Charltons - China News Alerts Newsletter - 15 October 2008

[online version](http://www.charltonslaw.com/china-news-alert-issue-261/)

# China News Alert Issue 261

## Capital Markets

### China cuts rates to ward off slowdown

China, following other economies, cut the benchmark deposit and lending rates by 0.27 percentage point recently to anchor its economy amid a worsening global financial crisis.

The reserve requirement ratio, or proportion of money commercial banks must set aside in reserve, will also be slashed by half a percentage point from Oct 15, the People's Bank of China said on its website.

The move will help prevent economic growth from declining as the global financial market turmoil is believed to further cut into world growth, which in turn will reduce demand for Chinese exports, analysts said.

The interest rate cut will take effect from Oct. 9, when the cost of one-year bank loans will fall to 6.93 percent from 7.20 percent, while the benchmark one-year deposit rate falls to 3.87 percent from 4.14 percent.

The reserve requirement ratio would be 17 percent for big banks and 16 percent for others.

The State Council, China's Cabinet, also said it would scrap the 5 percent individual income tax on interest on savings starting from Oct. 9 to boost domestic demand.

China began levying a 20 percent individual income tax on interest earnings in 1999 to encourage consumption and investment. The rate was slashed to 5 percent in August last year.

"It is appropriate for the authorities to lower the interest rates and reserve requirement under the current circumstances," said Dong Yuping, economist with the Institute of Finance and Banking at the Chinese Academy of Social Sciences.

If the international financial crisis worsens and leads to a drastic slowdown of the Chinese economy, Beijing may take further measures, he said.

In response to the growing crisis, the US Fed reduced its key rate from 2 percent to 1.5 percent. In Europe, which also has been hard hit, the Bank of England cut its rate by half a point to 4.5 percent and the European Central Bank sliced its rate by half a point to 3.75 percent.

The central banks of Canada, Sweden and Switzerland also cut rates. The Bank of Japan said it strongly supported the actions.

"The recent intensification of the financial crisis has augmented the downside risks to growth," the Fed said in explaining the coordinated action.

"The financial market developments will affect global economic growth and China must take action to cope with the challenge of external impact," Dong said.

Interest rate cuts alone, however, may not be very effective in invigorating the national economy, said Wang Tao, head of the China economic research unit of UBS.

The interest rate cuts show that policymakers may be facing reduced inflationary pressure, analysts said. The government is to release September inflation figures soon.

In August, inflation rose by 4.9 percent year-on-year, signaling an apparent downward trend after it reached a 12-year high of 8.7 percent in February.

However, some are worried that the inflation level may rise again in the coming months if energy prices are liberalized.

"Inflation could rebound in the coming months and the central bank cannot ignore that potential risk," Ma Ming, economist with the Beijing Institute of Technology, said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/09/content_7089833_2.htm) ([see archive](China_cuts_rates_to_ward_off_slowdown.pdf))

### Securities regulator raises refinancing threshold

China's securities regulator recently said publicly-traded companies must pay dividends in cash rather than stock over three years before submitting their refinancing applications.

The move could help to encourage long-term investment and reduce market volatility, the China Securities Regulatory Commission (CSRC) said.

The benchmark Shanghai Composite Index has plunged 66 percent from its record high last October.

In a new regulation stipulating cash dividend payment by listed companies, the CSRC said: "The listed firms, if applying for refinancing, must pay dividends in cash totaling no less than 30 percent of its distributed profits over the past three years."

The regulation went into effect on Oct. 9.

In the draft version released in August, companies were allowed to pay dividends either in cash or stock.

The listed firms were also ordered to reveal their cash dividend policies and previous cash dividend data to investors in their annual reports to improve transparency.

"The listed company should give reasons why it failed to pay a cash dividend if it is able to and where the money goes," according to the rule.

Cash dividends could offer stable investment returns and prompt large institutional investors to reduce speculation on the secondary market, the regulator said.

A couple of huge refinancing plans earlier this year triggered a market plunge on concerns over stake dilution and liquidity stress.

In a separate regulation on share buy-back, also effective on Oct. 9, the CSRC said it allowed a cash dividend payment when the controlling shareholders bought stocks on the secondary market.

Such action was banned in the draft version released in late September to solicit public opinion.

Share buy-back through bidding at stock exchanges also no longer needs regulatory approval.

The CSRC added it would continue to revise the rules on stock buy-back and also give consideration to repurchase through agreement or tender offer.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/10/content_7094132.htm) ([see archive](Securities_regulator_raises_refinancing_threshold.pdf))

### SSE Released Guidelines for Share Repurchase of Listed Companies

Beginning on October 10, 2008, the relevant personnel aware of the inside information must not disclose the information related with the share repurchase plans prior to the plans are offered to the public, or must not trade or suggest others to trade the securities of their companies.

The Shanghai Stock Exchange and the Shenzhen Stock Exchange respectively released the Guidelines for the Share Repurchase via Centralized Bidding Transactions by Listed Companies (Guidelines) in accordance with the Supplementary Provisions for the Share Repurchase via Centralized Bidding Transactions by Listed Companies, which was released by the China Securities Regulatory Commission (CSRC). Under the Guidelines, decisions on the share repurchase made by the shareholders' meeting of the listed companies must be approved by 2/3 votes of the shareholders that participate in the meeting.

