Charltons - China News Alerts Newsletter - 26 April 2010

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# China News Alert Issue 335

## Capital Markets

### Shanghai Exchange to allow foreign companies to find investors

The Shanghai Stock Exchange is completing plans to create an international board this year, which would allow foreign companies to sell shares to Chinese investors on the mainland for the first time.

An international board, which regulators have been contemplating for years, would strengthen the development of China's capital market system, significantly bolster Shanghai's efforts to transform itself into a global financial capital, allow multinational companies to raise billions from new investors and probably force Wall Street banks and global investment firms to expand their presence in the city.

Currently, companies including General Electric, HSBC Holdings, Standard Chartered Bank and the New York Many are unconcerned about steep price rises, but others fear a bubble. The Stock Exchange have said these companies were considering or studying whether to list in Shanghai, once the market opened to them.

Xu Quan, deputy director of the Shanghai Financial Services Office, said that the exchange had prepared a final draft of rules for the international board and that the draft was being reviewed by regulators.

"Once the regulations are completed, the international board will be launched," Mr. Xu said.

Analysts say Shanghai is trying to persuade dozens of Chinese companies that now have shares listed on the Hong Kong Stock Exchange, the New York Stock Exchange or the Nasdaq Stock Market to return here for separate listings.

Regulators hope an international board will improve the quality of listings in the Chinese market and allow Chinese investors to buy the shares of some of the best-known companies listed overseas.

Up to now, the Shanghai Stock Exchange has catered largely to big, state owned companies. Many of China's best-known private companies have listed on overseas exchanges.

A few multinational firms doing business in China have listed shares in Hong Kong. For example, the casino giants Wynn Resorts and the Las Vegas Sands recently raised billions of dollars by listing shares of their Macao operations on the Hong Kong exchange.

In recent years, Shanghai and Hong Kong have dominated the global initial public stock offering market as companies have raised tens of billions of dollars selling shares for the first time.

Shanghai hopes to show that it can attract global companies to make secondary listings here. In 2009, Beijing endorsed plans to make Shanghai into an international financial center able to compete with cities like New York, London and Hong Kong.

It still faces hurdles, however, including a Chinese currency that is not freely convertible. Hong Kong, a special administrative region of China, has its own currency and its own securities regulators.

Regulators in Shanghai have said that foreign companies would soon be allowed to list in the city via initial public offerings or China Depository Receipts, which are similar to the New York Stock Exchange's American Depository Receipts.

On 23rd April, China will begin stock-index futures trading, giving local investors more options. The city is also planning to introduce financial derivatives and has encouraged the Blackstone Group and the Carlyle Group ― two of the world's biggest private equity firms ― to establish funds here denominated in the renminbi.

[Source: Mydigitalfc](http://www.mydigitalfc.com/news/shanghai-exchange-let-foreigners-find-investors-952) (Link no longer active)

## Real Estate

### New standard for second-home mortgage

China will adopt a stricter standard in assessing whether a house is a "second home" or not when approving mortgage loans, Yang Jiacai, head of the China Banking Regulatory Commissions (CBRC) Banking Supervision Department has said.

The new rules will be based on property ownership, not mortgage history. The previous rules based on mortgage history means that the assessment will be based on whether the mortgage has been paid off, and then if the homeowner buys another home and needs a mortgage, it will be called a "second home".

The new rules define property ownership as the number of the houses bought.

The new rules means that regulators will consult the housing registry bureau to determine whether a family already owns a home, while previously, regulators only looked at whether a family had an outstanding mortgage.

Also, the unit for the number of the houses will be based according to the family, not individuals.

Yang also said that the CBRC has asked banks to not grant loans to those developers that have unused land and are speculating on the land, as housing regulators found reserve houses and that developers speculate on housing prices, and use bank loans to bid for land.

In addition, the banks need to monitor and supervise the usage of the loans.

The Chinese government stepped up efforts to curb surging housing prices and crack down on property speculation since the latter half of last year.

On 14th April, the State Council announced that the down payment required for second homes will be no less than 50 percent and the minimum area for mortgage lending was also fixed at 1.1 times the benchmark lending rate. Also, banks are now forbidden from offering loans to homebuyers interested in purchasing a third home or more.

[Source: People Daily](http://english.peopledaily.com.cn/90001/90778/90859/6960224.html) ([see archive](New_standard_for_second-home_mortgage.pdf))

### China likely to raise taxes on third homes

China may increase some taxes levied on people's third or subsequent homes, raising costs for speculative buyers amid a government clampdown on the sector, state media has said.

