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# China News Alert Issue 231

## Capital Markets

### China to establish stock market for growth enterprises

China will establish a stock market for growth enterprises this year, said Premier Wen Jiabao while delivering a government work report in Beijing on 5th March.

"We will establish a market for growth enterprises, accelerate development of the bond market and steadily develop the futures market," Wen said at the opening of the First Session of the 11th National People's Congress (NPC).

The market for growth enterprises is to be a NADSAQ-like growth enterprise board to help small start-ups, especially high-growth, high-tech firms, to raise funds. Listing thresholds will be lower than the main board.

The premier did not specify the schedule.

Currently, nearly 200 companies are listed on the Shenzhen small and medium-sized enterprises (SMEs) board, whose market capitalisation surpassed US$120 billion as of 11th December, more than four times the amount from a year-earlier level, when only 101 companies were listed.

In 2007 alone, 93 companies were listed on the Shenzhen SMEs board, with the debut of Ningbo Bank yielding the largest proceeds of 4.14 billion yuan (US$582 million).

[Source: English People's Daily Online](http://english.people.com.cn/90001/90776/90785/6366707.html) ([see archive](China_to_establish_stock_market_for_growth_enterprises.pdf))

### Regulator approves fifth batch of stock funds

The China Securities Regulatory Commission (CSRC) has just approved a fifth batch of stock funds.

The industry watchdog has approved the issue of 12 stock funds since early February, reflecting the government's apparent efforts to support the falling domestic equity market, according to newspaper reports.

On 7th March, the CSRC approved two stock funds managed respectively by Industrial Fund Management Company Limited, and Galaxy Asset Management Company Limited. However, it did not reveal the ceiling of the new funds.

The new stock fund, named Industrial Social Responsibility Fund, to be launched by Industrial Fund Management Company Limited, will focus on listed companies with good social responsibility records, making it a first on the domestic market.

Chang Xin Asset Management Corporation Limited will launch a hybrid fund. Huafu Fund and Yimin Asset Management Corporation Limited have also been given permission to issue a bond fund.

The Shanghai Composite Index nearly doubled last year. But by early March 2008 the benchmark index had fallen more than 30 per cent from its record high in mid-October.

Experts believe that the new wave of stock fund issues and fund splits in February 2008 injected more than 80 billion yuan (US$11.2 billion) into the stock market.

[Source: Law Info China](http://www.lawinfochina.com/Search/displayinfo.aspx?id=6518&lib=news) ([see archive](Regulator_gives_nod_to_5th_batch_of_stock_funds.pdf))

### Securities official calls for emergency mechanism

The Chinese stock market needs an emergency mechanism instead of temporary measures to keep its major indices from continuous lows, a senior securities official said on 8th March at a press conference held during the annual session of the National People's Congress (NPC).

Ouyang Zehua, vice director of the market supervision department of the China Securities Regulatory Commission, made the remarks while refuting comments that the securities regulator often release market saving measures.

Ouyang, also a deputy of the National People's Congress (NPC), said no country has ever announced market saving rules, even in a highly mature market like Wall Street.

However, since individual investors account for 60 per cent of domestic stock market participants, irrational factors emerge from time to time. Therefore, it is necessary for the regulator to maintain market stability with legitimate measures at appropriate occasions. This is reasonable and also commonly adopted in overseas markets, he added.

He said the recent stock corrections resulted from a series of factors both at home and abroad, and fluctuation would be a feature of the market this year, but he was still optimistic about the market as better-than-expected financial results of listed companies can make the stock market fundamentally strong.

Since early February, the securities regulator has approved the launch of several stock funds, which are regarded as the regulator's market saving measures. The market is expecting more good news, including a cut in stamp tax on stock trading.

Such remarks from a securities official can help to boost investors' confidence in the current weak market.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-03/10/content_6523475.htm) ([see archive](Securities_official_calls_for_emergency_mechanism.pdf))

### Direct investment program put on hold

No timetable has been set for a pilot program that will allow people in mainland China to invest directly in Hong Kong-listed shares, a top banking regulator said recently.

Further studies are needed for the so-called "through train" program, Liu Mingkang, chairman of the China Banking Regulatory Commission, said.

He also said there is no plan to allow funds generated through China's qualified domestic institutional investor (QDII) program to be invested in the domestic stock market.