Besides, the aforementioned decisions must include: price range of the repurchased shares, varieties, amount and proportion of the shares to be repurchased, total capital and capital source for the repurchase, time limit for implementing the share repurchase, period of validity of the decisions, and the authorization to the boards of directors for conducting the share repurchase.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4811) ([see archive](SSE_Released_Guidelines_for_Share_Repurchase_of_Listed_Companies.pdf))

### CSRC Regulates the Share Repurchase via Centralized Bidding Transactions

Beginning on October 9, 2008, the listed companies must not repurchase, via centralized bidding transactions, the stocks within 10 trading days prior to the release of regular reports or performance express.

Under the Supplementary Provisions for the Share Repurchase via Centralized Bidding Transactions by Listed Companies (Provisions) released by the China Securities Regulatory Commission (CSRC) on October 9, 2008, the listed companies must not raise funds via offering stocks when they conduct the share repurchase via centralized bidding transactions. And prices for share repurchase via centralized bidding transactions must not be the price of their stocks which is restricted by the transaction rise range of the current day.

The Provisions also stipulated the boards of directors must make their decisions in line with law for the share repurchase via centralized bidding transactions by listed companies, they must also submit their decisions to the shareholders' meeting for approval. Besides, the independent directors must express their independent opinions on the share repurchase after fully understanding the relevant information.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4801) ([see archive](CSRC_Regulates_the_Share_Repurchase_via_Centralized_Bidding_Transactions.pdf))

## Corporate & Commercial

### China looks to curb SOE losses through staff ownership

China's state assets watchdog is set to ban state-owned enterprise (SOE) employees, particularly management staff, from owning shares in SOE affiliates and subsidiaries, in a move seen as an attempt to stop state assets ending up in private hands.

The measure was a crackdown on speculation by SOE management on SOE reform, through irregularities in management buyouts, and would prevent losses of state assets, Zuo Daguang, director of the watchdog's Liaoning branch, told recently.

"Staff, particularly middle and senior management, are forbidden to invest in companies that provide the SOEs with fuel, raw and auxiliary materials, equipment and spare parts," said the State-owned Assets Supervision and Management Commission (SASAC).

The prohibition extended to companies that provided design, construction, maintenance, sales and intermediary services for SOEs.

Staff investment is also banned in companies involved in business similar to that of the SOEs, according to the proposals on regulating SOE employees' shareholding and investment, published by SASAC recently.

The SASAC also highlighted in the new rules that the SOE staff could in principle only hold equities of their own companies, not subsidiaries or other SOE-invested businesses.

The regulations did not apply to listed companies mainly held by the State.

In order to contain insider-control and state-owned assets losses, SASAC and the Ministry of Finance jointly issued a document in April 2005, forbidding management boyouts of large SOEs.

SOE management ownership of equities in affiliates, subsidiaries and SOE-invested companies has led to problems, such as executives procuring products or services of those businesses at prices unreasonably higher than the market price, resulting in "state-owned assets losses in disguise", said Zuo Daguang.

Public discontent with state assets losses and privatization has been in rumbling on since the SOE reforms were launched three decades ago.

Last March, the SASAC issued similar proposals specifically designed to regulate employee shareholdings in power generating SOEs. The proposals said such SOEs were to be the first to buy shares transferred by their staff.

But uncertainties over the enforcement of the regulations and the definition of senior and middle management could continue to puzzle state assets supervisors, said a SASAC research center expert who declined to be named.

According to the new document, SOE senior and middle management are required to transfer such shares or resign from the posts within a year of the publication of the new rules, but the new rules prescribe no penalties for failing to comply.

The proposals encouraged employees of small and medium-sized SOEs to own shares of the SOEs, a move that has been contemplated for more than a decade to help smaller firms out of debt and push them into competition.

But they stipulate that employee stakes in large SOEs should be minority shareholdings to maintain their nature of state ownership. Large SOEs, particularly the 147 giants reporting to the central government, include industries crucial to state security and national economy, including petroleum and petrochemical, power and telecommunications.

[Source: People.com](http://english.people.com.cn/90001/90776/90884/6512463.html) ([see archive](China_looks_to_curb_SOE_losses_through_staff_ownership.pdf))

### China approves six small enterpirses to issue short-term bonds

Six Chinese enterprises have been approved to issue short-term bonds amid a pilot program among the country's small- and mid-sized companies.

Six firms that run machinery and electronic businesses have been approved to issue short-term bonds worth 252 million yuan (36.79 million U.S. dollars) with maturities of less than one year on the inter-bank market. About 197 million yuan of bonds would be issued in the first phase, sources with the National Association of Financial Market Institutional Investor (NAFMII) said recently at a press conference.

China's central bank gave the nod for eligible enterprises to sell short-term bonds in 2005 to widen financing channels.

To develop the country's capital market and broaden direct financing channels to curb enterprise's heavy reliance on bank credit, the central bank announced in April non-financial companies could issue such bonds without its approval from April 15.

