Charltons - China News Alerts Newsletter - 28 May 2008

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# China News Alert Issue 242

## Capital Markets

### Exchange tightens rule on trading suspensions

The Shanghai Stock Exchange has recently required listed firms to limit the share-trading suspension period and hire qualified financial consultants, as it bids to boost the overseeing of corporate mergers and acquisitions.

Shanghai-listed companies will be prohibited from halting trading in their stocks for more than 30 days due to pending M&As, the Shanghai bourse said on its Website.

Public firms that halt trading for more than five days must make disclosures over issues including meeting proceedings, regulatory approval and pricing at least once a week, the exchange said.

Companies are urged to prevent insider information regarding M&A deals from being leaked and they are required to involve independent financial consulting agencies in their proposed transactions, according to the bourse.

"The measures are set to boost transparency in M&A activities," said Lu Chengde, a Guosen Securities Company trader. "It can help protect the interests of minority investors and weed out potential insider trading."

The China Securities Regulatory Commission (CSRC) said that it would simplify the procedures over approving M&A deals and urged public companies to make timely disclosures.

A listed firm should apply to the regulator for M&A approval within three days of shareholders approving the plan. The regulator will decide within five days whether to accept the application or if more information is needed.

Before receiving a response from the regulator, the public company will be subject to a "quiet period," during which information disclosure over the deal is limited, the CSRC said.

[Source: China Securities Journal](http://www.cs.com.cn/english/markets/200805/t20080522_1467520.html) ([see archive](Exchange_tightens_rule_on_trading_suspensions.pdf))

### Banks ordered to write off bad loans

On 26th May, China's banking regulator ordered domestic banks to write off bad loans caused by the devastating earthquake.

The write-offs are to reduce the mortgage burden of survivors and help reconstruction efforts in Sichuan, the China Banking Regulatory Commission (CBRC) said in a statement on its website.

The devastating earthquake destroyed 2.9 million homes and severely damaged 14 million houses in Sichuan province, according to the Ministry of Civil Affairs.

Many borrowers have lost their homes in the earthquake and cannot afford to make repayments.

If the borrowers' losses are not covered by insurance, or their insurance or guarantees are not enough to repay the debts, the loans should be treated as non-performing assets and written off, the regulator said.

The CBRC also told commercial banks to write off the credit card debt of those dead or missing in the earthquake; and to put aside enough bad-loan provisions.

The move is seen as benefiting both debtors and lenders as the write-offs will not hurt the credit ratings or earnings of the banks, analysts said. The write-offs will help cut banks' tax expenditure, they said.

The tax authorities will exempt or reduce banks' taxes, which will also decrease banks' losses from writing off bad loans, analysts said.

"The write-offs and losses will have a small impact on the banks' whole-year profit", said Xiao Gang, chairman of Bank of China. The lender reported 160 million yuan (US$22.9 million) in earthquake-related losses.

The Agricultural Bank of China, with most outlets in rural areas, announced an 8.5 billion yuan loss, while the Bank of Communications announced 50 million yuan worth of damage to its network.

Researchers said the impact on banks will be manageable.

"Bank credit exposure to Sichuan province is fairly low," said Richard Lung, an analyst with Moody's Investor Service.

According to his research report, Sichuan province accounted for 3 per cent of total commercial bank loans at the end of 2007.

[Source: China Daily](http://www.chinadaily.net/china/2008-05/27/content_6712770.htm) ([see archive](Banks_ordered_to_write_off_bad_loans.pdf))

### Entities may not participate in more than two futures companies

As from 1st June, an entity may not participate in more than two futures companies, and may not have more than one under its control.

According to the ‘Provisions on Issues Related to the Share Control of and Participation in Futures Companies' published by the China Securities Regulatory Commission on 22nd May, if the standards are not met by existing futures companies in terms of equity structure, share controlling and participation by related investment entities, rectification to meet supervision requirements must be carried out within two years.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=3926) ([see archive](One_Entity_May_Not_Participate_in_over_Two_Futures_Companies.pdf))

### Task force's role to ensure safety of trading information

China's stock regulator has formed a special task force, whose job is to ensure that information relating to securities and futures trading is safe, as part of its move to foster a stable capital market.

The new group will accelerate moves to draft rules aimed at improving information database records and to set up emergency plans to cope with potential trading incidents or disasters, the China Securities Regulatory Commission said on its Website recently.

The securities watchdog also said that it would take into account information safety as part of its regular supervision work, and that stock and futures brokers would be required to speed up construction of back-up databases.

