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# China News Alert Issue 337

## Capital Markets

### Lift for insurer's banking goal

China's securities regulator has given approval to Ping An Insurance (Group) Company to issue H shares in exchange for stock of Shenzhen Development Bank, the insurer said.

The China Securities Regulatory Commission has approved Ping An to issue 299.1 million Hong Kong-listed shares to Newbridge Capital, the Asian arm of United States-based Texas-Pacific Group, in a share swap for 520.4 million shares of the Shenzhen bank held by Newbridge, the insurer said in a filing to the Shanghai Stock Exchange on 5th May.

Shenzhen-based Ping An, China's second-biggest insurer, also has approval from the China Insurance Regulatory Commission and the Ministry of Commerce for the deal. Its target, the Shenzhen bank, has also been given the green light from the China Banking Regulatory Commission.

Ping An is seeking to boost its banking business to become a financial conglomerate offering banking, insurance, and asset management. Its own banking arm, Ping An Bank, is a small player with few outlets.

Ping An said in June 2009 that it planned to pay 11.4 billion yuan (US$1.7 billion) for 520.4 million shares in the Shenzhen bank held by Newbridge. Ping An also said then that it would buy up to 585 million shares in the Shenzhen bank for 10.7 billion yuan through a private placement.

Ping An will increase its stake in the Shenzhen bank from 5 percent to 30 percent as a long-term investment.

The Shenzhen bank, a medium-sized Chinese lender, needs new funding to bolster capital and meet regulatory requirements.

TPG bought 18 percent of the Shenzhen bank for US$155 million in 2004 and was seeking buyers as its entire stake would be available this year after a lock-up period expired.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=436127) ([see archive](Lift_for_insurers_banking_goal.pdf))

### Green light may be given to offshore yuan investment in A-share market

China is considering opening the domestic A-share market for offshore yuan investment after cross-border yuan trade settlement has witnessed an explosive growth from early this year, with yuan deposits abroad setting a new high, the Securities Times reported.

Chinese exporters prefer yuan settlements as these will protect them from the risk of exchange rate fluctuations and also significantly improve the efficiency in capital usage, industry insiders told the newspaper.

In April 2009, China announced a pilot program allowing exporters and importers in Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan to settle cross-border trade deals in yuan.

The Bank of China (BOC), the country's largest foreign exchange bank, received the first cross-border yuan trade settlement deal from BOC (Hong Kong) in July.

According to the report, BOC, Bank of Communications and China Merchants Bank have seen their yuan trade settlement transactions double every month since the beginning of this year.

BOC reported a total of 18.7 billion yuan in its cross-border yuan settlement business by the end of February, including 6.4 billion yuan from pilot cities and 12.3 billion yuan from BOC (Hong Kong), according to the paper.

The figure soared to more than 30 billion yuan at the end of March, with 2.6 billion yuan from pilot cities and 11.7 billion yuan from BOC (Hong Kong) in March alone, it said.

China is considering enlarging the scope of cross-border yuan settlement from commodity trade into the service trade, the central bank said early last month. Meanwhile, the country may add another 14 pilot cities to the program. Industry analysts predicted that the cross-border yuan trade settlement deals would top 200 billion yuan in 2010 and might even exceed 300 billion yuan, as there is also a market expectation that the yuan will be stronger, the paper said.

The latest statistics released by the Hong Kong Monetary Authority (HKMA) showed that yuan deposits in the special administrative region had increased to 70.8 billion yuan by the end of March. In March, yuan deposit in Hong Kong rose by 7.1 percent over the previous month, compared with a slight fall in deposits in foreign currencies.

Joseph Yam Chi-Kwong, former chief executive of the HKMA, said he hoped that mainland regulators "give the green light" to offshore yuan investment, such as allowing stock brokerages to open yuan accounts for their clients.

That call was received with positive responses from authorities in Shanghai. The newspaper said that regulators were considering opening normal channels for offshore yuan investment, such as bonds, stocks, and inter-bank lending, to deepen cross-border yuan trade.

Su Ning, vice governor of the central bank, had previously voiced his support for Shanghai and Hong Kong bourses' efforts to set up an offshore center for the yuan.

Shanghai will be introducing the trade of cross-market exchange-traded funds (ETFs) this year, which will allow Chinese investors to buy a basket of securities that tracks overseas indices.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-05/05/content_9813668.htm) ([see archive](Green_light_may_be_given_to_offshore_yuan_investment_in_A-share_market.pdf))

## Finance

### China tells banks to freeze more money

China has asked banks to freeze more money from lending through a higher reserve requirement, the third move this year amid growing concerns of asset bubbles and economic overheating.

The reserve ratio―the share of deposits a bank must set aside as reserves―will increase 0.5 percentage point on yuan deposits starting 10th May, the People's Bank of China, the central bank, said.