Since the green light was given in 2005, only large state-owned enterprises gained such a right. Very few small enterprises enjoyed the same right.

The pilot program among small- and mid-sized companies was vital to help the cash-strapped small-scale business out of their difficulties and diversify the credit products in the inter-bank market, said Shi Wenzhao, NAFMII general secretary.

But experts said the popularization of the program demanded a more transparent market and greater policy support.

Shi said many small- and mid-sized companies lacked sound corporate governance and their information release was not transparent enough, which posed bigger risk than that of the large enterprises.

He also called for the establishment of a national credit guarantee system for small- and mid-sized businesses since it was a precondition for their financing activities.

He said more investors should be allowed to engage in the short-term bonds market.

Through 2007, 316 companies issued 769.3 billion yuan of short-term bonds, with 320.3 billion yuan of outstanding debt, 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: China Securities Journal](http://www.cs.com.cn/english/ei/200810/t20081010_1617829.html) ([see archive](China_approves_six_small_enterpirses_to_issue_short-term_bonds.pdf))

## Other

### China aims to double income of rural residents in 12 years

China's ruling Communist Party said recently that it would strive to double the per-capita disposable income of rural residents by 2020 from the 2008 level.

The goal was part of the decision made at the close of the third Plenary Session of the 17th Communist Party of China (CPC) Central Committee, which focused on issues concerning rural reform and development.

Hu Jintao, general secretary of the CPC Central Committee, delivered a work report at the four-day plenum, held from Oct. 9 to 12 in Beijing.

The government would also boost consumption of rural residents by a big margin and basically eliminate absolute poverty in rural areas by 2020, according to a communique issued on the plenum's conclusion.

Per-capita disposable income was recorded at 4,140 yuan (605.6 U.S. dollars) in rural areas in 2007, a year-on-year gain of 9.5 percent in real terms. A rise of at least 6 percent was expected for 2008, according to a government report in March.

The rural population mired in absolute poverty was reduced to 15 million last year, down from 250 million in 1978.

Targets set at the plenum for rural reform and development till 2020 also included "improving the system of economic growth in the countryside and establishing a mechanism to integrate urban and rural areas in terms of economic growth and social development".

"The modernization of agriculture will advance with major progress, and agricultural productivity will be elevated to a higher level, with national grain security and product supplies guaranteed," said the communique.

The Central Committee also agreed a goal to improve grassroots democracy in the countryside, and vowed to guarantee equal public services in rural areas, such as education opportunities for all rural residents and better medical services and subsistence support.

The communique said there were several "musts" which should be followed:

* strengthening the position of agriculture as the foundation of the national economy and putting the food security of 1.3 billion people as the top priority.
* protecting farmers' rights and ensuring the aim and outcome of all the work of the Party and the state is to realize, safeguard and expand the fundamental interests of the majority of the farmers.
* unremittingly liberating and developing the productive forces in rural areas and make reform and innovation as the fundamental driving force for the development of the rural regions.
* taking into overall consideration the development of both urban and rural regions.
* upholding the Party's role as the leadership in the development of the rural areas.

The communique outlined the plan for advancing rural reform and development in the next few years, giving priority to reform and innovation, developing modern agriculture, boosting the capacity of agricultural production, and developing public utilities in rural regions.

About the land policy, the communique said it was necessary to maintain and improve the basic system for rural operations and improve the strict management system of land in rural regions.

It was also necessary to set up a modern financial system in rural areas and establish a system which would help integrate economic and social development in urban and rural areas.

In addition, the communique said it was imperative to enhance standardization of agricultural products and strengthen work on improving quality of agricultural products.

"We should strictly conduct supervision in the entire production process and carry out supervisory duty to ensure quality of the products. We should never allow unqualified products to enter the market," it said.

A total of 202 full members and 166 alternate members of the Committee attended the plenum, according to the communique.

Members of standing committee of the CPC central committee for discipline inspection and top officials of the relevant departments were also present at the session, the communique said.

The plenum had also gathered delegates to the 17th CPC National Congress who had been working on agriculture and rural development at grassroots levels, and experts and scholars on agriculture, rural areas and farmers.

This meeting was significant because it was the third Plenary Session of the 11th CPC Central Committee 30 years ago that pushed the country on to the road of its historic reform and opening-up drive.

[Source: People.com](http://english.people.com.cn/90001/90776/90884/6513663.html) ([see archive](China_aims_to_double_income_of_rural_residents_in_12_years.pdf))

**This newsletter is for information purposes only.**

Its contents do not constitute legal advice and it should not be regarded as a substitute for detailed advice in individual cases.

Transmission of this information is not intended to create and receipt does not constitute a lawyer-client relationship between Charltons and the user or browser.

Charltons is not responsible for any third party content which can be accessed through the website.

If you do not wish to receive this newsletter please let us know by emailing us at [unsubscribe@charltonslaw.com](mailto:unsubscribe@charltonslaw.com?subject=unsubscribe%20-China%20News%20Alerts-)

**Charltons - China News Alerts Newsletter - Issue 261 - 15 October 2008**