The task force's set-up has come on the heels of the powerful earthquake in Sichuan Province. The CSRC has urged stock and futures brokerage outlets to maintain stable operations in the disaster-hit areas. It has asked brokerages to use online access and telephones as alternative means of trading in damaged outlets. It has also ordered stock exchanges to increase market supervision and monitoring.

Emergency groups in 24-hour contact with the regulator have also been set up at brokerages in the earthquake-affected areas, the CSRC said.

The CSRC is also increasing efforts to clamp down on insider trading and stock manipulation as large amounts of previously non-tradable stocks will be released for trading in the coming years.

''The securities industry faces complicated issues in dealing with information safety,'' said Shang Fulin, chairman of the CSRC. ''Boosting information safety will be vital to the market's stability.''

[Source: Shanghai Daily](http://www.shanghaidaily.com/sp/article/2008/200805/20080522/article_360403.htm) (Link no longer active)

## Taxation

### Donations related to earthquake made less taxing

China's tax authority has cut or waived the tax levy, offered a tax refund, and has reiterated the tax concession on donations relating to the earthquake in Sichuan Province as means of helping to support victims.

Losses suffered by companies and individuals due to the 8.0-magnitude earthquake can be tax deductible, the State Taxation Administration said in a notice on its Website.

The supplies donated by overseas governments, individuals and companies are exempted from import taxes (including Valued Added Tax and Customs Duties), the tax authority said.

People whose tax-paid automobiles or ships have been destroyed in the earthquake can apply for a refund of the Vehicles and Vessels Usage Tax for the period from the date they were destroyed until the end of the year. Normally automobile and ship tax is prepaid at the beginning of the year.

Victims who can't afford to pay the land use tax due to the earthquake can ask for the levy to be reduced or exempted from tax.

People who buy new homes will be exempted from deed tax on new home transactions or will enjoy a cut in the tax rate. The rules are being enforced by provincial governments for the earthquake-hit areas.

Companies and individuals who donated money to the earthquake area will be partly exempted from taxation, the tax authority reiterated.

Donations, which are within 12 per cent of a company's total annual profit, can be claimed as tax-deductible expenses, according to China's corporate income tax law. Donations that exceed this amount are not tax deductible.

For individuals, donations that are less than 30 per cent of their income can be tax deductible. The donations must be made through domestic non-commercial social entities or government bodies. Individuals' donations made directly to the earthquake victims are not tax deductible.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-05/21/content_8217999.htm) ([see archive](Donations_related_to_quake_made_less_taxing.pdf))

### Time to pay taxes in quake-hit areas postponed

The State Administration of Taxation (SAT) said recently that taxpayers in earthquake-hit localities could postpone their tax declarations.

The policy affects the hardest-hit jurisdictions of Sichuan, Chongqing, Gansu, Shaanxi, Yunnan, Qinghai and Hubei.

"If people are unable to make their payments because of the earthquake, they can postpone their declarations," said the SAT in a notice, adding that the extension was for no more than three months.

The specific periods would be decided by provincial tax agencies on the basis of actual conditions and taxpayers need not pay overdue fines.

If taxpayers are still unable to pay after the extension periods, local tax agencies should report the cases to the SAT.

[Source: China Daily](http://www.chinadaily.net/bizchina/2008-05/21/content_6700421.htm) ([see archive](Time_to_pay_taxes_in_quake-hit_areas_postponed.pdf))

## Corporate & Commercial

### 3G licenses to follow telecom restructure

The long-awaited 3G (third generation) licenses will be issued as soon as the current telecom restructuring is complete, the government said on 24th May.

In a joint statement issued recently, the government said it is encouraging China Telecom to buy China Unicom's code-division multiple access (CDMA) network and China Unicom to incorporate with China Netcom.

The much-awaited overhaul of the telecom industry started on 23rd May when China Mobile Communications Corporation (CMCC), parent of Hong Kong-listed China Mobile Limited, said in an announcement that it would acquire fixed-line operator China Tietong Telecommunications Corporation and disclosed a batch of personnel changes.

The announcement on 24th May was made jointly by the Ministry of Industry and Information Technology, the National Development and Reform Commission, and the Ministry of Finance, and said the government is encouraging CMCC to take control of China Tietong and China Telecom, to combine with the basic telecom services unit of China Satcom.

Experts estimate the restructuring may take four to six months, given the difficulty in asset assessments, especially those of China Unicom's GSM and CDMA network.

