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# China News Alert Issue 233

## Capital Markets

### CSRC solicits opinions on opening its own NASDAQ

The China Securities Regulatory Commission (CSRC) has recently begun to solicit opinions on a market to allow small start-ups to raise funds.

The securities regulator posted the regulations, including conditions and procedures for stock issuance and information disclosure, on its website.

The views and opinions collected will be published next month and relevant institutions, including sponsors and law firms, will have to learn the regulations, said the CSRC.

The first batch of companies will not be listed on the growth enterprise board, similar to the NASDAQ, for several months, though the regulator did not reveal exactly when. Shang Fulin, head of the CSRC, had said in January that the board would open on the Shenzhen Stock Exchange in the first half of this year.

The CSRC said the Shenzhen bourse had contacted about 200 companies interested in the growth enterprise board, which will have lower thresholds than the main board.

According to the draft regulations, the total share capital of any listed company on the growth enterprise board should be no less than 30 million yuan (US$4.2 million). The entry level for firms on other boards is 50 million yuan, according to regulations for the Shanghai and Shenzhen Stock Exchange.

"A successful growth enterprise market could cultivate excellent companies like Microsoft," said Yi Minli, professor with the Southwestern University of Finance and Economics.

The CSRC is currently deciding on extra requirements for listing enterprises on the growth enterprise board, as these will have a higher associated risk. "Some enterprises will fail and some may even raise money for ulterior purposes," said Hua Xin, vice chairman of the Sichuan Federation of Industry and Commerce.

The draft regulations increase the supervision period for sponsors of a newly-listed company on the growth enterprise board to three financial years, compared with two financial years for other stock market boards.

Lack of finance has been a problem for China's 42 million small and medium-sized enterprises, or SMEs, more than 95 per cent of which are privately owned.

Less than 2 per cent of SMEs access funds directly from the financial market, according to statistics from the National Development and Reform Commission.

[Source: China Securities Journal](http://www.cs.com.cn/english/markets/200803/t20080324_1407361.html) ([see archive](CSRC_solicits_opinions_for_opening_its_own_Nasdaq.pdf))

### CSRC to regulate the administration of M&As

The China Securities Regulatory Commission (CSRC) is considering drafting 'Measures for the Administration of Acquisitions and Mergers of Listed Companies' to provide guidelines for the reconstruction, acquisition and merger (M&A) of listed companies and the division of large-scale multi-owner listed companies.

The CSRC will provide implementation rules and interpretations of related laws and regulations.

They will adopt measures to prohibit insider trading on the secondary market, especially unfair information disclosure.

They will also monitor applications for M&As which have caused abnormal fluctuations in share prices.

The CSRC also stipulated that stock exchanges must specify the contents for continuous information disclosure after completion of the M&A.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3280) ([see archive](Lexis_China_Legislation_in_Progress_CSRC_to_Regulate_the_Administration_of_M_and_As_of_Listed_Companies.pdf))

### CBRC meets to discuss the regulation of small- and medium-sized commercial banks

The CBRC has recently held a meeting about the regulation of small- and medium-sized commercial banks (SMCBs) attended by senior officials and supervisors from the CBRC headquarters and local offices.

The CBRC Chairman, Liu Mingkang, delivered a written speech and the Vice Chairman, Wang Zhaoxing, addressed the meeting.

In the past five years, the CBRC has operated risk-based supervision of SMCBs, focusing on risk resolution together with banking reform. So far, these efforts have paid off, resulting in the improved overall competitiveness of SMCBs.

As of the end of 2007, the average NPL ratio was 2.45 per cent and 20 SMCBs had successfully reduced their NPL ratio to less than 1 per cent.

The average capital adequacy ratio of all SMCBs was 10.57 per cent, up 2.32 per cent from the previous year.

The average provisioning coverage ratio of joint-stock commercial banks was 114.6 per cent, up 25.87 per cent from the beginning of 2007, and that of city commercial banks was 72.28 per cent, up 24.86 per cent.

The average ROA and ROE of joint-stock commercial banks was 0.9 per cent and 21.3 per cent respectively, and those of city commercial banks was 0.8 per cent and 16 per cent respectively.

20 SMCBs successfully introduced qualified domestic and overseas institutional investors, which brought more than RMB30 billion in investments and created positions for over 100 managerial personnel.

