Charltons - China News Alerts Newsletter - 23 April 2008

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# China News Alert Issue 237

## Capital Markets

### China's securities regulator unveils measure to stabilise market

China's securities regulator recently ordered shareholders expecting to sell large amounts of shares freed from lock-up periods, to do so on the block trading system.

When more than one per cent of a listed firm's total shares are sold within a month, the holders should use the block trading system, the China Securities Regulatory Commission said.

Analysts say the measure is a move to support the stock market, after the benchmark Shanghai Composite Index plunged by 49.5 per cent from its all time high in October 2007.

Investor sentiment is weak and there are lingering concerns that huge amounts of such shares would flood the market, therefore causing share prices to fall.

"If such shares are all to be traded on the bid trading system, trading will be inefficient as the volume is often restricted by the buying interest on the secondary market," a CSRC spokesman said in a statement.

"Trading will also exert huge pressure on share prices and twist the pricing mechanism," the spokesman stated.

"The move will help to ease pressure on the secondary market and the impact on the pricing mechanism of the bid trading system, and will stabilise investors' expectations over the reduction of such share holdings."

The move is based upon experience of mature markets in order to promote stable and healthy development of China's emerging and transitional capital market, said the spokesman.

The country's stock market is facing complicated internal and external factors, the spokesman noted, adding the external factors include the recent volatility on global financial markets, its bigger impact on emerging markets, and sustained price rises of energy, resources, and grain.

These external factors have also affected the judgment and sentiment of China's domestic investors, the spokesman stated.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20080421/14797933.html) ([see archive](Chinas_securities_regulator_unveils_measure_to_stablize_market.pdf))

### Rules announced for acquisitions by banks

China has circulated its first rules governing acquisitions by commercial banks of financial companies at home and abroad, a move that may make it easier for the nation's lenders to expand into industries such as insurance.

The China Banking Regulatory Commission (CBRC) has sent the draft rules to banks for consultation. The undated document did not say when the new regulations are expected to take effect.

The new rules ban banks from making acquisitions that would push their capital adequacy ratios to less than 10 per cent, the document said. Deals must not create monopolies or undermine "effective competition".

China's banks are currently barred from investing in non-banking financial institutions unless "stipulated otherwise by the State", according to 2003 revisions to the nation's Commercial Bank Law.

While domestic acquisitions of non-banking financial companies will be covered by the new rules, banks will require approval from the State Council, according to the draft. Overseas purchases only need approval by the CBRC, it said.

"Chinese commercial banks are very enthusiastic about making cross-sector acquisitions," said Zhang Xi, an analyst at China Galaxy Securities Company. "This will provide a good opportunity for bigger banks, especially as valuations of financial equities drop."

China Construction Bank Corporation and Bank of China Limited, the nations second- and third-largest by market value, have applied for permission to set up their own insurance ventures. ICBC, the world's largest bank by market value, has said it wants to expand into insurance.

China's insurers collected US$100 billion worth of premiums last year, up 25 per cent from 2006. China Life Insurance Company is the world's third-largest insurer by market value, after Warren Buffett's Berkshire Hathaway Inc. and American International Group Inc.

Collapsing profits and market values of banks and securities firms, such as Citigroup Inc., UBS AG and Merrill Lynch & Co., have prompted speculation that Chinese banks would start using the US$63 billion they raised in stock sales over the past three years for acquisitions.

Even so, ICBC Chairman Jiang Jianqing this month said he's unwilling to use the bank's US$162 billion of cash and near-cash securities for acquisitions in the US. ICBC has bought assets in emerging markets, including Indonesia and South Africa, in the past year and is in talks over buying a stake in a Thai lender.

"The US subprime risk isn't over," he said in an interview. "Even though asset prices are very low and many good assets can be bought, we just don't know where the bottom is."

The 10 per cent capital adequacy rule may make it difficult for smaller lenders, such as Huaxia Bank and China Minsheng Banking Corporation, to gain clearance for takeovers, China Galaxy's Zhang Xi said.