Announced in August, the program is expected to diversify the investment channels open to mainland residents. But the US subprime crisis and unstable stock markets are believed to have led to it being put on hold.

Speaking from the sidelines of the NPC session, Liu also said there are encouraging attitudes toward financial institutions from Taiwan investing on the mainland. "We hope there will be some changes in Taiwan," he said, referring to the fact the island currently bans its banks from investing on the mainland.

The mainland has an open attitude toward banks from all over the world, including Taiwan, opening branches or investing in domestic banks on the mainland, as long as the procedure complies with regulations, Liu said.

Last month, regulators in Taiwan and on the mainland agreed to allow Taiwan-listed Fubon Financial Holding to buy a 20 per cent stake in Xiamen Commercial Bank through its Hong Kong subsidiary, Fubon Bank (Hong Kong).

This year the regulatory body will seek to keep the quantity of new loans level with last year, Liu said. That will mean a smaller increase in percentage terms, he said.

Liu said China will not experience a problem similar to the US subprime crisis as it does not offer zero deposit mortgages. China has no intention of reducing the minimum down payment for home loans, he said.

The current minimum deposit is 30 per cent for first homes and 40 per cent for second properties.

[Source: Institute of Finance and Trade Economics, Chinese Academy of Social Sciences](http://cms.cass.cn/show_News_e.asp?id=22027) (Link no longer active)

### Refinancing plan approved

Ping An, the leading insurance company in China, won shareholder approval for a revised refinancing plan, which would involve issuing approximately 80 billion yuan (US$11.3 billion) worth of shares and 40 billion yuan (US$5.6 billion) of convertible bonds.

The amount was 40 billion yuan less than the original refinancing plan announced by Ping An on 21st January.

Board chairman, Ma Mingzhe, told the meeting that the refinancing was intended "to replenish capital to keep up with the rapid development of the Chinese financial sector." He added that some of the proceeds would be used for government-approved investments outside Ping An's main business.

More than 90 per cent of its mainland shareholders and more than 97 per cent of its Hong Kong shareholders voted for the plan, the company announced. The plan will be sent to the China Securities Regulatory Commission and the Stock Exchange of Hong Kong for approval.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200803/t20080306_1387639.html) ([see archive](Refinancing_plan_approved.pdf))

## Corporate & Commercial

### Monopolistic M&As threaten China's economic security

A deputy of the 11th National People's Congress is calling for an economic security law to prevent monopolistic mergers and acquisitions (M&A) by transnational corporations from threatening the Chinese economy.

"It's time to deal with this issue concerning China's sovereignty, future and economic security," said Zhou Xiaoguang, president of Neoglory (China) Holding Group based in the eastern province of Zhejiang.

80 per cent of China's large-scale supermarkets have been merged with or acquired by foreign companies. Zhou said leading manufacturers of machinery and household electric appliances have now become targets of transnational corporations in a new round of M&As.

"In the manufacturing sector, for example, nearly all the leading players are foreign-funded companies," said Zhou. "Chinese players are increasingly losing their competitive edge."

In one of the latest M&As, France's Groupe SEB became the controlling shareholder of China's leading cookware maker, Supor, in December by acquiring 52.74 per cent of its shares for €327 million.

Su Xianze, Supor's founder, holds a 36 per cent share after the deal, but the shares in circulation were reduced to 11 per cent, compared with the minimum requirement of 25 per cent for listed companies in China, arousing concerns that Supor may be forced out of the stock market.

"Transnational accounting and auditing firms have nearly monopolised the auditing of all overseas-listed Chinese companies, mostly leading players in energy, finance and other key sectors," said Zhou.

It's impossible for China, a member of the World Trade Organisation, to impose restrictions on M&As by transnational corporations, but it must stop ill-disposed and monopolistic M&A plans, she said. "Many developed countries in the world have laws and regulations to that effect."

Last year, the United States passed the Foreign Investment and National Security Act of 2007 (FINSA), which increases the power of the American President to block a foreign acquisition on national security grounds, said Han Fangming, a member of the 11th National Committee of the Chinese People's Political Consultative Conference, the top political advisory body.

Han, an investment banker, said it is necessary to set up an independent committee to standardise M&A procedures and block monopolistic acquisitions.