One issue raised at the meeting was that there are increasing uncertainties in economic and financial development at home and abroad, and SMCBs are still too weak in corporate governance, risk and capital management to adapt to the changing circumstances.

Therefore the CBRC should urge SMCBs to increase efforts to further improve the effectiveness of their corporate governance, enhance their risk management and financial innovation, and ensure the adequacy of banks' liquidity in any emergency.

The CBRC should also provide input to help improve regulatory techniques and integrate regulatory resources in order to aid the development of SMCBs.

[Source: China Banking Regulatory Commission](http://www.cbrc.gov.cn/EngdocView.do?docID=20080314EB02ADBC5B67EC8AFF86224AFE033000) ([see archive](The_CBRC_held_a_meeting_on_the_supervision_of_small_and_medium-sized_commercial_banks.pdf))

### CIRC to support the listing of insurance intermediaries

The China Insurance Regulatory Commission (CIRC) will support qualified insurance intermediaries to raise funds by listing on the market and will encourage various capital investments, including venture capital investment, in insurance intermediaries.

Under the 2008 'Outlines for the Insurance Intermediary Supervision and Administration', released on 14th March 2008 by the CIRC, the CIRC will also complete the revision of the 'Administrative Provisions for the Insurance Intermediary', the 'Administrative Provisions for Insurance Brokerages', the 'Administrative Provisions for Insurance Assessment Institutions', and the 'Administrative Provisions for Insurance-concurrent Agencies', and draft the corresponding implementation rules.

In addition, the CIRC will support qualified regions in establishing independent insurance associations, and guide such associations to establish appraisal systems for insurance brokerages and assessors.

It will also research, compile and release sample insurance intermediary contracts.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3227) ([see archive](Lexis_China_Legislation_in_Progress_CIRC_to_Support_the_Listing_of_the_Insurance_Intermediaries.pdf))

## Taxation

### EIT Preferential Policies Encourage Business Development

China's Ministry of Finance and State Administration of Taxation will adopt a number of enterprise income tax (EIT) preferential policies to encourage the development of the software industry and integrate the circuit industry and securities investment funds, including tax exemption and deduction.

According to the 'Circular on Several Preferential Policies of Enterprise Income Tax' released by the two authorities, tax premiums returned to software production enterprises will be exempt from EIT if the enterprises use the tax premiums for the research and development of software products and production expansion.

Also, newly established domestic software production enterprises may be exempt from EIT in the first and second years after they begin to make profit, and have their EIT halved during the third and fifth years.

Income from securities investment funds will be temporarily free from EIT, including the income of securities investment fund managers derived from price differences when trading shares and bonds between funds.

If the accumulated undistributed profits of foreign invested enterprises generated prior to 1st January 2008 are distributed to foreign investors after 2008, the EIT will be removed.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3242) ([see archive](Lexis_China_Legislation_in_Progress_EIT_Preferential_Policies_Encourage_Business_Development.pdf))

### Preferential EIT policies in the transitional period specified

China's Ministry of Finance and State Administration of Taxation have specified preferential tax policies during the transitional period.

The Circular on 'Issues Relevant to the Implementation of the Transitional Preferential Policies of the State Council of Enterprise Income Tax' outlines the specific standards: in 2008, EIT will be collected on half of the taxable income calculated at a tax rate of 18%; in 2009, it will be collected on half of the taxable income calculated at a tax rate of 20% and at a tax rate of 22% in 2010, 24% in 2011, and 25% in 2012 and subsequent years.

For enterprises that have been approved by local autonomous governments to enjoy the tax deduction and exemption policies, the new policies will only be applied to EIT paid to local government rather than the part paid to central government.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3240) ([see archive](Lexis_China_Legislation_in_Progress_Preferential_EIT_Policies_in_the_Transitional_Period_Specified.pdf))

### Renewable energy resource development entitled to preferential tax policies

China will support, via preferential tax policies, the development, use, equipment production and technological research and development of renewable energy resources.

It will also support the construction of domestic technology and equipment for renewable energy resources.

Under the "Eleventh Five-year Plan" of the Development of Renewable Energy Resources, released on 18th March 2008 by China's National Development and Reform Commission (NDRC), China will also compile tax incentives for the use of renewable energy resources in rural areas, and encourage enterprises and individuals to establish renewable energy resource service companies in rural areas.

