Charltons - China News Alerts Newsletter - 21 May 2008

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# China News Alert Issue 241

## Capital Markets

### Chinese banks provide reconstruction loans

Chinese banks have offered 2.99 billion yuan (US$429 million) worth of loans for reconstruction work in the earthquake-hit areas of Sichuan Province as of 19th May, the top banking regulator said.

The China Banking Regulatory Commission also announced on its Website that banks and their employees have donated 750 million yuan to the earthquake-hit area.

The destructive 8.0-magnitude earthquake hit the province on 12th May. As of 12pm on 19th May, the death toll had reached 34,073.

The Industrial & Commercial Bank of China (ICBC), the country's largest bank, plans to grant over 10 billion yuan in loans to the relief work, the regulator said. More than 90 per cent of banking outlets have resumed operations in Sichuan.

ICBC allocated 100 automatic teller machines to the province to aid cash withdrawals in the earthquake-hit area. As of 15th May, 589 ICBC outlets had resumed operations, representing 91 per cent of its network in the province.

The Chengdu Branch of the Export-Import Bank of China signed credit contracts worth 600 million yuan with three Chengdu-based companies for earthquake relief on 18th May.

More than 90 per cent of banking outlets resumed operations on 16th May even though some are just "tent banks" as employees work to offer basic financial support in the severely hit area.

The People's Bank of China has offered more credit support to the earthquake-hit area to ensure ample cash supplies.

The central bank gave loans of 1.5 billion yuan to its Chengdu branch to ensure rural cooperatives have an adequate supply of credit in the earthquake-hit area, while another 1 billion yuan was offered to Chengdu and Mianyang City, the central bank announced on its Website.

The central bank announced that it is offering credit worth 5.5 billion yuan, 3.3 billion yuan of credit to Sichuan Province and 2.2 billion yuan of credit to Gansu Province, to ensure cash supply in the disaster area.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200805/t20080520_1464123.html) ([see archive](Chinese_banks_provide_reconstruction_loans.pdf))

### Stock regulator to scrutinise brokers

China's stock regulator is telling brokers to seek its opinions over operations and risk controls before filing applications for initial public offerings (IPOs) in a bid to strengthen its corporate governance.

Brokerages must report financial conditions and internal control measures to the watchdog, which will then decide whether they qualify for IPO applications, the China Securities Regulatory Commission (CSRC) said recently.

Brokers should also report whether their senior executives have been punished by the CSRC for any financial wrongdoing in the past 36 months.

The stock regulator's opinions will form part of the brokers' documentation when they are presented for the final IPO approval, the statement said.

"The CSRC wants to ensure the quality of publicly traded brokers," said Wei Zheng, a West China Securities Co trader. "Scrutiny will definitely be tightened and only strong players are likely to proceed with their IPOs."

Not a single Chinese mainland stock brokerage has conducted an IPO since January 2003, when CITIC Securities Company listed in Shanghai. Six domestic brokers acquired existing listed firms in 2007 for back-door listings.

Nearly a dozen mainland brokerages unveiled plans last year to launch IPOs on the mainland markets with some aiming at completing listings by the end of 2007. However, enthusiasm cooled as domestic stock indexes slumped by nearly half from highs in October 2007 amid fears over further macroeconomic tightening and weaker economic growth.

A Shanghai-based brokerage that has filed an IPO application said that it had been informed about the reporting issue a week previously and would offer additional information soon.

Earlier reports said that four brokers, Everbright Securities, Orient Securities, Merchants Securities and Western Securities, may become the first batch of brokers to have their IPO applications reviewed.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-05/18/content_6693459.htm) ([see archive](Stock_regulator_to_scrutinize_brokers.pdf))

### Securities companies must appoint a compliance director

The China Securities Regulatory Commission (CSRC) is expected to require securities companies to compile and implement compliance administration systems.

The system will cover all businesses, departments and personnel, and will be adopted across various procedures such as decision-making, implementation, supervision and feedback.

Securities companies will also be required to appoint compliance directors.

The regulatory authorities are considering strengthening risk supervision within securities companies after the release of the ‘Provisions of Supervision and Administration of Securities Companies'.

On 14th May, the CSRC released the ‘Trail Provisions on the Compliance Management of Securities Companies (Draft for Comment)' for public comment. The public input process is scheduled to conclude on 23rd May.

The Draft stipulates that securities companies must establish compliance departments responsible for compliance management.

Securities companies must also appoint a compliance director, who will be responsible for the examination, supervision and inspection of the operation management and practices conducted by the companies and their personnel.

The compliance director must conduct compliance examinations on internal management systems, major decisions and plans for new products and businesses, and provide their opinions on compliance examinations.