The announcement's timing came on the second day of the nationwide Labour Day holiday when local financial markets are closed.

"The move surprises almost all of my peers. We phoned each other on hearing the announcement, figuring out why such an unnecessary move is announced today," said Lu Zhengwei, an Industrial Bank senior economist.

A decrease in new credit in March, the cooling of inflation from February's high, and the open market operations, through which central banks sell and buy bills to manage liquidity, all suggest that reserve requirement increases are not immediately needed.

"The fast growing foreign exchange reserves, which can lead to bigger supply of liquidity, may be the driver for such a move against a sizzling first-quarter growth," Lu speculated.

The reserve requirement increase can help freeze 400 billion yuan (US$58.6 billion) of credit.

China's big-five state-owned banks must meet a ratio requirement of 17 percent while smaller joint stock banks must put aside 15 percent of their capital as from 10th May.

Rural banks and rural cooperatives are exempted from the higher requirement to support the rural economy, the central bank said.

China's previous reserve increase was announced on 12th February.

China's economy grew 11.9 percent in the first quarter. Housing prices kept their strong momentum, fanning concerns of assets bubbles. The central bank has already rolled out tighter mortgage policies to cool off credit-driven speculation in the home market.

The new move indicated the government was taking further steps to tighten monetary policy in response to concerns of overheating and asset bubbles, Liu Yihui, an expert with the Financial Research Center of the Chinese Academy of Social Sciences, told Xinhua news agency.

"There is an obvious tendency of overheating," Liu said, adding that the central bank should introduce further tightening measures and continue to shift China's monetary policy back to "a normal one."

Tang Min, vice secretary-general of China Development Research Foundation, said the reserve requirement hike was targeted at asset bubbles, especially those triggered by the surging property market.

Regulators took steps to cool the real estate market in the past month by cracking down on real estate speculation and providing more affordable homes.

The central bank would keep a close watch on the property market to see whether these measures took effect, and if not, the PBOC might consider raising interest rates to keep inflation in check, said Tang. But a monitoring period would precede the rate hike, he said.

Lu said he expects an interest rate increase in the June-to-September period if inflation picks up.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=435928) ([see archive](China_to_banks_Freeze_more_money.pdf))

## Corporate

### Construction ban still par for the golf course

Banned since 2004 in China for being "too bourgeois", golf-course construction has been secretly booming, senior land superintendents have said.

Li Jianqin, head of the law enforcement and supervision department with the Ministry of Land and Resources, warned that an approved plan to build golf courses in Hainan province as it becomes a global resort does not mean others can ignore the ban.

The central government imposed a moratorium in 2004 to protect the country's shrinking land resources from becoming golf courses, and all courses opened after 2004 are illegal, he added during a press conference in Beijing.

Detecting illegal courses is top of the agenda for the ministry, Li said.

In 2008, Yitong Coalification Company Limited in Erdos in Inner Mongolia was found to have built a golf course and related entertaining buildings on a 60-hectare piece of land.

On 25th May 2009, Shenyang Lixiangxincheng Property Company and Shenyang Aerolite Mountain Forestry Sports Limited Company were fined nearly 15 million yuan (US$2.2 million) for building a golf course, and all the buildings were demolished with about 7.4 hectares of land reclaimed.

In November 2009, Xinde Real Estate Development Company in Wuhu, Anhui province, was fined more than 15 million yuan for building a 284-hectare entertainment center including a 32-hectare golf course.

On 30th November 2009, the Ministry of Land and Resources publicised two illegal golf courses in Hebei and Zhejiang provinces and the misused land was reclaimed.

With barely one-tenth of a hectare of farmland per capita in China, it is too extravagant to build a golf course that occupies 40 to 50 hectares of land and uses at least 3,000 cubic meters of water every day just for grass maintenance, experts said.

It is estimated that China has at least 20 million potential golfers, with the golfing industry, including the courses and equipment manufacturers, netting a whopping 60 billion yuan in 2009.

As people in China become richer, the country is providing a huge potential market for the golfing industry.

The 2010 Hurun Report, released on 1st April, said there were about 55,000 people with a wealth of more than 100 million yuan across the country.

A permanent membership for a golf club in Beijing costs 300,000 to 1 million yuan, much higher than in most of Europe.

Such a high price does not scare Chinese golfers. An employee of the Beijing International Golf Club said the club hit its limit of 500 permanent members last year and many more are on the waiting list.

Although golf has been regarded as a game for the privileged since its introduction to the country in 1984, some universities like Peking University, Tsinghua University and the University of International Relations have optional golf classes for students at low prices.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-05/05/content_9809346.htm) ([see archive](Construction_ban_still_par_for_the_golf_course.pdf))

### First Sino-foreign joint venture

Shanghai's first Sino-foreign joint venture with investment by Chinese individuals has received its business license, as part of the city's efforts to widen investment channels for domestic private capital.

