th April whether to label China a currency manipulator as part of a semiannual report to Congress on the currency practices of major trading partners. A group of senators recently introduced legislation that would force the administration to take action, including applying tariffs to imports from China, if Beijing fails to act on its currency.

The Obama administration declined to take the move in 2009, as did the Bush administration. An analysis by the Financial Times said that "this time they look more serious," with "more willingness to unsheathe the saber rather than just rattle it."

Fred Bergsten, director of the Peterson Institute for International Economics, a Washington-based think-tank, estimates a "trade correction," brought about by China allowing its currency to appreciate by 25 percent to 40 percent, would make the current-account deficit smaller by US$100 billion to US$150 billion and generate an additional 600,000 to 1.2 million US jobs.

Cao Honghui, director of the Financial Market Research Office of the Chinese Academy of Social Sciences, argued that Bergsten's estimation is mainly based on the China trade surplus to the US, which the US overrates by 30 percent.

"Moreover, against the background of globalisation, the US is unable to produce labour-intensive products such as toys, shoes and socks, even if the yuan is raised 100 percent," Cao said.

Zhong said China has actually created many jobs for the US, as many companies in trade, distribution and retailing hire a large number of employees when doing business with China, such as General Motors and retailer Wal-mart.

Joseph Brusuelas, chief economist at Brusuelas Analytics, warned in a research report that naming China a manipulator "will exacerbate economic tensions between the US and China, and could push the Obama administration to adopt a counterproductive set of policies that would endanger the nascent global economic recovery."

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/6930893.html) ([see archive](Stronger_yuan_would_hurt_world.pdf))

### ICBC plans stock and convertible sales to shore up capital

Industrial & Commercial Bank of China Limited (ICBC) plans to sell stock and as much as 25 billion yuan (US$3.7 billion) of convertible bonds to shore up capital eroded by unprecedented lending.

The bank will sell six-year bonds convertible into yuan-denominated A shares and will seek shareholder approval to issue stock equivalent to as much as 20 percent of its outstanding equity capital, according to a statement filed to the Hong Kong bourse.

Chinese banks are raising money after a record 9.59 trillion yuan of new loans last year weakened their balance sheets and the regulator raised requirements for financial buffers.

"This is surprising given that ICBC is in a strong financial position to support its growth for the next few years," said Sheng Nan, a Shanghai-based analyst at UOB-Kayhian Investment Company. "It may be preparing for a rainy day when the regulator imposes even tougher rules on capital."

The China Banking Regulatory Commission in December ordered the biggest State-owned lenders to maintain capital adequacy ratios, a measure of financial strength, of at least 11 percent.

ICBC's capital-adequacy ratio fell to 12.36 percent at the end of December from 13.06 percent at the beginning of the year.

The bank posted its fastest profit growth in seven quarters, with net income jumping 58 percent to 28.6 billion yuan in the final three months of 2009 from a year earlier.

Profit may rise 22 percent in 2010 as the central bank raises borrowing costs, making lending more profitable, analysts surveyed by Bloomberg predict.

Shares of ICBC dropped 1.4 percent in Hong Kong. The stock has fallen 12 percent this year, underperforming the 5 percent decline in the benchmark Hang Seng Index.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/6930988.html) ([see archive](ICBC_plans_stock_convertible_sales_to_shore_up_capital.pdf))

## Corporate & Commercial

### Large LNG deal signals better Canberra ties

China's largest offshore oil producer signed a landmark deal to buy liquefied natural gas (LNG) from Australia for 20 years, a move analysts said underscores growing commercial ties between the two countries despite recent hiccups.

Under the contract, CNOOC will buy 3.6 million tons of LNG per year from British gas producer BG Group's Curtis LNG facility in Queensland in Australia.

It is the world's first purchase agreement for the supply of LNG from coal seam gas, and marks the first sale of LNG from coal seam gas to China, CNOOC said in a statement.

It is one of Australia's biggest single company-to-company LNG contracts. The deal is worth about US$40 billion based on a crude oil price of US$70 per barrel, BG Chief Executive Frank Chapman said after the signing ceremony.