Huaxia Bank, partly owned by Deutsche Bank AG, had an 8.3 per cent capital adequacy ratio at the end of 2007. China Minsheng, the nation's first privately owned bank, was at 10.7 per cent.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-04/17/content_6624203.htm) ([see archive](Rules_announced_for_acquisitions_by_banks.pdf))

### Wider channels for rural financial investment

More investment will find its way into China's rural financial market as China's banking regulators plan to announce new rules on the merger and acquisition of small and medium-sized rural financial institutions.

In a written speech to the fourth annual conference of Chinese financial experts, vice chairman, Jiang Dingzhi, with the China Banking Regulatory Commission (CBRC) said that guidance would be given this year to broaden investors' access to rural financial markets.

Current restrictions on investment caps, localities and venture capital financing channels would be relaxed for banking and non-banking financial institutions to merge with, acquire or strategically invest in small and medium-sized rural financial institutions, Jiang was quoted as saying recently.

Under the current regulations, any single corporation and its related companies should possess no more than ten per cent of a rural banking institution.

Jiang also said that the commission would continue to aid rural financial reform by "steadily" advancing shareholder reforms to diversify the ownership of rural financial institutions.

CBRC data shows that by the end of 2007, combined assets of China's small and medium-sized rural banking institutions nationwide amounted to 5.6 trillion yuan (US$787.6 billion), up from 2.2 trillion yuan in 2003. They issued 1.2 trillion yuan in loans to more than 300 million farmers from 78.17 million households, up from 400 billion yuan in 2003.

To be eligible for listing, rural banking institutions must ensure a capital adequacy ratio of no less than 8 per cent and a non-performing loan ratio of no higher than 10 per cent.

As well as shareholder reforms, the government has resorted to what are called "new-type" rural financial institutions to ease the chronic capital shortage in rural China that has aggravated the imbalance between the rural economy and the rest of the economy.

Unlike the traditional collective-owned rural credit cooperatives, which have been the major financing channels for farmers, these new institutions in the form of rural and country banks, finance companies and rural mutual cooperatives are privately-owned and established with a clear-cut shareholding structure.

After a trial carried out in the Inner Mongolia Autonomous Region, Sichuan and four other provinces since late 2006, the experiment was broadened last year as 31 such institutions were established. This year, another 100 are to be set up across the country.

The government also hopes to activate the stagnant rural financial market by bringing in overseas investors. In December 2007, London-based HSBC opened its first county branch in southwestern Chengdu, becoming the first non-Chinese bank to enter China's rural financial market.

Previous reports said that the bank had planned to open six to ten more branches in the Chinese interior this year. Some other leading non-Chinese banks, such as Citibank and Standard Charter, have also shown an interest in the rural financial market.

Although rural China has been viewed as a potential market amidst the country's robust economic expansion, there is still an impoverished rural population of over 20 million, despite a drop from more than 250 million three decades ago.

According to National Bureau of Statistics data, the per-capita disposable income for China's urban areas was 13,786 yuan in 2007, up 17.2 per cent, or 12.2 per cent year-on-year in real terms. The figure for rural areas was 4,140 yuan, up 15.4 per cent, or 9.5 per cent in real terms.

[Source: CQ News](http://english.cqnews.net/system/2008/04/21/001164724.shtml) (Link no longer active)

## Corporate & Commercial

### Listed firms must disclose major asset reorganisation plans in timely manner

Beginning on 18th May, all listed firms planning to conduct major asset reorganisation must disclose their plans for reorganisation in a timely manner, particularly information that is sensitive to investors.

This is to ensure the fairness and honesty of information disclosure.

The China Securities Regulatory Commission (CSRC) also requires that the reorganisation of listed firms must not lead to the disqualification of the firm from stock listing, and that the assets involved must have a clear ownership structure and be fairly priced, according to the Administrative Measures for the Major Asset Reorganisation of Listed Companies (‘Measures').

After the implementation of the Measures, if listed firms plan to implement the items for the reorganisation, they are not required to report to the CSRC's related authorities.

