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# China News Alert Issue 339

## Capital Markets

### Fred Hu takes the private path to float $10 billion PE fund

High-profile dealmaker and former Goldman Sachs top Asian executive Fred Hu has decided to launch a US$10 billion private equity (PE) fund after exiting from the race for a senior position in the nation's central bank, sources familiar with the matter said.

Hu is now courting investments for his China-dedicated fund called Chunhua. A number of institutional investors, including the Ping An Group, are keen on investing in the fund, a source told China Daily on condition of anonymity.

Ping An Group, the nation's second largest insurer, may invest US$5 billion in the fund, the source said, adding that the two sides are yet to finalise the deal.

The source said the fund could also rope in some foreign investors, but declined to give more details as the talks were still in initial stages. Hu could not be reached immediately for comments.

The investment arm of China Construction Bank, Singapore government-owned Temasek Holdings and his former employer Goldman Sachs are some of the other companies who could help Hu launch the fund, Reuters reported earlier citing sources close to the matter.

Hu, a veteran dealmaker in China, stepped down as a partner of Goldman Sachs recently after working with the Wall Street bank for 13 years.

In one of his landmark deals, Hu spearheaded the US$3.78 billion investment for Goldman in Industrial and Commercial Bank of China.

During the past few months, Hu has been in the spotlight with speculation that the 47-year-old professional may follow in the footsteps of his Chinese peers at Western investment banks to launch his own private equity fund, or join the People's Bank of China (PBOC), the central bank, as the deputy governor in charge of foreign exchange management.

Hu was among the professionals considered by the government for senior positions as part of its plan to bring home the talent working in Western firms.

Industry insiders said Hu's appointment as central bank deputy governor was an unlikely choice akin to sending a paratrooper to a crucial post. Du Jinfu, assistant governor of the People's Bank of China, is now tipped to be named deputy governor after going through a week-long internal review. Two of the current deputy governors, Su Ning and Ma Delun, are set to leave the central bank after nearing the retirement age for government officials.

Hu joins some of his other colleagues from Goldman who have floated PE funds in China. Fang Fenglei, who helped Goldman launch its investment bank joint venture, set up Hopu Investments three years ago and the fund now has US$2.5 billion worth of assets under management

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-05/21/content_9876704.htm) ([see archive](Fred_Hu_takes_the_private_path_to_float_10b_PE_fund.pdf))

### ABC may reduce its offering price amid investor jitters

The Agricultural Bank of China (ABC), the last of the big four State lenders to list, may be forced to lower the price of its massive initial public offering (IPO) after recent market volatility rattled investor confidence, analysts said.

The lender is aiming for a price-to-book (P/B) ratio, a widely watched measure of bank valuations, of around 2, which analysts said was "a bit overpriced" given the current poor market conditions.

"The shares may face the risk of falling below the IPO price if the lender goes with the planned P/B ratio because we expect that market sentiment will remain relatively weak in the months ahead," said Chen Xi, an analyst at First Capital Securities.

Chen said that a reasonable P/B ratio for ABC's listing should be between 1.5 and 1.8.

ABC is planning to issue about 50 billion new shares through the dual listing in Shanghai and Hong Kong in July with an issue price of around 3 yuan per share, sources close to the matter said earlier.

That will put the total value of the lender's IPO at some US$22 billion, which is expected to be the world's largest IPO.

Analysts said the lender's mega IPO is likely to burden the stock market, which has already been depressed by investor concerns over further credit tightening and uncertain economic prospects.

The benchmark Shanghai Composite Index has tumbled 20 percent this year due to harsh government measures to rein in soaring property prices.

"If the market expects worse to come, bank shares would face the risk of further declines although their prices are close to historic lows," said Liu Jun, an analyst at Changjiang Securities.

ABC has accelerated its listing process, aiming to float its shares ahead of other major lenders who have also jumped on the fund raising bandwagon.

Industrial and Commercial Bank of China, the world's largest bank by market value, plans to raise up to US$3.7 billion through a convertible bond issue while medium-size lender China Everbright Bank has revived its long-delayed IPO in Shanghai to raise up to US$2.2 billion.

China Minsheng Banking Corporation also plans to raise capital this year by selling subordinated bonds in order to maintain a stable lending pace; Reuters quoted the bank's President, Hong Qi, as saying.

Analysts said that ABC's listing will be a major test of the regulator's commitment to a market-driven system for new share sales.

Chinese media reported earlier that the securities regulator may suspend or slow the pace of IPOs on the main board in order to give leeway to ABC's listing.

The regulator denied the report, saying that China hasn't stopped IPO approvals and these are proceeding "as normal and in an orderly manner".

Meanwhile, Central Huijin, the domestic arm of China's sovereign wealth fund, is understood to have increased its holdings in the country's top three lenders in order to boost weak market sentiment.

"The market should be left to decide the value of ABC's shares," said financial commentator Pi Haizhou.