"The committee, consisting of specialists, scholars and other professionals from the industry, will also work to ensure only reasonable and constructive overseas investment projects are approved," he said.

Last August, China's legislators passed the nation's first anti-monopoly law, which requires national security checks for foreign companies seeking to merge with or acquire Chinese enterprises.

Three months later, the country's planning agency, the National Development and Reform Commission, again identified sectors as restricted or off-limits to foreign capital, including "important and non-renewable" mineral resources and "strategic and sensitive" industries relating to national economic security.

Chinese lawmakers are also considering a law to prevent state-owned assets from being sold too cheaply.

[Source: China.com](http://english.china.com/zh_cn/business/economy/11021617/20080311/14718463.html) ([see archive](Lawmaker_says_monopolistic_M_and_As_threaten_Chinas_economic_security.pdf))

### China to settle financial information disputes under WTO rules

China will work with the World Trade Organisation (WTO) to settle disputes with the European Union (EU) and the United States concerning financial information providers.

"The United States and European Union have requested a consultation at the WTO on the issue of financial information providers," the Ministry of Commerce said in a brief statement on 4th March.

"As a WTO member, China respects the choice of other WTO members," it said, "China will seriously study the consultation request and deal with it according to WTO procedures."

The move was China's first official response on the issue. The ministry did not provide further comments.

The EU and the United States launched the WTO case, complaining that information suppliers such as the Reuters Group, Dow Jones and Bloomberg suffered unfair treatment in China.

They said that according to rules introduced by China in 2006, foreign data providers had to run their business through the Xinhua News Agency. They said this against WTO principles as Xinhua is both the judge and an industry player.

According to rules set by the WTO, a resolution should be attempted within a 60-day period from the day the complaint is lodged. Otherwise, the EU and the United States can ask the WTO to establish investigative panels.

[Source: Law Info China](http://www.lawinfochina.com/Search/displayinfo.aspx?id=6509&lib=news) ([see archive](China_to_settle_financial_info_disputes_under_WTO_rules.pdf))

## Other

### Highlights of Chinese Premier Wen's government work report

Chinese Premier Wen Jiabao will deliver a government work report at the opening meeting of the First Session of the 11th National People's Congress (NPC) in the Great Hall of the People on 5th March.

The following are highlights from the Work Report of the Government distributed to journalists before the opening of the NPC session.

#### Targets for Economic and Social Development

With the aim of improving economic structure, productivity, energy efficiency and environmental protection:

* GDP should grow by about 8 per cent in 2008
* Rise in the CPI should be held at around 4.8 per cent
* Ten million jobs should be created in urban areas, and the rate of registered urban and unemployed should be kept at around 4.5 per cent
* Some improvements will be made in the balance of payments.

#### Fiscal and Monetary Policy

* China must follow a prudent fiscal policy and a tight monetary policy this year to accomplish the tasks for macroeconomic regulation.
* The deficit for the central government budget this year is set at 180 billion yuan, 65 billion yuan less than last year. China plans to issue 30 billion yuan of treasury bonds for investment, 20 billion yuan less than last year, and increase allocations from the central government budget for general development, bringing the total central government investment in development projects up to 152.1 billion yuan.

#### Investments in Social Programs

* Allocations from this year's central government budget related to agriculture, rural areas and farmers totals 562.5 billion yuan, a year-on-year increase of 130.7 billion yuan.
* The central government will spend 113.4 billion yuan on science and technology in 2008, a year-on-year increase of 13.4 billion yuan.
* Central government allocation for education, medical insurance, health care, social security system, low-rent housing program, and safe drinking water for another 32 million rural residents.
* China has drawn up a preliminary plan on health care reform, which will soon be publicised to solicit opinions from the general public.

#### Food Supply

* Provincial governors are to be responsible for the "rice bag" (grain supply) program and city mayors for the "vegetable basket" (non-staple food supply) program.

#### Food Safety

* China will complete the formulation or updating of more than 7,700 national standards for the safety of food products, drugs and other consumer goods to put in place a system of standards for product safety in line with "international standards."

#### Energy and Environment

* China will implement plans to close down sub-standard production facilities in the electricity, steel, cement, coal and papermaking industries.
* China will increase urban sewage treatment and aim to reach 100 per cent collection and treatment of sewage in 36 large cities within two years.