The multi-billion-dollar deal suggests that Sino-Australian commercial ties have been largely unaffected by other tensions such as the Rio Tinto case, said analysts.

"Energy collaboration will be increasingly important in Sino-Australia commercial ties. The two countries, which have vital roles to play in global energy security, will undoubtedly strengthen cooperation in the area," said Huo Jianguo, researcher at the Trade Research Institute affiliated to the Ministry of Commerce.

Australia's Resources and Energy Minister, Martin Ferguson, concurred. "Resources are the backbone of Australia's trading relationship with China. One-third of Australia's mineral exports go to China; and China is our second-largest trading partner for LNG.

"Australia's trading relationship with China is healthy and mutually beneficial," said Ferguson adding that his country is committed to strengthening that relationship.

More than US$26 billion of Chinese investment was approved in the Australian resources sector in 2008 and 2009, he said.

Under the latest agreement, CNOOC will acquire a 5 percent equity interest in the reserves and resources of certain BG Group tenements in the Surat Basin in Queensland.

CNOOC will become a 10 percent equity investor in the first of two liquefaction trains, which will form the first phase of the Curtis project.

BG Group and CNOOC will also build two LNG ships in China.

Use of natural gas fits well with China's efforts to build an environmentally-friendly economy, said Liu Qi, deputy head of the National Energy Administration. China will see more natural gas imports as domestic production cannot keep pace with rapidly rising consumption, Liu said.

Natural gas accounted for around 3 percent of the country's total energy consumption last year; and the government plans to raise the proportion to 5 percent this year.

China imported 5.8 million tons of LNG in 2009, an increase of 67 percent from a year earlier, said Liu. The country has three LNG shipping terminals in Shanghai, and Fujian and Guangdong provinces.

Construction of several LNG terminals is also in the pipeline in coastal areas including Dalian, Zhuhai, and Jiangsu and Zhejiang provinces, said Liu.

As a leader in the domestic LNG market, CNOOC will import 8 million tons of LNG this year, said Fu Chengyu, president of the company.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-03/25/content_9637967.htm) ([see archive](Big_LNG_deal_signals_better_Canberra_ties.pdf))

### Chinese vice premier stresses transformation of economic growth pattern

China will step up efforts to accelerate the transformation of its economic development pattern to achieve sound and fast growth, said Vice Premier Li Keqiang Sunday.

Li made the remarks when delivering a speech to the China Development Forum 2010 held in Beijing. The two-day forum started with a theme of "China and the World Economy: Growth, Restructuring and Cooperation."

Li said China has achieved remarkable results in combating the global economic downturn and the trend of recovery has been consolidated.

Expanding domestic demand would be the prime and long-term strategy for transforming economic development, Li said, adding that continuous efforts to optimise investment and adjust income distribution would help fuel the demand.

Li said industrial restructuring is a crucial part of the economic transformation, which could be achieved through promoting technology innovation, green economy and the service industry.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90884/6925694.html) ([see archive](Chinese_vice_premier_stresses_transformation_of_economic_growth_pattern.pdf))

## Others

### Investment caps set for insurance groups

The insurance regulator capped the investment limit for insurance groups and their subsidiaries in non-financial companies at 10 percent of their consolidated net assets, to prevent cross-sector risk transfer.

Insurance groups and their subsidiaries cannot invest more than 30 percent of their consolidated net assets in non-insurance financial companies, the regulator said.

Cai Jipu, deputy director of the general office under the China Insurance Regulator Commission (CIRC), said the operational risks of group companies will be one of the key areas for supervision this year. "We will come out with more detailed rules on the establishment of group companies, investment, risk management and consolidated supervision," Cai said.

The CIRC also launched a pilot rule for the management of insurance group companies, the first in the country's financial sector. Besides setting two ceilings for investment, the rules state that equity investments made by insurance groups should be based on their own capital.

According to the rule, an insurance group can invest in four types of insurance companies including insurance asset management companies and agencies.

The group company and its subsidiaries' investment in non-financial companies should not be more than 10 percent of the group's consolidated net assets. Additionally they are also not permitted to participate in the management of the company.