Firms may decide to trade in line with the Measures, related information disclosure rules and related provisions of the listing rules, and undergo related decision-making and information disclosure procedures.

The CSRC has also released Provisions for the Regulation of Several Issues Concerning the Major Asset Reorganisation of Listed Companies to improve the accuracy of information disclosure.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3599) ([see archive](Listed_firms_must_disclose_major_asset_reorganisation_plans_in_timely_manner.pdf))

### Chinese companies to issue short-term bonds more easily

Chinese companies will no longer need the central bank's approval when issuing short-term bonds on the inter-bank market amidst government efforts to boost direct financing and reduce bank loan risks.

The People's Bank of China (PBOC) announced that non-financial companies could issue bonds with maturities of less than one year on the inter-bank market without its approval from 15th April.

Instead, they would only need to register with the National Association of Financial Market Institutional Investors set up in September, the PBOC said in a statement.

It said other negotiable notes "with a certain maturity" issued by non-financial companies on the inter-bank bond market would not need administrative examination and approval, nor would future innovative financing tools on the market.

China has vowed to develop its capital market and broaden direct financing channels to curb enterprises' heavy reliance on bank credit.

"China's financial structure has long been unbalanced, with its direct financing underdeveloped," said the statement. "Enterprises rely on bank loans too much, which bring fairly large hidden risks."

Boosting innovation in debt offering and raising the share of direct financing could mobilise the transfer of deposits to investment and decrease the credit risks associated with the banking system, it said.

China allowed companies to offer short-term bonds to qualified institutional investors on the inter-bank market in May 2005.

From then to the end of 2007, 316 companies issued 769.3 billion yuan (US$109.92 billion) worth of short-term bonds, with 320.3 billion yuan of outstanding debts, statistics showed.

In comparison, short-term loans to non-financial companies and other institutions surged 1.25 trillion yuan in 2007, while middle- and long-term loans jumped 1.65 trillion yuan.

[Source: Invest China](http://www.minge.gov.cn/english/MarketUpdates/3782.htm) (Link no longer active)

### Some bank's financing products lack risk notices

A recent survey by the China Banking Regulatory Commission (CBRC) found that financing products from some commercial banks overemphasised expected returns and did not include an investment risk notice.

Experts reminded investors to carefully weigh profit versus risk before deciding to purchase these products.

According to the survey, of the 98 financing products that matured last month, 10.2 per cent didn't realise their predicted proceeds. 6.1 per cent generated zero returns.

The so called "expected return" is just an average volume rather than the normal status of financing products, said Yin Jianfeng, director of the Research Centre of the Finance Institution at the Chinese Academy of Social Sciences Institute.

"Using one profitless financing product recently exposed by the media as an example: only when all of the four stocks linked to the product achieve the same gains or losses will it actually achieve the highest expected annual income of 16 per cent. That's 'mission impossible'." Yin said.

The CBRC issued a notice recently forbidding banks to use phrases like "expected return rate" or "highest return rate" in their financing product promotions. In addition, banks are not allowed to give financial products tempting, misleading or committing titles or make confusing introductions, nor sell products without market analysis or pricing criteria.

China's bank financing product market has expanded rapidly in recent years. Incomplete statistics showed that total sales of such products had reached 500 billion to a trillion yuan by the end of 2007.

[Source: CRI](http://english.cri.cn/3130/2008/04/16/1601@346777.htm) ([see archive](Some_Bank_Financing_Products_Lack_Risk_Notice.pdf))

### Penalty for fund managers

The securities regulator recently announced severe punishment for two mutual fund managers involved in insider trading, in a move to tighten supervision of fund management companies.

Tang Jian, was a fund manager at China International Fund Management Company (CIFM), in which JP Morgan Asset Management (UK) holds a 49 per cent stake. Tang has been barred from any senior management position in any publicly traded company or securities brokerage for life, the China Securities Regulatory Commission (CSRC) said.

In March 2006, Tang bought shares of Shanghai-listed Xinjiang Zhonghe ahead of his fund's purchase of the same company's shares in April to May, and made a profit of 1.52 million yuan.