The rollout of 3G will enable Chinese mobile phone users to enjoy a range of services that support applications such as high-speed Internet access, games and mobile TV.

According to earlier reports, China Mobile will be granted a 3G license based on the country's homemade technology TD-SCDMA, while China Telecom and China Netcom will get theirs based on the WCDMA and CDMA2000 standards respectively.

The 3G licensing will also unleash huge demand for infrastructure, equipment and handsets, presenting opportunities to foreign companies like Ericsson, Motorola and Nokia, as well as domestic players such as ZTE and Huawei Technologies.

China is the world's largest mobile phone market with the number of wireless subscribers reaching 583.5 million by the end of April 2008, according to government figures.

But the country's telecom market has long suffered from a lack of competition under the de facto monopoly of China Mobile, which has been raking in huge revenues in recent years and taking business away from fixed-line carriers China Telecom and China Netcom as users go mobile.

China Mobile's only rival, China Unicom, has not been a serious challenger as it struggled to operate two often-competing networks.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200805/t20080527_1472409.html) ([see archive](3G_licenses_to_follow_restructure.pdf))

### Insurance payment for victims made easy

China's insurance regulator has taken steps to ensure that claims of policyholders in the earthquake-hit areas are settled as fast as possible and that they get the best services.

Among the eight steps the China Insurance Regulatory Commission took recently were: settling claims of policyholders who have lost their certificates; allowing medical treatment in non-designated hospitals; extending the deadline for premium payment; extending services; offering bigger loans against policies at a lower interest rate; and a longer pay-back period.

"The measures are designed to ensure timely and efficient payment to policyholders," the CIRC spokesman, Yuan Li, said.

The country's insurance companies have paid 92.3 million yuan (US$13.2 million) against 202,000 claims as of 25th May, with 64.9 million yuan being settled for life insurance and 27.4 million yuan for property and casualty insurance, the CIRC said.

China Life, the country's largest life insurer, is expected to pay 180 million yuan against 11,400 earthquake-related claims, making it the world's biggest settlement for a single incident, company president, Wan Feng, said.

All insurance companies are trying to shorten the payment process to ease policyholders' pain.

Hanyuan, a subsidiary of China Life in Sichuan, took less than one hour to pay 24,225 yuan to the parents of a student surnamed Zhang after receiving the claim papers. The boy was killed when a wall collapsed in the earthquake.

Fang Guozheng, a manager with Taikang Life Insurance's Anhui branch, was among the first group of claim agents to reach Sichuan. On 16th May, the day he reached Pengzhou, he heard about the death of Zhang Laichun. After a quick investigation, Fang found Zhang's husband and son in a nearby tent and paid them 40,000 yuan against his client's policy. The entire process took only half an hour.

To provide the best service when claims reach their peak, the regulator is working on a coordination scheme that would require all insurance companies to accept details of all claims. The insurance firms will have to send the details of a policy to their counterparts within 24 hours if a claimant is not their client.

[Source: People's Daily Online](http://english.people.com.cn/90001/6418697.html) ([see archive](Insurance_payment_for_victims_made_easy.pdf))

### WTO hails China's trade liberalisation

China's trade regime has continued liberalising since 2006, the World Trade Organisation (WTO) said, expressing concerns about imbalances in and adjustments to the country's export policies.

The WTO Secretariat made the comments in a report following its second review of the country's trade policies and practices in Geneva on 21st May.

"Structural reforms in China, including trade liberalisation, have resulted in annual real GDP growth rates in excess of 10 per cent over the past four years, rising per-capita income and poverty reduction," the secretariat said.

The organisation's first review of China's trade policies took place in 2006, five years after the country's WTO ascension, and it earned a good evaluation. Disputes about China's trade policies increased as the trade volume grew over the next two years, and the country has also lodged disputes with some of its trade partners with the WTO.

The WTO Secretariat said that since its previous review, China's trade and investment reforms have accelerated the country's integration into the global economy.

It predicted ongoing reform in China - now the world's third-largest trader - would help sustain high growth in the face of a variety of challenges, including various economic imbalances.

WTO statistics show that in 2006 China's total trade in goods accounted for about 65 per cent of its GDP and 13 per cent of global trade, and China has remained a major foreign direct investment recipient.

"The multilateral trading system, which is represented by the WTO, plays an important and irreplaceable role in maintaining world economic stability and promoting global trade liberalisation," said Qiu Hong, China's assistant minister of commerce, who led the Chinese delegation to the meeting in Geneva.