"Administrative intervention such as delaying other IPO approvals to help ABC's listing is against the principle of a market-oriented pricing system," said Pi.

[Source: English People](http://english.people.com.cn/90001/90778/90859/6993385.html) ([see archive](ABC_may_reduce_its_offering_price_amid_investor_jitters.pdf))

## Corporate

### US urged to match talk with action

The United States should take substantive measures to change its export control regime, otherwise Sino-US economic and trade cooperation will face a "bottleneck", Vice-Minister of Commerce Ma Xiuhong has said.

"China appreciates the US announcement on thoroughly reviewing the existing export control system and reforming it soon, but we strongly hope that the US could make substantive progress on the matter," she said after meeting US Commerce Secretary Gary Locke.

Ma said that she also expressed concern over the recent growth in trade protectionism by the US against China, pointing out that this has "badly hurt Chinese exports and industries".

Speaking in Hong Kong, the first leg of his China visit, Locke said the US would take significant steps to reform the export control system, noting that some restrictions have harmed US companies' sales of emerging technologies and make no sense.

Wang Rongjun, a professor at the Institute of American Studies at the Chinese Academy of Social Sciences, said that although Locke's commitment to reform was welcome, what matters more is when and how this will happen.

As a result of the stringent controls imposed by the US, the nation's exports of high-tech products to China have fallen from 18 percent of its total high-tech exports in 2003 to 7 percent in 2009.

The Obama administration announced earlier this year it planned to double US exports within five years. Boosting US exports to China will be on agenda of next week's China-US Strategic and Economic Dialogue (SED).

"That will only be possible if the US starts teaching smaller companies the basics of trading with countries such as China," David Wang, president of Boeing China, was quoted by Bloomberg as saying.

"Many US companies are not driven to export. Small and medium companies don't have the resources to come out here and find their niche," said Wang.

The currency issue will also be discussed at next week's SED. A US Treasury Department official said the European debt crisis and a higher US savings rate should encourage China to let its currency appreciate.

But Assistant Minister of Finance Zhu Guangyao told a briefing that China won't succumb to external pressure on the yuan and will modify the currency based on the economic situation.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-05/21/content_9877037.htm) ([see archive](US_urged_to_match_talk_with_action.pdf))

### PetroChina lines up US$60 billion to boost overseas oil and gas output

PetroChina Company Limited, the nation's largest oil and gas producer, will invest US$60 billion to increase its overseas oil and gas output to 200 million tons every year, Chairman Jiang Jiemin said.

Jiang told reporters that the company's overseas oil and gas cooperation areas would be focused on Central Asia, the Middle East, Africa, the Americas, and Asia-Pacific.

The chairman, however, did not indicate the time frame of the US$60 billion investment. Earlier media reports said the investment would be made over the next decade.

Jiang said PetroChina is also planning to acquire most of the overseas assets of its parent, China National Petroleum Corporation (CNPC), except those in politically sensitive areas.

CNPC has overseas investment in 29 countries, while its overseas projects and technology services business has presence in 39 countries.

Chinese oil companies led by CNPC and Sinopec have quickened their overseas expansion pace in recent years; a move analysts said was necessary to cope with the rising domestic energy demand.

CNPC agreed to acquire a 35 percent stake in Royal Dutch Shell's oil and gas unit in Syria. The company also plans to build a refinery in Syria that can process 5 million tons of crude every year, said Jiang.

The company recently completed a deal to develop oil sands in Canada. CNPC will work to achieve 20 million tons of heavy oil production capacity via the deal, said Jiang.

"China's oil imports will continue to see robust increase in the future, as domestic production cannot keep pace with rising consumption," said Zhou Dadi, an analyst with the Energy Research Institute (ERI) under the National Development and Reform Commission (NDRC).

The nation's net oil imports are expected to reach 210 million tons this year, according to Huang Li, an official with National Energy Administration (NEA). The volume would be about 11 million tons, or 5.5 percent, higher than last year, she said.

According to the China Petroleum and Chemical Industry Association, the country imported about 203.8 million tons of oil in 2009, while exports totaled about 5.16 million tons.

According to a report by the Chinese Academy of Social Sciences, 64.5 percent of China's oil consumption is likely to be met by imports in 2020, due to the gap in domestic consumption and production.

Jiang also said that PetroChina plans to increase its natural gas production to half of the company's total oil and gas output in 10 years.

At present natural gas accounts for 3.8 percent in the country's total energy consumption, compared with 10 percent in Asia and 24 percent worldwide.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-05/21/content_9876765.htm) ([see archive](PetroChina_lines_up_60b_to_boost_overseas_oil_gas_output.pdf))

### Taobao sees over 1 million online stores

More than 1 million people in China have opened online stores on the country's largest retail website, Taobao, over the past five years.

By the end of last month, 1.06 million people had become employed through opening online stores on Taobao.com, an e-commerce company based in eastern China's Hangzhou City, the company said.

In October 2005, Taobao pledged to "create" 1 million jobs through its online store platform over five years.