The environmental protection technology company in Pudong New Area, with a registered capital of 8 million yuan (US$1.2 million), has also been the first beneficiary of a pilot program Pudong launched on 1st May.

China does not allow domestic individuals to set up Sino-foreign joint ventures with direct investment. But some individuals used to skirt the rules by setting up a shell company before teaming up with foreign investors.

Three Chinese individual investors hold a combined 60 percent stake in the new company.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=436376) ([see archive](1st_Sino-foreign_JV.pdf))

## Other

### Time to get 'real' on China's Internet

China has been actively promoting a real-name registration system for Internet and cell phone users to better manage Internet information and services, said Wang Chen, minister of the State Council Information Office.

Earlier efforts to adopt a real-name registration system for website moderators at major news portals and big commercial sites, as well as a ban on "anonymous" comments following news stories, have achieved substantial results, Wang told the country's top legislature.

"We're also exploring an identity authentication system for users of online bulletin board systems," he said.

This is the first time the central government has confirmed a push for an online real-name registration system and its possible further expansion. People now have to log onto major websites with a user name to post comments, while before they could comment anonymously.

Wang said China has established an initial system to ensure the safety of online information, but the rapid development of the Internet in China has also brought new problems and challenges.

He said authorities would start drafting an Internet management law as soon as possible, and discuss the possibility of a law on information security.

In addition, Wang said the country would intensify a crackdown on online crimes and anyone using the Internet to spread pornography, gamble or commit fraud would be severely punished.

According to Wang, more than 5,510 suspects were seized in the crackdown last year.

He said China would also strengthen monitoring on "harmful information" on the Internet, in a bid to block harmful overseas information from spreading in the country via the Internet and prevent "hostile overseas forces from infiltrating through the Internet."

Latest official figures show the population of netizens in China has hit 404 million. By the end of last year, 99 percent of China's towns and 92 percent of its villages had access to the Internet.

The information industry now contributes to about 10 percent of the country's GDP, up from less than one percent 16 years ago.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-05/05/content_9809398.htm) (Link no longer active)

### Push for property tax gears up

Senior officials are pushing to implement property tax amid intensified efforts by the authorities to rein in soaring housing prices to promote a healthy and stable real estate market.

Ji Huaiyin, a deputy director of the fiscal and finance department under the State Council's Legislative Affairs Office, said property tax should be imposed as soon as possible, the Xinhua News Agency reported.

Action towards that end should be taken step by step, Xinhua cited Ji as saying. The tax should also not be imposed on properties that are primary residences, it reported.

Ji said imposing a property tax can effectively prevent property speculation because the tax is charged every year and increases the financial burden of real estate speculators.

Property tax is a tax put on property based on its ownership and is usually charged yearly through the estimated value of the property. But the details of charging such a tax have yet to be worked out and made known to the Chinese public.

Ji blamed speculative home buying for the real reason behind the soaring housing prices in big cities. He said the government's series of housing price control measures in the past focused on the transaction process, such as property transaction taxes, and had unintended consequences, because these taxes are often passed onto the buyers in the form of higher prices, causing soaring housing prices.

If the property tax is introduced, the homeowner will pay more if he or she holds onto the house longer, which will increase the costs of speculative house buying and force the speculators to sell houses, Ji said.

He also suggested that the tax be charged according to the number of houses owned by every household or by the size of the property.

Similarly, Jia Kang, head of the Research Institute for Fiscal Science with the Ministry of Finance, told the People's Daily that now it is the right time to introduce a property tax, because it will offer local governments a more stable source of revenue to support public services. He said such a tax will also help with the government's push toward more small-and medium-sized homes, as well as tame speculation in the property market.

The Chinese Academy of Social Sciences also said, in its annual blue book on China's property market, that some policies like property tax should be charged to control the property market.,

Yet a number of academics do not expect property tax to play a significant role in the country's real estate market. Yan Jinming, a professor of land management at Renmin University of China, said the basic function of a tax is to maintain the operation of the government and should not be directly linked to price control.

"We don't know how the tax will be charged and used. It is hard to judge its impact for the current real estate market, but for the cities where property speculation is popular, taxes can be effective at least in the short term," Yan said.

Early in April, Shanghai, one of the country's wealthiest cities, was reportedly considering a property tax to curb soaring home prices.

More than 70 percent of Chinese households consider property prices "unacceptably high", the People's Bank of China said in its quarterly survey in March. The average cost of a second-hand house reached 15,692 yuan (US$2,308) per square meter in March, a rise of 1,732 yuan since February, figures from the Beijing Municipal Bureau of Statistics showed.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-05/06/content_9814146.htm) ([see archive](Push_for_property_tax_gears_up.pdf))

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