It will organise pilot small-scale energy resource service companies in such areas, and will support the establishment of large and medium-scale firedamp engineering service companies.

Related authorities will maintain the renewable energy market by adopting such comprehensive measures as finance, tax and price policies.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3225) ([see archive](Lexis_China_Legislation_in_Progress_Renewable_Energy_Resource_Development_Entitled_to_Preferential_Tax_Policies.pdf))

## Corporate & Commercial

### Cabinet encourages development of the service industry

China's State Council has announced policies and measures to accelerate the development of the service industry.

According to a document released recently, the requirements for access to the service market will be relaxed.

The minimum registered capital of an ordinary service enterprise will be RMB 30,000 unless otherwise required, and restrictions on business location, investors' qualifications and business scope will also be relaxed.

According to the 'Implementing Opinion on Several Policies of and Measures for Accelerating the Development of the Service Industry', released on 13th March by the General Office of the cabinet, commercial authorities must encourage the development of modern organisational models such as chains, franchising, e-commerce, logistics and delivery.

Financial regulatory institutions must guide and encourage various financial institutions to provide and develop financial products suitable for service enterprises and support qualifying service enterprises to raise funds via different channels such as bank loans and the issuance of shares and bonds.

In addition, the cabinet urged related authorities to facilitate the development of the service industry in policies governing tax, land administration, service industrial standards and social credit systems.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3250) ([see archive](Lexis_China_Legislation_in_Progress_Cabinet_Encourages_Development_of_the_Service_Industry.pdf))

### Foreign enterprises encouraged to invest in China

China will encourage overseas parties to establish investment enterprises in China, guide qualifying foreign-invested enterprises to list via domestic markets, and encourage foreign enterprises to participate, via measures such as mergers and acquisitions, in the reconstruction and reform of State-owned enterprises.

Under the 'Guiding Opinions of the General Office of the Ministry of Commerce for Absorbing Foreign Investment in 2008', released on 17th March 2008 by China's Ministry of Commerce (MOFCOM), China will encourage foreign enterprises to invest in high-tech enterprises within the equipment and new material manufacturing industries, and will restrict industries with high energy consumption and emissions from moving to China.

MOFCOM will encourage foreign-invested enterprises, and research and development institutions, via industrial, financial and taxation policies, to innovate, introduce advanced technologies and expand their research and development.

MOFCOM will also encourage multinational enterprises to transfer their global outsourcing businesses to China, guide foreign investment in the service industry, including commercial services, and strengthen regulation of overseas access to the real estate industry.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3229) ([see archive](Lexis_China_Legislation_in_Progress_Foreigners_Encouraged_to_Establish_Venture_Investment_Enterprises_in_China.pdf))

### Customs regulate double-identity administration for enterprises in special areas

Beginning on 1st May 2008, enterprises in areas specially regulated by Customs are only eligible to own one custom registration code.

Under the 'Issues Concerning the Double-Identity Administration for Enterprises in Areas Specially Supervised by Customs', released on 18th March 2008 by China's General Administration of Customs (Customs), if the aforementioned enterprises currently have two codes, for "Consignee and Consigner of Imported and Exported Commodities" and "Customs Broker", they will only be eligible to choose one as their unique code, with the other being canceled by Customs.

Areas regulated by Customs include bonded areas, export-oriented processing zones, bonded logistic parks, bonded ports, comprehensive bonded areas, cross-board industry parks and supporting zones for international boarder economic cooperation centers.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3260) ([see archive](Lexis_China_Legislation_in_Progress_Customs_Regulates_Double-Identity_Administration_on_Enterprises_in_Areas_Specially_Supervised_by_Customs.pdf))

## Real Estate

### China to regulate property registration

Beginning on 1st July 2008, after intended commercial property sellers and purchasers sign a commercial property trading contract, if the seller fails to apply for announcement registration with the purchasers as agreed, the purchaser may apply for the registration.

According to the 'Measures for House Registration' (Measures) released by the former Ministry of Construction on 21st March, for property on State-owned land, real estate development enterprises must apply for registration of public locations, public facilities and property when they apply for the initial registration of property ownership. However, no ownership certificate will be issued.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3297) ([see archive](Lexis_China_Legislation_in_Progress_China_to_Regulate_House_Registration.pdf))

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