

CHINA

China Leasing Forum – a resounding success

The overall message, for those considering the China market, is to modify the time horizons normally expected in Western markets. **Alan Leesmith** reports on the issues aired

Over 130 delegates from over 70 companies and four continents assembled in the Peninsular Hotel, Beijing, in mid April for the first Alta Group sponsored leasing conference in Asia. Organised by BSM (Business Solutions for Management Group), an impressive array of speakers had been assembled including senior Chinese government officials and prominent industry names, both local and international. The high attendance was clearly encouraged by the quality of the programme and speakers, plus a multitude of recognised co-sponsors and endorsement from leasing associations whose members see China as an important future market, namely the Australian, Italian, German and Bulgarian Associations.

Particularly noticeable was the extent of manufacturer delegates, many already having established captives in China and others seeking to assess how best to serve their growing customer base. Lessor delegates included many already established in China, many contemplating entering and some local Chinese lessors.

The first day was devoted to the changing environment, the second day to the practical issues faced by those in or about to enter the market. Networking was particularly active with all, including speakers, prepared to openly exchange views and information. Not surprisingly, much discussion continued in the hotel bar afterwards.

From a leasing perspective, there are three main concerns since China still lacks: an established infrastructure, sufficient trained experienced staff and reliable credit information. All were discussed at length, but it remains difficult to foresee when they might be resolved. Despite this, many can't wait to join the growing band of lessors.

This is against the background of worries over perceived difficulties coming from current economic results in China; with the news that growth is hurtling



Alan Leesmith with Axel Scholz, CEO Asia Pacific, Siemens Financial Services Equipment Finance

along at the fastest pace for many years. GDP expanded by 11.3 per cent in the second quarter of this year, driven by a 35 per cent jump in corporate fixed-asset investment. The other side of the coin is that expansion of this nature is a great tempter for the new leasing “start ups”.

Tax is charged on the “margin” generated by the lease after the deduction of costs. How this should be interpreted is not always clear. VAT is an issue in the case of sale and lease back since the authorities argue that in circumstances where equipment is not being replaced or scrapped, then it is treated as new and attracts VAT. Another significant VAT problem is on imported equipment. Importers generally do not have to pay VAT, but if the lessor itself is not the importer then VAT is payable by the lessor, causing the leasing costs to rise significantly. On all these issues things are slowly settling down as each is faced up to, practices agreed and some consistency of treatment is gradually evolving. Legal challenges with the authorities continue and the standard of legal support available to lessors is excellent.

Writing the Chinese Finance Leasing Law over the last four years or so has been a major step forward. The Ministry of Commerce team leader responsible advised that, although almost ready, it may not become law until 2008 or 2009, due to the sheer burden of legislation waiting to be put before the National

People's Congress. Meanwhile, lease agreements continue to be written relying on references in existing contract law, a basis which lawyers at the conference are confident is enforceable.

One very interesting aspect we do not see in the West is the extent to which government speakers were prepared to answer very searching questions, even though the answers were often personal opinions or agreement that something needed changing, but that they could not do so as it fell outside their remit.

As for the lack of credit information, the good news is that a process now exists for starting to collect data but inevitably it will be many years before the database will have grown to be of significant use. Meanwhile it is an expensive and lengthy process collecting information by physically getting to know the lessees.

One major change is that Chinese banks are to be permitted to undertake leasing transactions. The impact is difficult to foresee, but interestingly banks attract a great deal of respect from companies, perhaps more than is given to most of the Western lessors.

The overall message, for those considering the market, is to modify the time horizons normally expected in Western markets. Almost everyone agreed that quality staff is the most important aspect of establishing a company. Shortage of experience has caused salaries to rise. Quality people are available, but they need a lot of training and in many cases once trained the promise of substantial salaries elsewhere is irresistible. The HR speaker warned “you are unlucky to lose a good member of staff within a year”, this was closely followed by “if you have kept a good member of staff for two years, then you are very lucky!”

ALAN LEESMITH
MANAGING PRINCIPAL
THE ALTA GROUP
ALEESMITH@THEALTAGROUP.COM