[Source: Lexiscn](http://hk.lexiscn.com/latest_message.php?id=3838) ([see archive](Securities_Companies_Must_Appoint_a_Compliance_Director.pdf))

## Taxation

### Enterprises in earthquake disaster areas allowed to postpone tax payments

China's State Administration of Taxation (SAT) has decided to postpone tax declaration and payment, and pre-tax deduction of funds donated by enterprises and individuals in order to help the quick rebuilding of homes in areas struck by the earthquake.

The SAT issued a circular on 14th May to provincial tax authorities in seven provinces and cities, such as Sichuan and Chongqing, declaring that taxpayers and tax withholders in areas struck by the earthquake may postpone their tax declarations and payments.

The terms for postponement may be decided by the authorities within 3 months. At the expiry of the approved extension, if payment cannot resume due to the impact of the earthquake, reports must be submitted to SAT. During the extension period, taxpayers will not be subject to any late fees or fines.

In addition, tax authorities can handle the postponement of tax exemptions for exported goods from export enterprises if the enterprises fail to declare the exemption due to the impact of the earthquake, or if enterprises in other areas fail to make declarations due to the incomplete collection of tax refund certificates caused by enterprises in areas hit by the earthquake.

[Source: Lexiscn](http://hk.lexiscn.com/latest_message.php?id=3844) ([see archive](Enterprises_in_Earthquake_Disaster_Areas_the_Allowed_to_Postpone_Tax_Payment.pdf))

## Corporate & Commercial

### Relaxed policy on automotive joint ventures expected

China's policy on automotive joint ventures is expected to be relaxed and the ceiling for foreign capital investing in joint ventures raised, an insider said recently.

"The shareholding structure for Sino-foreign automakers is unlikely to be strictly controlled in the future as economic reform deepens," said Zhang Xiaoyu, executive vice chairman of the China Machinery Industry Federation, at a recent industry forum.

Currently, foreign automakers are not allowed to own more than 50 per cent in their Chinese joint ventures. But some signs suggest the policy might be relaxed.

"More and more larger automotive groups in China are financing in the overseas capital market, so strictly speaking, the Chinese side also has overseas capital," said Zhang. "You can't say the Chinese side is purely domestic or State-owned."

According to China's 1994 automobile industry policy, in a Sino-foreign joint equity or cooperative venture producing whole automobiles, motorcycles or engines, the Chinese share cannot be lower than 50 per cent.

But in 2007, a supplemental provision on Sino-foreign motorcycle or engine companies was released, with unrestricted shareholding proportions.

"In addition to automotive joint ventures, the whole automobile industry is opening up," said Luo Zhongwei, an industry economics researcher with the Chinese Academy of Social Science.

Luo said that automotive financing, a sector under stringent control, is opening up. At present, foreign companies can not only open automotive financing companies in China, but also operate expanded businesses under new management measures issued in January 2008.

Insisting on the 50:50 proportion is pointless as the automotive industry is not a sector of vital importance to the nation's economy or people's livelihoods, and the industry's growing momentum and China's economic development have changed significantly since 2001, when China joined the WTO, according to Wang Zhigang, a research fellow at the State-owned Assets Supervision and Administration Commission of the State Council.

"We used to worry that foreign capital would manipulate China's automobile industry by controlling technology, brands and markets, but Chinese automakers performed well and avoided a recession following WTO membership," said Wang.

"Joint ventures are compliant to their foreign sides in most aspects, and development strategies are also formulated by the foreign sides," said Qian Pingfan, vice director of the Research Department of the State Council's Industrial Economy of Development Research Center.

It's better to open up the industry appropriately to stimulate large automotive groups rather than enforce an unhelpful restrictive policy, Qian said.

Foreign executives from automotive joint ventures also point out the 50:50 structure lacks efficiency. Strategies and decisions are discussed again and again at the expense of market opportunities.

However, Xu Changming, deputy director of the Department of Information Resources under the State Information Center believes that Chinese sides of joint ventures will lose their rights if the 50:50 proportion is not enforced, as they have no brands and no core technologies.

The proportion is in accord with the interests of Chinese enterprises, which are in weak positions in joint venture management, said Han Lei, vice secretary-general of the China Association of Automobile Manufacturers.

"Right now, foreign companies transfer profits through auto parts premiums and technologies. If the policy is relaxed, it will be more difficult for Chinese companies to have a voice," said Dong Zhiyuan, vice general manager of Beijing Automotive Holding Company Limited.

The 50:50 shareholding policy on automotive joint ventures won't change in the next two to three years at least, said Li Honglu, vice general manager of Beijing Hyundai Motor Company Limited. "Chinese automakers are weak and discarding the policy goes against their interests," Li said.

"The restriction won't be abolished in the near future because Chinese automotive enterprises are not yet mature," said Dong Suhua, press principal of PSA China.

Investment liberalisation is inevitable. Foreign companies, especially Japanese firms, are hoping for continued investment liberalisation, and China continues to resist external forces.