Company statistics show its online store owners are from all 31 provinces, municipalities and autonomous regions on the Chinese mainland.

More than half of store owners are from the eastern and southern coastal areas of China which are economically developed and export-orientated, and which also suffered the most during the global economic downturn.

The data shows store owners are not earning much, with their monthly income 1,000-2,000 yuan (US$147-294).

Other data showed that 57.7 percent of on-line store owners are aged between 23 and 32 years. Some 8.1 percent are aged between 18 and 22 years and believed to be university students.

"After I graduated last year, I chose to continue my Taobao business," said Wang Xiaojing, a 23-year-old from Sichuan University in southwest China's Chengdu City who runs an on-line store selling cosmetics and earns about 2,000 yuan per month.

" It is difficult to find a decent job now. But I believe my Taobao business will get bigger and bigger, and I can earn more than my classmates who work at companies," she said.

Transaction volume on Taobao, which was founded in 2003 and means "treasure hunt" in Chinese, exceeded 200 billion yuan (US$29.27 billion) last year.

China is facing an employment problem, with increasing numbers of university graduates and migrant workers unable to find jobs. To diversify employment options, the government is encouraging young people to start their own businesses.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-05/20/content_9874736.htm) ([see archive](Taobao_sees_over_1_million_online_stores.pdf))

### NetEase may expand its Web search business

NetEase.com Inc, China's third-biggest online games provider, said it may acquire companies to expand its Internet search business, after Google Inc moved its Chinese service offshore.

"If an acquisition can help the development of our search business, then why not go for it," NetEase Chief Executive Officer William Ding said during a conference call. The Beijing-based company will also consider acquisitions beyond Web search, he said.

Google, owner of the world's most-popular search service, lost market share in China after redirecting its Google.cn service to a Hong Kong site. NetEase's Youdao search service now accounts for 0.4 percent of the local search-engine market, according to researcher Analysis International.

NetEase, trailing Tencent Holdings Limited and Shanda Games Limited in China's US$3.95 billion online games market, reported first-quarter profit that had risen 8.5 percent to 452.3 million yuan (US$66.2 million), from 416.7 million yuan a year earlier. The earnings missed the 545 million yuan average of five analysts' estimates compiled by Bloomberg.

NetEase American Depositary Receipts (ADRs) fell less than 1 percent to US$31.11 in Nasdaq Stock Market trading before the earnings announcement. The receipts have declined 17 percent this year, compared with a 10 percent drop in the Hong Kong-traded shares of Tencent, China's biggest Internet company by market value.

Google accounted for 30.9 percent of China's online search market last quarter, compared with 35.6 percent in the previous three months, according to data from Analysis. Baidu Inc increased its market share to 64 percent from 58.4 percent, according to the Beijing-based researcher.

The 0.4 percent market share for NetEase's Youdao service ranks it below Sohu.com Inc's Sogou service, the third-most-popular Web search service in China, according to Analysis.

Revenue from online games rose 50 percent to 1.09 billion yuan in the quarter, NetEase said. Sales of online advertising more than doubled to 91.5 million yuan.

Profitability declined last quarter as NetEase incurred higher marketing expenses and royalty fees for its "World of Warcraft" role-playing game, licensed from Activision Blizzard Incorporated. Gross profit margin for the online games division narrowed to 72.1 percent in the first quarter, declining from 90 percent a year earlier.

[Source: English people](http://english.people.com.cn/90001/90778/90860/6993336.html) ([see archive](NetEase_may_expand_its_Web_search_business.pdf))

### Chinese minister ends Austria visit after signing co-operation pacts

Chinese Commerce Minister, Chen Deming, concluded a trade and investment trip to Austria during which the two countries signed 17 cooperation agreements valued at more than US$900 million.

Chen, who led a Chinese trade and investment promotion delegation, met with President Heinz Fischer. Fischer warmly welcomed Chen and the Chinese delegation. He said Austria was China's trustworthy political and economic partner and their mutually beneficial cooperation had a broad prospect.

Chen said his visit was aimed at helping to implement the consensus reached by Fischer and China's President Hu Jintao and Premier Wen Jiabao earlier in the year, and to fulfill the commitments made by China.

The minister also expressed hope that the visit would be a platform for additional business opportunities for Austria and China.

He said economic and trade cooperation between the two countries in traditional fields has become more and more mature and future cooperation should focus on cultivating other growth points, such as a green economy.

Chen attended an economy and trade forum that was held by the Austrian Economy Ministry and attended by about 120 entrepreneurs from 80 Chinese companies and some 80 representatives of Austrian companies and institutions.

During his visit, Chen also held talks with Economy Minister Reinhold Mitterlehner, Christopher Leitl, president of the Austrian Federal Economic Chamber, and other high-ranking officials.

[Source: English people](http://english.people.com.cn/90001/90776/90883/6993126.html) ([see archive](Chinese_minister_ends_Austria_visit_after_signing_co-op_pacts.pdf))

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