

BUSINESS

CSRC fines Evergrande arm, former chairman for financial fraud

By ZHOU LANXU and LIU ZIZHENG

China's top securities regulator said on Friday that it had imposed severe administrative sanctions against Evergrande Real Estate Group, the flagship subsidiary of real estate developer Evergrande Group, for alleged fraudulent bond issuances and violations in information disclosure.

The China Securities Regulatory Commission slapped a fine of 4.175 billion yuan (\$576.5 million) on Evergrande, while its former chairman and actual controller Xu Jiayin received the maximum legal penalty of 47 million yuan and has been banned from the securities market for life.

The move signals a heightened commitment from the country's regulators in restoring the confidence of investors and homebuyers in the property market, said legal experts.

They said Xu and other financial executives of the group are expected to face criminal charges under relevant laws and regulations, which may result in prison terms of more than five years due to the severity of the violations.

According to the CSRC, between 2019 and 2020, Evergrande inflated its revenue and profits by prematurely recognizing income, leading to fraudulent bond issuances.

It said the company's annual reports disclosed during this period contained false records.

The penalty imposed on Evergrande's fraudulent bond issuances was calculated at 20 percent of the funds raised according to law, while information disclosure violations were fined at the maximum legitimate amount.

This marks "the strictest enforcement" since 2018, when a unified enforcement system was established for both the interbank bond and exchange bond markets, the commission said.

Evergrande has said that it would continue to fully cooperate with the CSRC and other regulatory bodies, financial media 21jingji reported on Friday. The real estate

developer also said it is fully committed to prioritizing key initiatives such as ensuring the delivery of pre-sold housing projects. It said more than 80 percent of these have already been completed across the country.

Dai Guanchun, a senior capital markets lawyer, said it is "almost inevitable" that Xu and the financial executives responsible will also face criminal penalties as the severity of their violations meets the legal standards of criminal prosecution.

"At a time when China has introduced 'nine measures' to better regulate the capital markets, it is crucial to deal with the Evergrande case fairly and properly, (as it has) drawn widespread public attention," Dai said.

The length of the sentence will depend on the specific circumstances, but it is likely that Xu will face a fixed-term imprisonment of more than five years, in accordance with China's Criminal Law.

"Bond issuers, while enjoying the convenience of financing, must also enhance their awareness of the rule of law and investor protection," the CSRC said, adding that it will also hasten investigations into related intermediary agencies.

The commission said it will continue to rigorously combat financial fraud in the securities market, "giving real teeth" to regulation and enforcement.

Liu Chunsheng, an associate professor at the Central University of Finance and Economics, said: "Risks induced by the Evergrande case have spread from the real estate to the capital market, causing huge losses to investors."

"The severe punishment of Evergrande demonstrates the regulator's 'zero-tolerance attitude' toward capital market frauds, as well as its determination to save the housing market."

The move will, together with a series of policies issued previously by the government, help in the recovery of the housing market, Liu added.

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A view of a residential property project developed by Evergrande Real Estate Group in Nanjing, Jiangsu province.

FANG DONGXU / FOR CHINA DAILY

Briefly

China to encourage overseas warehouses

China will promote the construction of overseas warehouses and expand cross-border e-commerce exports, the Ministry of Commerce said. Cross-border e-commerce serves as a vital force in boosting the development of China's foreign trade. Over the past five years, China's cross-border e-commerce trade has grown more than 10-fold. The ministry will push for the release of guidelines on expanding cross-border e-commerce exports and advancing the construction of overseas warehouses. During the first quarter, China's cross-border e-commerce trade reached 577.6 billion yuan (\$81.23 billion), rising 9.6 percent year-on-year, of which exports amounted to 448 billion yuan with a growth rate of 14 percent. China has over 120,000 cross-border e-commerce entities and more than 1,000 cross-border e-commerce industrial parks. The number of overseas warehouses has surpassed 2,500 so far, covering a total area of over 30 million square meters.

PBOC adds liquidity via reverse repos

China's central bank conducted 100 billion yuan (\$14 billion) of seven-day reverse repos at an interest rate of 1.8 percent on Friday. The move aims to keep month-end liquidity in the banking system stable, the People's Bank of China said. A reverse repo is a process in which the central bank purchases securities from commercial banks through bidding, with an agreement to sell them back in the future.