The WTO has questioned some of China's polices aimed at curbing exports of resource-intensive and polluting products, such as export taxes, reduced tax rebates on exports, and export prohibitions, licensing and quotas.

"(Such policies) result in lower domestic prices of these products than otherwise; this possibly assists the downstream processing of these products, without necessarily helping to improve the environment or reduce the current account balance," the secretariat said.

Consequently, the effectiveness of such trade policy measures in addressing the current account surplus and environmental problems is questionable, it added.

China had received 880 questions from WTO members concerning the country's development and policies in economic and trade sectors before the meeting in Geneva. The Chinese delegation replied to about two-thirds of these at the meeting and is scheduled to answer the others within a month.

[Source: People's Daily Online](http://english.people.com.cn/90001/90776/90884/6416658.html) ([see archive](WTO_hails_Chinas_trade_liberalization.pdf))

## Other

### Mining deals hot but need practice

Chinese companies looking for overseas mining assets could benefit from the US credit crunch and the rising yuan, while before going global, unseasoned firms still have to do more to succeed as challenges intensify.

Spurred by a commodity price boom, mergers and acquisitions in the global mining industry have been active, seeing the participation of the world's largest mining companies and sovereign wealth funds.

However, traditional resource-rich countries such as Australia, Canada, Brazil and Russia are becoming increasingly unwilling to sell as they themselves become wealthier due to protectionism.

Chinese firms, which have support from the government to feed domestic demand with overseas resources expansion, have the opportunity to accelerate their international moves, said Vice Commerce Minister, Fu Ziying, during a recent forum.

According to accountancy and financial advisory firm Deloitte, a total of 66 overseas mining M&A deals were handled by Chinese companies in 2007 involving US$4 billion. In the first quarter of this year, 16 outbound M&As worth US$903 million were accomplished.

Fu said the subprime mortgage crisis, which has tightened liquidation in the US financial market, and the appreciation of the Chinese currency, could strengthen Chinese firms' muscle in their overseas M&A efforts.

Investments made by Chinese mainland companies abroad rose to US$19.3 billion in the first quarter this year, exceeding the total for last year, according to media reports quoting Vice Commerce Minister, Chen Jian.

"This underscores the strong enthusiasm in the outbound drive, but I have to pour some cold water on it," said Ronald Chao, a corporate finance partner at Deloitte. "Chinese companies still have to do more homework before going global in order to familiarise themselves with the local business and regulation environment as well as other customs and manners in foreign markets."

Deloitte has found that up to 70 per cent of the worldwide-completed M&A deals in all industries prove to be unsuccessful.

For mining M&As, Chao said Chinese companies should clarify their targets and learn how to choose. "You should make it clear why and for what use you are buying or investing.

"For small and medium companies, mineral resource development is an extremely high risk business as it's capital intensive."

Several large state-owned companies have made progress in overseas mining acquisitions this year.

In the most recent deal, the state-owned iron ore trader Sinosteel Corporation won approval in late April from Midwest Corporation's board to buy out the Australian ore prospector. During the process, Sinosteel successfully turned a hostile offer into a friendly one, and Midwest's directors have recommended shareholders accept Sinosteel's revised offer.

The new offer values Midwest at AUS$1.36 billion (US$1.31 billion), which could lead to the largest overseas takeover in the metals industry by a Chinese company. The takeover has won the approval of Australia's Foreign Investment Review Board.

But purchases have become more difficult.

An Australian newspaper reported in April that at least 10 Chinese companies have withdrawn foreign investment applications to buy into Australian resource companies after pressure from the Australian government.

A Sinosteel official in Beijing also said that to his knowledge several other Chinese companies' applications to buy into Australia's resource sectors have been deadlocked since early this year.

"Some were asked to resubmit applications, especially after Sinosteel made progress in its Midwest bid. Then they have to wait for a longer time," said the official, who declined to be named because he is not authorised to speak to the media. "I think Australia is tightening."

Although Australia's resources minister, Martin Ferguson, has reportedly said no Chinese firms had been told to withdraw applications in mining purchases, he stressed "as China makes investments, some will be rejected and some will be changed to meet our national interest test."

Deloitte's Chao said developed nations typically have their own systems to avoid foreign capital which would hurt national interests and that's the same case for China. "One should always make it clear what the goal is. To reach that goal, it is not always necessary that you must buy something."

[Source: Shanghai Daily](http://www.shanghaidaily.com/sp/article/2008/200805/20080522/article_360360.htm) (Link no longer active)

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