Most automakers in China know independent innovation is the real challenge for them. Fortunately, Chinese automakers like FAW, Shanghai Automotive Industry Corporation, Guangzhou Automobile Industry Group and Dongfeng are speeding up innovation.

Most Chinese auto groups have also announced heavy investments in independent brands and technologies.

Smaller companies, including Chery, Geely, Great Wall Motor and Brilliance Auto, have also put together independent product and technology portfolios.

"There isn't much time left for China's automotive industry," said Qian Pingfan, adding that it's time for large automotive groups to stop relying on joint ventures.

"Chinese automakers should speed up independent innovation, research and development," Qian said.

[Source: China.org.cn](http://www.china.org.cn/business/2008-05/15/content_15242937.htm) ([see archive](Looser_policy_on_auto_joint_venture_expected.pdf))

### First e-business specifications go public

The Ministry of Commerce has sought public opinion on the nation's first e-business model and online-shopping transaction service specifications outlined in two draft regulations.

According to statistics from the Shanghai Modern Business Promotion Council, China's online transaction volume hit 1.7 trillion yuan (US$243.55 billion) in 2007. The two regulatory drafts will fill gaps in national regulations on the booming e-commerce industry.

The drafts define e-business models for business to business (B2B), business to consumer (B2C), consumer to consumer (C2C), and government to business (G2B).

In order to protect customer interests, all corporations must provide genuine identity information and corresponding qualification certificates, such as business licenses, tax registration, and special business licenses, during transactions.

Meanwhile, individual customers engaging in C2C businesses must provide their real names, and it is recommended that they keep invoices and remittance details in case of disputes that may occur following the transaction.

The drafts also ask e-business websites to provide online banking access services and offer the option of payment via a qualified third-party.

In his comment on the drafts, Shao Dehai from the China Youth Association for Network Development, suggested adding more articles that strengthen management of virtual currencies and tools used in online games.

[Source: Sina](http://english.sina.com/business/1/2008/0514/158556.html) ([see archive](First_e-business_specifications_go_public.pdf))

## Other

### Plastic bag regulation finalised

The final version of a regulation on the compulsory sale of plastic shopping bags at retail outlets was released in Beijing recently.

The regulation was jointly released by the Commerce Ministry, National Development and Reform Commission and the State Administration for Industry and Commerce.

From 1st June, retailers can be fined up to 10,000 yuan (US$1,400) for providing free plastic bags to shoppers.

Under the new law, retailers will be allowed to set their own prices for bags, as long as they are above the cost price.

The plastic bags must also meet national quality standards.

Retailers will also face fines of up to 20,000 yuan if they fail to buy plastic bags from legally incorporated producers, wholesalers or importers, or if they fail to obtain related certificates and record relevant data.

It will not apply to plastic packaging for raw, prepackaged and cooked food.

The regulation is mainly aimed at protecting the environment, the three government bodies said.

So-called "white pollution" has become a growing concern for the government.

The campaign against plastic bags has led to the closure of the country's largest plastic bag-maker, which was based in Henan province, in mid-January. The factory previously had an annual output of 250,000 tons of bags, worth 2.2 billion yuan.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200805/t20080519_1462581.html) ([see archive](Plastic_bag_regulation_finalized.pdf))

### Drug watchdog vows to ensure quality of donated drugs

China is strengthening its efforts to ensure the safety of drugs donated by domestic companies to victims of Monday's 7.8-magnitude earthquake centered in Sichuan Province, the country's drug watchdog said in Beijing recently.

"We cannot let substandard drugs add to the suffering of victims of Sichuan's major earthquake," said Yan Jiangying, spokeswoman with the State Food and Drug Administration (SFDA).

Manufacturers that donate fake or substandard drugs and medical equipment to earthquake-hit areas will be dealt with severely according to law, Yan said.

According to Yan, transfusion equipment, blood pressure raising drugs, antibiotics, plasma, and narcotics for surgical use are currently most needed by earthquake-hit areas.

So far, 170 million yuans worth of medicines and medical equipment have been donated by drug manufacturers under the coordination of the SFDA, said Yan.

Yan said the SFDA has dispatched supervisors to manufacturers of most-needed drugs, and has urged local drug safety authorities in Sichuan to improve the inspection of drugs and medical equipment.

"Many SFDA employees have cancelled their holiday plans, and have been put on 24-hour duty over the past few days to ensure sufficient supplies and the safety of drugs sent to the earthquake areas," Yan said.

Yan also urged local health and drug safety authorities to pay special attention to the safety of drinking water and the prevention of disease outbreaks in earthquake-hit areas.

The SFDA have ordered the establishment of a daily reporting system to ensure food and drug safety in earthquake-hit areas of Sichuan, Chongqing, Gansu, Shaanxi and Yunnan.

[Source: CRI](http://english.cri.cn/5566/2008/05/16/195@358472.htm) ([see archive](Drug_watchdog_vows_to_ensure_quality_of_donated_drugs.pdf))

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