Beijing has launched a campaign to cool the property sector after rapid price rises in some markets. Measures include increasing down-payment requirements and mortgage rates for people buying their second, third or subsequent properties.

These measures have hit the stock market, particularly the shares of banks and property developers, over concerns that the clampdown will slow lending and slow the country's economic growth, which hit a sizzling 11.9 percent in the first quarter compared with a year earlier.

The report in the official Shanghai Securities News did not provide details on the potential timing or scope of a move to increase taxes on property bought for investment purposes.

The taxes it referred to were separate from a property tax that some officials have said is also being discussed. This property tax would apply to homeowners and would be paid every year based on the value of the property.

However, the report underlines that the latest campaign to clamp down on the sector is far from over, as officials look to further tweak rules to head off a bubble before it becomes too dangerous.

Urban property inflation accelerated to 11.7 percent in March from February's 10.7 percent reading, but price rises have been much more abrupt in some major cities.

The banking regulator is also taking a closer look at how it defines how many homes a person owns, an important determinant of how big a down payment and what interest rate they must pay on their mortgage, according to the newspaper.

Rather than looking at how many homes an individual owns, the China Banking Regulatory Commission plans to start counting by family instead, it cited CBRC official Yang Jiacai as saying, meaning the higher down payment and other requirements would apply to more homes.

The China Securities Journal, another official newspaper, cited unnamed sources as saying there were also plans to make clear that, when counting how many flats a person or family owns, banks must look not only at how many mortgages they currently have, but how many properties they own.

[Source: Reuters](http://in.reuters.com/article/businessNews/idINIndia-47926720100423) ([see archive](China_likely_to_raise_taxes_on_third_homes_-_media.pdf))

### Banks can refuse third-home loans

Commercial banks will be able to refuse loans to people buying third homes in areas suffering from soaring property prices.

The new measure, which analysts believe could instantly cool down the country's red-hot property market, was issued on 24th April by the State Council.

Provincial and municipal governments in areas with soaring prices can also temporarily restrict the number of properties people can buy, in accordance with the situation in their jurisdictions.

Banks can halt loans to those who cannot prove they had lived and paid taxes for at least one year in cities where they intend to buy houses, according to a statement on the central government website www.gov.cn.

"With a sound implementation, these policies can instantly cool down the real estate sector and even lead to a big price drop in some regions," said Chen Yunfeng, secretary-general of the China Real Estate Managers Association.

Some experienced investors began selling their apartments at 5 to 10 percent lower than the market's average, aiming to cash in quickly before the market turns bearish.

The top management of a real estate project in Beijing's Tongzhou region, where property prices have soared the most over the past few months, have decided to cut its sales price by 3,000 yuan, or nearly 10 percent, after these policies were launched.

Meanwhile, a number of potential buyers have decided to take a wait-and-see attitude instead of rushing to grab an apartment. "Buying a house right now would not be different from buying shares at the record high of China's stock market," said Wang Liang, a company executive in Beijing. "I would wait to see how these policies could change the market."

The central government measures target speculative house purchases, which are regarded as a key factor driving up property prices. The policies also show the government's resolve to curb excessive property growth and prevent growing financial risks, said Grant Ji, director of Savills (Beijing), a UK-based real estate service provider.

Just two days ago, the central government raised the required down payment for a family purchasing a second house from the existing 40 percent to 50 percent, a policy that may not only restrict speculative house buying but also reduce banks' potential risks if property prices decline.

"The prices of houses and land in some cities have recently seen overly rapid increases and speculative purchases have become quite active again," the central government's statement said. "All regions and related agencies must recognise the harm of overly fast rises in property prices and take resolute measures to contain (them)," it said.

The cooling measures come on the heels of the acceleration in urban property inflation to 11.7 percent in March from February's 10.7 percent, the biggest year-on-year increase since the Bureau of Statistics expanded its coverage to 70 cities in July 2005.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-04/19/content_9744510.htm) ([see archive](Banks_can_refuse_third-home_loans.pdf))

### No deposits from property buyers until sales approval

Developers are not allowed to take any deposits from home buyers until they have received approval to start sales of uncompleted apartments, the Ministry of Housing and Urban-Rural Development said in a notice posted on its Website.

They must also disclose to the public information of all available apartments and prices and start selling within 10 days of getting the pre-sale nod, the ministry said. Developers who fail to start selling within the required period or price homes at "abnormally high" levels or "artificially" create supply shortages by faking sale contracts will be "severely" punished, according to the notice.