XINHUA — CHINA DAILY



Employees work on an optoelectronics production line in Xinyang, Henan province.

XIE WANBAI / FOR CHINA DAILY

Consumption in focus after 'biased' recovery

Analysts: Stronger supply side needs efforts to expand domestic demand

By OUYANG SHIJIA
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China's factory activity shrank for the first time in three months while the services sector expanded at a faster pace in May, pointing to a mixed picture amid uneven recovery among sectors, analysts said.

The latest economic indicators point to an unbalanced recovery with the supply side stronger than the demand side, and the economy still faces challenges from the moderation in private consumption and the potential deceleration across housing activity, they said.

Despite the pressures and difficulties ahead, the economic recovery will still be on track in the following months, driven by a ramp-up in fiscal stimulus, more monetary easing and further moves to tackle structural issues, they said.

Their comments came as data from the National Bureau of Statistics showed on Friday that China's official purchasing managers index for the manufacturing sector stood at 49.5 in May versus 50.4 in April, below the 50-point mark that separates growth from contraction.

Zhou Maohua, a researcher at China Everbright Bank, said the manufacturing activity shrank in May due to the impact of the May Day holiday, while China's nonmanufacturing activity remained in the expansionary territory amid improvement in the services sector.

China's services PMI grew to 50.5 in May from 50.3 in April. The country's official composite PMI, which includes both manufacturing and nonmanufacturing activities, dropped from 51.7 in April to 51 in May, the NBS said.

"The latest data point to a biased recovery with the supply side stronger than the demand side," Zhou said. "More efforts should be made to spur consumption and expand domestic demand. The focus should be placed on speeding up the implementation of key projects and better implementing the announced property easing policies in accordance with various cities' local conditions."

Robin Xing, chief China economist at Morgan Stanley, said China has made incremental progress in containing the risk of a debt-deflation loop, including a push for a faster budget rollout and increasing efforts to support housing inventory digestion.

"We expect the augmented fiscal deficit to widen by 0.5 percentage point of GDP in both 2024 and 2025, though the focus may gradually shift from manufacturing upgrades this year to housing stabilization next year," he said. "Meanwhile, there could be a 25- to 50-basis-point reserve requirement ratio cut in the next couple of months to facilitate government bond issuance, followed by a 20-basis-point policy rate cut in the second half of the year."

Stephen Roach, senior research scholar of the Paul Tsai China Center at Yale Law School, said: "China's recent initiatives (to deal with the property downturn) are steps in the right direction. The property sector package has the right focus aimed at absorbing the inventory overhang of unsold housing units."

Roach, who is also the former chairman of Morgan Stanley Asia and the firm's former chief economist, said the "funding support as announced by the People's Bank of China (the country's central bank) is too small".

"It's going in the right direction, but it needs far more funding support to really make a major dent in the overhang of unsold housing units."

Looking ahead, he said policies need to be formulated more explicitly and more comprehensively to address the shortfall of domestic demand, especially in boosting social consumption in China. "Without the Chinese consumer, I think economic growth is going to remain a big question mark in the years ahead."

Roach told a dialogue held by the Center for China and Globalization on Friday that while China's contribution to global economic growth is slowing, the country remains the most powerful engine in the world.

He said it is advisable for the government to inject much more funding into the social safety net, healthcare and retirement.

"I think that is the biggest impediment to discretionary consumption because it keeps families who are aging rapidly predisposed toward precautionary saving in providing for the future," he said.

Wider cover promises food security

By LIU ZHIHUA and LIU ZIZHENG

China will intensify efforts to implement the full-cost insurance for rice, wheat and corn, and planting income insurance nationwide, to benefit farmers and improve agricultural security, government officials said on Friday at a media conference in Beijing.

Full-cost insurance for the three primary food crops — rice, wheat and corn — is an agricultural insurance policy that encompasses all production costs, including expenses related to materials, land and labor.

Planting income insurance is designed to reflect the value of agricultural products based on their market prices and yields, thereby insuring the income derived from cultivating these crops.