#### Banking Reform

* Shareholding systems introduced to the Agriculture Bank of China and the China Development Bank will be reformed this year.

#### Stock Market

* China will establish a market for growth enterprises, accelerate the development of the bond market and steadily develop the futures market, while striving to improve the performance of listed companies, and maintaining an open, fair and equitable market environment.

#### Foreign Investment

* China will limit or ban foreign investment in projects that are energy intensive or highly polluting, limit or ban foreign investment in some areas of resource exploitation, and correct illegal practices for attracting foreign investment.

#### Free Compulsory Education

* Free compulsory education will be universally available in both urban and rural areas this year when China stops collecting tuition and miscellaneous fees from urban students in autumn 2008.

#### Olympics

* China will prepare for and organise the Olympic Games, strengthen cooperation with the international community, and create an excellent environment to ensure that the Games are a unique and well-run sporting event.

#### Super Ministries

* A plan for the reform of State Council bodies is to be tabled with this Session. It will explore ways to establish larger departments integrating the functions of smaller departments and resolving the problem of overlapping responsibilities and of powers not being matched by responsibilities.

#### Taiwan Issue

* The mainland will work for the early resumption of cross-Straits negotiations on the one-China principle to address major concerns held by compatriots on both sides.
* The mainland firmly opposes "Taiwan independence" secessionist activities, and will never allow anyone to separate Taiwan from the motherland in any guise or by any means.
* Any issue that concerns China's sovereignty and territorial integrity must be decided by all the Chinese people, including Taiwan compatriots.
* The attempts of "Taiwan independence" secessionist forces to deny the reality that the mainland and Taiwan belong to one and the same China and to undermine peace in the Taiwan Straits are doomed to fail.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200803/t20080305_1386200.html) ([see archive](Highlights_of_Chinese_Premier_Wens_govt_work_report.pdf))

### New labour law will not harm employers

A top labour official has defended the new Labour Contract Law against claims it will weaken enterprise vitality and raise costs for law-abiding employers.

Sun Baoshu, vice-minister of labour and social security, said the law had met resistance from reluctant employers as a result of misinterpretation.

"I think these concerns are a result of incomplete or inaccurate interpretation," Sun told a news conference at the annual session of the National People's Congress.

The law, which took effect on 1st January, requires firms to award open-ended contracts to staff of 10 years or more, or those who have completed two fixed-term contracts, to protect them from dismissal without cause.

It also mandates higher company contributions to pension and insurance funds after many companies previously derived economic gains from the violation of labour rights.

Some companies complain that such regulations will reduce labour flow, weaken enterprise vitality and increase labour costs, while others suggest revising the terms of the law.

According to Sun, compared with the previous labour law, the new labour contract law has actually loosened terms set for contract dismissal. "Therefore, the open-term contract will not lead to rigidity in the labour market," Sun said.

Sun added that a contract without specific time limits would also help employees feel more attached to their companies and do no harm to employers.

Despite terms of compensation set for contract dismissal by employers, "the cost of this law is actually very limited," Sun said.

But those who had minimised costs through illegal employment practices, such as refusing to pay for employees' social insurance, will now "pay much more", said Sun.

In response to claims that the new law will frighten away investment, Sun stressed that improved labour relationships will help improve the investment environment and also employment. "It won't affect the investment environment. On the contrary, it will improve it," said Sun.

But Sun, who has been conducting surveys on the new labour contract law's implementation during the first three months, said that there had been some resistance in implementation.

"Some employers misread the law and tried to avoid it," Zhang Mingqi, deputy president of the All-China Federation of Trade Unions (ACFTU) and member of the top political advisory body CPPCC, said recently.

In one instance, the Guangdong-based Huawei Technologies Co Ltd, China's telecom network equipment giant, made headlines for its controversial "voluntary resignation" scheme late last year.

In a bid for a more forceful implementation of the new law, Sun said the government would soon map out detailed codes, relevant judicial explanations and government supplement regulations in addition to enhancing supervision from the relevant labour departments and media.

[Source: China Economic Net](http://en.ce.cn/subject/cn/topics/200803/10/t20080310_14774701.shtml) ([see archive](New_labor_law_no_harm_to_firms_Hot_Topics.pdf))

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