Another fund manager with CIFM, Wang Limin, has been barred from the capital market for seven years for making 1.5 million yuan through insider trading.

The money they made has been confiscated and both managers have been fined 500,000 yuan, said the industry watchdog.

"The punishment, the first of its kind in China's mutual fund history, shows the regulator's determination to crack down on insider trading and protect investors' interests," said the spokesman with the CSRC.

CSRC statistics show mutual fund operations have risen above 2.5 trillion yuan, accounting for 23 per cent of the market value of tradable shares.

[Source: China Securities Journal](http://www.cs.com.cn/english/markets/200804/t20080422_1437097.html) ([see archive](Penalty_for_fund_managers.pdf))

## Other

### Companies urged to go green

Enterprises in China have been urged to prepare for stricter green standards in emission control and energy consumption after 2010 as the government drafts a new national policy package dealing with global warming.

Last year, the government announced its policy on climate change and set up a national team to mitigate its impact. But the policy package only outlined goals before 2010.

"We are drafting new climate-change policy goals for the period after 2010," said Lu Xuedu, deputy director of the office of global environmental affairs at the Ministry of Science and Technology, at a forum on green standards in Beijing.

He said the government will take "all the changing factors" into consideration in the policy but didn't elaborate. He also said the government is drafting its policy on diplomatic negotiations over climate change.

As a developing country, Lu said, China is not ready to promise "binding emission cutting targets" at global forums, but internally it will continue to implement stricter emission controls and energy-saving measures across all sectors.

The government's stance has been firmly supported by the United Nations. "Developed countries should take their responsibilities sincerely," the Chairman of the UN Intergovernmental Panel on Climate Change, Rajendra Pachauri, said recently. "I agree with the position taken by both China and India," he added.

India will follow China's example this year and announce its national policy for tackling climate change.

Wu Jianmin, president of the China Foreign Affairs University, urged businesses to "deepen their understanding" of two important trends. One is, as the former Chinese ambassador to France put it, the "collective rise" of a group of developing countries, such as India, Brazil and China, which house about half of the world's population. The other is that "climate change is real".

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-04/23/content_6637498.htm) ([see archive](Companies_urged_to_go_green.pdf))

### China publishes draft regulation on food safety

China's new draft food safety law, which lays out penalties ranging from fines to life in prison for makers of substandard food, was published recently for public discussion.

Members of the public are being invited to make recommendations and submissions about the draft published on the National People's Congress (NPC) website.

The draft law, covering food safety evaluation, monitoring, recall and information release, was submitted to the NPC Standing Committee in December 2007 for the first hearing.

According to the draft, producers of substandard food products face fines, the confiscation of their income and revocation of production certificates. In serious cases, they could face prison terms ranging from three years to life.

The solicitation of public opinion will last until 20th May. Submissions will then be delivered to the NPC Standing Committee for further study. A schedule for its legislative progress has yet to be set.

Chinese industries have come under the spotlight of domestic and foreign consumers with concerns about substandard products or tainted food in recent years, which has led to international disputes in addition to poisoning and even deaths.

Food-related incidents have included vegetables with pesticide residue, fish contaminated with suspected carcinogens and eggs tainted with industrial dyes.

This is the first draft law made public by the 11th NPC since it held its first annual session in March this year.

China's top legislator Wu Bangguo promised in March to give the public more say in the formulation of the food safety law, amid both domestic and international concerns about the country's food quality and safety.

According to an official with the General Office of the NPC Standing Committee, the drafts of major laws regarding the country's reform and development will be published on the NPC website to allow the public to make submissions and recommendations before they are passed.

Draft laws concerning the interests of the people will also be published via major news media in the country.

Once the drafts are published, people can send their comments directly to the Legislative Work Committee of the NPC Standing Committee, or to its official website.

The decision is intended to expand the public's participation in politics, the official said.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200804/t20080421_1436604.html) ([see archive](China_publishes_draft_regulation_on_food_safety.pdf))

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