Liao Min, vice-minister of finance, said the country will further utilize experiences related to those insurance policies accumulated in the past. It will also strengthen coordination of different government departments and improve services at grassroots level to better implement those policies nationwide. The coun-

try will intensify supervision and increase fiscal support in this regard, he said.

"The coverage expansion of the two insurance programs nationwide marks an important milestone in the development of China's agricultural insurance sector and will help stabilize incomes of rural households and secure food security," Liao said. "We will make joint efforts to ensure the insurance policies will be thoroughly implemented."

Liao further said an initial analysis of the major grain-producing counties where the insurance programs were implemented has been completed. The areas have seen an average increase of 48 percent in the security level for the three main staples in the past three years.

The Finance Ministry launched an agricultural insurance premium subsidy policy in 2007. It has so far provided more than 300 billion yuan (\$41.4 billion) in such subsidies, with an average annual growth rate of 22 percent. This year, China has set aside a budget of more than 20 billion yuan for supporting the rice, wheat and corn insurance programs, Liao said.

Such subsidies are fully in line

with the rules of the World Trade Organization, and China's practices can prove a valuable reference in the formation of international rules, he said.

Yin Jiangao, director of the Property and Casualty Insurance Supervision Department at the National Financial Regulatory Administration, said China has made significant achievements in developing agricultural insurance, but there still exists room for improvement, in terms of expanding insurance coverage and raising food security level.

Yin said China will strive to make the pricing of agricultural insurance more scientific and accurate, and promote the standardized development of the insurance products. Efforts will be made to launch online insurance services, thus lowering the operating costs and improving customer experience.

From January to April, insurers paid out 29.4 billion yuan in agricultural insurance compensation, up 8 percent year-on-year, benefiting 8.13 million rural households.

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Room bookings jump as entrance exam nears

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As the National College Entrance Examination approaches, bookings of hotel rooms and bed-and-breakfast stays located close to exam venues are on the rise, and the booking volumes have been higher than last year's, according to industry players.

The key examination starts on June 7 nationwide annually, and concludes on different dates based on the arrangements of various provinces.

As of May 28, the booking volumes of such hotel rooms had surged some 140 percent year-on-year. The bookings began to increase significantly since May 21, with daily booking volumes growing by more than 50 percent over the previous day, according to Qunar, a Beijing-based online travel agency.

In the last week of May, domestic cities that saw the highest week-on-week increase in booking volumes of such hotels included Hefei, Anhui province; Harbin, Heilongjiang province; Changchun, Jilin province; Beijing; and Nanjing, Jiangsu province, Qunar found.

The average price of hotel rooms located near the exam venues has increased by about 10 percent over the previous week, and the supply of such hotel rooms is sufficient," said Xiao Peng, a researcher with the big data research institute of Qunar.

40 percent
proportion of chain hotels in terms of booking volumes

"More parents have booked hotel rooms that are close to the exam venues this year, and the total booking volume has jumped significantly over last year," Xiao said.

Among different types of hotels, chain hotels are the most popular this year, and their booking volumes accounted for nearly 40 percent of the total, which was 10 percentage points higher than last year.

The booking volumes of luxury hotels have also climbed, and bookings for short-stay hotels near the exam venues have been a popular choice among several parents, Qunar said.

Hotels located near exam venues have launched value-added services for students and parents. These include complimentary pickup, advanced check-in and delayed checkout.

Besides, some hotels are offering rooms far away from noisy streets and elevators, in addition to stationery bags and snacks to students and parents.

Meanwhile, some parents have booked B&B stays near the exam venues this year, and many B&B stays have added tags related to the exam online to attract more consumers.

As of May 27, online searches for such B&B stays had surged some 400 percent over April, according to Tujia, a homestay booking platform.

B&B stays with laundry and cooking facilities, complete daily necessities, Wi-Fi services, and 24-hour hot water, have been well-received, and the booking volumes have so far tripled from April, Tujia said.

"Two-bedroom apartments accounted for nearly 70 percent of the total booked stays. Booking such rooms can help provide comprehensive care for the daily life of students who take the exam," said Liu Yang, chief business officer of Tujia.

Besides, some B&B owners said in online posts that they provide high-quality pillows and zero-pressure mattresses to help students and parents sleep well ahead of the exams.