Insurance groups can also invest in banks and fund houses, but the investment amount should not be more than 30 percent of the consolidated net assets.

"It is a timely move to prevent cross-sector risk transfer," said Hao Yansu, an insurance professor at the Central University of Finance and Economics.

Currently, China has seven insurance group companies and one insurance holding company. By the end of 2009, the consolidated net assets of these eight companies stood at 321 billion yuan, and their premium income totaled 841.9 billion yuan, accounting for 75 percent of the whole industry. That indicates 32.1 billion yuan (US$4.7 billion) could flow into non-financial sectors and around 96 billion yuan into non-insurance financial companies such as banks.

"Among the eight companies, Ping An and PICC's cross-sector investments are more aggressive as they have their own trust and investment platform," said Hao.

Though quite a number of insurance companies have been preparing for property investment, the regulator is unlikely to come out with detailed rules for this soon, said insiders.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-03/25/content_9639748.htm) ([see archive](Investment_caps_set_for_insurance_groups.pdf))

### China beats US in green investment

China's investment and financing for clean energy rose to US$34.6 billion in 2009, out of US$162 billion invested globally, according to the report by the nonprofit Pew Charitable Trusts. The US was ranked second in spending on renewable energy, at US$18.6 billion, with European nations also recording strong growth.

"Countries are jockeying for leadership. They know that investing in clean energy can renew manufacturing bases, and create export opportunities, jobs and businesses," Phyllis Cuttino, who directs the Pew Environment Group's Global Warming Campaign, said in a statement.

The report comes as China is clinching a slew of energy and resource-related deals meant to help ensure access to the commodities needed to keep its fast-growing economy booming.

China's offshore oil and gas company CNOOC agreed to buy 3.6 million tons of liquefied natural gas a year, for 20 years, from an Australian energy project operated by BG Group PLC. Though a value for the deal was not released, Australian media reports estimated its worth at 80 billion Australian dollars (US$73 billion), which is the country's biggest single company-to-company contract ever.

Natural gas is cleaner than the coal that now fuels about three-quarters of China's electricity generation. But Beijing also is throwing massive resources into nurturing renewable energy, both to counter environmental damage from fossil fuel emissions and to curb its soaring reliance on imports.

The US still leads the world in installed renewable energy, with 52.2 gigawatts of wind, small hydroelectric, biomass and waste generating capacity, the Pew report said.

But China is quickly closing the gap, as a doubling in wind energy capacity alone boosted its own installed renewable energy capacity to 49.7 gigawatts in 2009. Germany trails with 30.9 gigawatts, the report said.

It said much of the impact from US$184 billion in stimulus spending earmarked for clean energy by governments of the Group of 20 industrial nations has yet to come. Of that amount, China is due to spend nearly US$47 billion on improved energy efficiency, clean vehicles, installation of solar power and improvements to electricity grid.

Spending on clean energy is forecast at US$200 billion for 2010, up about 25 percent

US spending on renewable energy fell 42 percent in 2009 from the year before, constrained by tight credit and the lack of a strong policy framework, the report said. But it is likely to rise faster this year, helped by the enactment in 2009 of production tax credits for wind energy and investment tax credits for solar power.

The report noted that the US still dominates venture financing and technology innovation for clean energy, but in manufacturing it lags behind China, which has become a powerhouse in production of both solar cells and wind turbines.

With climate change legislation stalled in the US Congress, the outlook for faster growth remains uncertain, the report noted.

In terms of clean energy investment relative to the size of its overall economy, China ranks third in the G20 at 0.39 percent, well behind Spain, which leads at 0.74 percent. The US, at 0.13 percent, was 11th, the report said.

"There are reasons to be concerned about America's competitive position in the clean energy marketplace. Relative to the size of its economy, the United States' clean energy finance and investments lag behind many of its G20 partners," the report said

[Source: China Daily](http://www.chinadaily.com.cn/world/2010-03/26/content_9644737.htm) ([see archive](China_beats_US_in_green_investment.pdf))

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