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# China News Alert Issue 56

## Headlines

### Shenzhen Stock Market to establish new SME Second Board within its main board

On May 17, 2004 with the approval of the State Council, the China Securities Regulatory Commission (CSRC) officially approved the establishment by the Shenzhen Stock Exchange of a new SME (Small to Medium Enterprise) second board within the main board of the Exchange.

### Legal opinion required for material issues concerning state-owned enterprises

On May 17, 2004, the SASAC promulgated the Measures for the management of legal counsel of state-owned enterprises ("Administrative Measures"), stipulating that all bankruptcy matters, any increase or reduction in capital, material financing plans and other material matters which are submitted to the SASAC for approval must be accompanied by a legal opinion prepared by the legal counsel of the relevant state-owned enterprise.

### Ministry of Finance issues Accounting system for small enterprises, scheduled for implementation next year

To regulate the accounting practices of small enterprises, the Ministry of Finance recently issued an Accounting system for small enterprises, which will apply to all small enterprises in China when it comes into effect on January 1, 2005.

## Capital Markets

### Measures for the administration and supervision of SME Board issued

On May 19, 2004, the Shenzhen Stock Exchange issued Special regulations governing trading on the SME board, Special regulations governing listing on the SME board, and an Agreement on securities listing on the SME board. These regulations came into force on the same day.

### First companies will be listed on the new SME Board within a month

According to the CSRC, the Shenzhen Stock Exchange SME board is preparing for the first batch of enterprises to be listed on the SME board within the next 20 to 30 days. The CSRC has also stated that SME stocks currently listed on the main board will not be moved to the SME board.

### First registered sponsor institution participates in an issue of new shares - sponsorship system operational

Since the CSRC published the list of the first registered sponsor institutions and sponsor representatives in relation to stock exchange listings in China, Jiangxi Province Hongcheng Hydro Limited Liability Stock Corporation issued 50 million new A-shares to the public with Hantang Securities as its sponsor institution (main underwriter), making the sponsorship system operational.

### Ministry of Labour and Social Security sets standards for institutions responsible for the administration of pension funds

Recently, the Ministry of Labour and Social Security issued a circular stating that it will draft and supervise the implementation of standards and rules to be used by relevant departments in their examination and approval of institutions managing corporate pension funds. A list of qualified institutions will be published, and their activities supervised by relevant government authorities.

## Insurance

### China Insurance Regulatory Commission (CIRC) issues newly revised Administrative regulations for insurance companies

The CIRC has issued the Administrative regulations for insurance companies ("Administrative Regulations") on May 13, 2004. The Administrative Regulations regulate five major insurance areas:

* Insurance institutions;
* Terms of insurance and premiums;
* Insurance business activities;
* Insurance funds and reserves of insurance companies;
* Supervision and inspection within the industry.

### Provisional regulations for insurance asset management companies to be implemented on June 1, 2004

The CIRC issued Provisional measures on insurance asset management companies ("Provisional Measures") and a Guide for risk control in the use of insurance funds ("Guide"), which will come into force on June 1, 2004. The Provisional Measures specifiy details of the conditions for setting up insurance asset management companies, their legal standing, operations, and supervision. The Guide will apply to insurance asset management companies and insurance companies, and will provide detailed rules as to the purpose and operation of insurance funds.

## Taxation

### State Administration of Taxation (SAT) revises the Tentative operating procedures for comparing official receipts with the results generated by the electronic VAT verification system

Recently the SAT revised the Tentative operating procedures for comparing official receipts with the results generated by the electronic VAT verification system. The tentative procedures will come into force on June 1, 2004.

### SAT, Ministry of Finance and four other departments jointly issue circular requesting taxpayers in the commercial and retail sectors to use cash registers with automated tax deduction functions

Recently the SAT, Ministry of Finance, the Ministry of Information Industry, and the State Administration of Quality Supervision and Quarantine jointly issued a circular making the use of cash registers with automated tax deduction functions compulsory for all taxpayers of a certain size and with a fixed physical operating location in the commercial, retail, food and beverage, entertainment, service, and transportation sectors.

### Ministry of Finance and SAT issue circular relating to tax collection with respect to securities investment funds

The Ministry of Finance and SAT recently issued the Circular relating to tax collection policies for securities investment funds. The Circular provided that as of January 1, 2004, income earned on securities investment funds (open-ended or closed-ended) derived as a result of the price differentiation between the purchase price and sales price of securities or bonds purchased with investment funds will continue to be exempt from business and enterprise income taxes.