Local industry regulators must grant pre-sale approval to at least a whole building rather than several units or floors, the notice said.

The notice, dated April 13, is the latest in a series of measures imposed by the central government to cool the real estate market after urban property prices in China rose by a record 11.7 percent in March.

China has raised the down payment requirement on second-home mortgages to at least 50 percent from 40 percent. China has also announced that banks can suspend loans to buyers of three or more properties and should stop loans to people who haven't paid their personal income tax or into the social security fund in the past 12 months in places where they are buying homes.

"The recent batch of measures, definitely the most draconian ones ever introduced by the government, are expected to help cool the country's overheated housing market for about three to six months if they're implemented strictly," said Albert Lau, executive director of Savills China, one of the world's big five property firms. "However, in the longer term, more measures, such as the adoption of a property-related tax, are needed to leave a long-lasting impact on the market."

The latest measures will see fewer home sales but may have only limited impact on home prices in the city, due to an imbalance between supply and demand, Lau predicted.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=434817) ([see archive](No_deposits_from_property_buyers_until_sales_approval.pdf))

## Corporate

### Foreign manufacturers shifting business to less developed Chinese regions

Unilever, the world's second-largest consumer goods maker, plans to significantly increase its investment in Hefei, a medium-sized city in east China's Anhui province.

"We will invest 700 million yuan (US$103 million) in our production base in Hefei to boost output value to 10 billion yuan in five years," said Zeng Xiwen, vice president of Unilever's Greater China region, last week.

Zeng said the company has relocated seven factories from Shanghai and Guangdong, among China's first-tier cities in terms of their overall economic power, to the second-tier Hefei, taking into consideration of lower production costs and availability of land use for business expansion.

The Unilever Industrial Zone, located in the Economic and Technological Development Zone of Hefei, capital of Anhui, has become one of Unilever's four major global production bases. It reported an output value of 1 billion yuan in March alone, according to Zeng.

The company's former Shanghai factories used to register a production cost higher than other plants in Indonesia, Japan, Australia and Vietnam. But Hefei with cheap labour, land prices, and power supply, and geographical advantages, has helped the base there record the company's lowest average production cost.

Hefei has attracted 25 of the world's top 500 companies, such as ABB and HITACHI, by the end of last year. The city saw an influx of US$1.3 billion in 2009, up 8.35 percent from that of 2008, said Lan Tian, director with the Commerce Bureau of Hefei.

According to an annual business climate survey released by the American Chamber of Commerce in China (AmCham-China) early this month, nearly 80 percent of interviewed American companies were planning to increase investment in China this year, with many focusing on the second- and third-tier cities.

About 28 percent of the 253 respondents said they were likely to set up sales of manufacturing operations in cities they were not already in such as Tianjin, Wuhan and Dalian. Another 11 percent were working on feasibility studies but were unlikely to invest in new cities this year.

Last year, US-based Coca-Cola Company opened two bottling plants in east China's Jiangxi province and northwest China's Xinjiang Uygur autonomous region.

The 210 million yuan investment in the two regions reflects the beverage maker's strategy of increasing geographic presence and enhancing its competitive edge in China's market.

GETRAG (Jiangxi) Transmission Co Ltd, a Sino-German Joint Venture in Nanchang, capital of Jiangxi, has a 2-billion-yuan investment plan to push its output of transmissions for vehicles to 1 million by 2013, doubling the current 500,000.

The GETRAG Corporate Group (Germany) set up the firm with China's Jiangling Motor Group in 2006, after finding out that the Jiangxi government offered preferential policies in project examination and approval, financial assistance and logistic services, said Wu Kai, vice president of the joint venture.

In northern China's less developed Inner Mongolia autonomous region, 53 foreign companies started business in 2009, bringing in 2.97 billion yuan in investment, up 12.1 percent as against the previous year, said Lu Erxi, director of the Commerce Administration of Inner Mongolia.

The cities of Hohhot, the regional capital, Baotou and Erdos, attract foreign manufacturers and power suppliers of electricity, gas and water, said Lu.

While many foreign investors are optimistic about business prospects in China, the first task for many second- and third-tier inland Chinese cities was to improve the industrial layout through good planning, said Cheng Biding, vice chairman of the Institute of Regional Economy.

Focus should not only be placed on the investment amount, said Zeng. What is more important is to maintain balanced development of various sectors in an effort to ensure sound economic growth, he stressed.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-04/19/content_9748816.htm) ([see archive](Foreign_manufacturers_shifting_business_to_less_developed_Chinese_regions.pdf))

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