## Corporate & Commercial

### Jiangsu Province issues Implementation opinions on the regulation of the restructuring of provincial state-owned enterprises

Recently, the State-owned Assets Supervision and Administration Commission ("SASAC") Jiangsu branch issued the Implementation opinion on regulating the restructuring of provincial state owned enterprises ("Implementation Opinion").

According to the Implementation Opinion, the restructuring of enterprises under the supervision of SASAC's Jiangsu branch into companies with multiple shareholders, or the restructuring of their state-owned or state-controlled subsidiaries into non-state controlled enterprises (including situations where state-owned shares and legal person shares owned by the State amount to approximately 50% of the total outstanding shares of a company) shall be conducted in accordance with a restructuring plan prepared by the relevant state-owned assets supervision and administration department.

A restructuring plan must include general information about the enterprise, basic guidelines for restructuring, disposal of shares, employee placement and treatment of assets, as well as post-restructuring development plans.

### Ministry of Construction allows enterprises with legal person status to engage in franchising business in the public transport sector

The Ministry of Construction stated its intention to further break up the existing monopoly in the public transport sector by allowing enterprises with legal person status to engage in franchising business in the public transport sector. According to the Ministry of Construction, qualified enterprises are required to follow the procedures as set out in the PRC Tender Law to obtain such franchising rights.

### Administration for Industry and Commerce outlines six focus areas for market reform

The State Administration for Industry and Commerce recently decided to focus reform work on the following six areas this year:

* Prohibiting non-licensed business activities or business activities above and beyond the permitted business scope;
* Imposing sanctions regarding private assembling of motor vehicles and the sale thereof;
* Strengthening the supervision of the grain and agricultural products market;
* Imposing sanctions regarding industrial or regional monopolistic activities;
* Continuing to impose sanctions regarding smuggling activities; and
* Imposing sanctions regarding illegal publications and inappropriate publication content.

### State Administration of Radio, Film and Television implements "Various opinions on the development of the Chinese motion picture, television, and animation industries"

Recently the State Administration of Radio, Film and Television implemented Various opinions on the development of the Chinese motion picture, television and animation industries("Opinions"). In the Opinions, the Central Government expresses support and encouragement for the development of the Chinese motion picture, television and animation industries by implementing favourable structural and policy changes, as well as future market administration measures.

## Foreign Investment

### China Banking Regulatory Commission (CBRC): Narrowing the gap in services permitted to be provided by Chinese and foreign banks

The CBRC is currently revising the Detailed implementation rules with respect to the regulations for the administration of foreign invested financial institutions of the PRC, which will be promulgated in the near future. According to a CBRC spokesperson, although foreign invested banks are currently not permitted to provide services such as issuing bankcards, the Central Government will continue to narrow the gap between the types of services that domestic banks and foreign-invested banks may provide.

## Real Estate

### Ministry of Land Resources implements Implementation plan to further strengthen land market control

Recently, the Ministry of Land Resources implemented an Implementation plan to further strengthen land market control ("Implementation Plan"). According to the Implementation Plan, the Ministry of Land and Resources will conduct inspections and strengthen controls in the following areas relating to land:

* Conduct inspections on current land use to identify and penalise non-approved land use, or land use above and beyond the permitted scope;
* Conduct inspections on the quantity and quality of agricultural land;
* Collection of compensation fees paid in exchange for the use of land for construction purposes;
* Compensation paid by the government for government-sponsored expropriation of agricultural land; and
* Sale of land use rights by way of tender, auction or publicity.

### Ministry of Construction issues circular on quality control with respect to property management companies

On May 18, 2004, the Ministry of Construction issued a Circular on quality control with respect to property management enterprises ("Circular"). According to the Circular, the government departments responsible for conducting and approving quality control with respect to property management companies shall strictly abide by the Administrative Permits Law, and the Measures for the administration of property management enterprises. The Circular also sets out the procedures relating to quality control by property management companies, and the rules governing the printing and issuance of quality control certificates to property management companies.

## Other

### Ministry of Public Security promulgates four new transportation regulations including Regulations for the application and use of motor vehicles driver's licence

The Ministry of Public Security recently promulgated the Regulations for the application and use for motor vehicles drivers' licences, Regulations for the registration of motor vehicles, Regulations with respect to the procedures for the treatment of conduct contravening road safety laws and regulations, and Regulations with respect to the procedures for dealing with road accidents.

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