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# China News Alert Issue 262

## Capital Markets

### Direct financing move to strengthen market

Shareholders of listed companies can issue exchangeable bonds to broaden the channels of direct financing, China's securities watchdog said recently.

Exchangeable bonds that are somewhat like of corporate bonds can be exchanged for shares, based on set conditions.

A China Securities Regulatory Commission (CSRC) official said that as soon as the draft regulation on bonds was released in September, many shareholders began discussing the possibility of issuing exchangeable bonds. Most of these people hold big companies' shares.

"Compared with simply dumping the shares to raise money, issuing exchangeable bonds can indicate that shareholders have confidence in the firms' future, and the confidence can rub off investors," the official, not named in a CSRC statement, said.

The CSRC regulation, released recently, said that to limit the risks and protect creditors' interest in the issuing of exchangeable bonds, a listed company's net assets has to be at least 300 million yuan ($44 million).

Some key changes have been made in the final regulation compared with the draft. They include shortening the lockup period of shares, lifting their lower limit prices, clarifying their legal status and covering the proceeds for guarantee.

As for the proportion of bonds in total direct investment, the official said that till September listed companies had raised about 98 billion yuan by issuing bonds, which accounted for half of the amount raised through refinancing.

Among current bonds, those with attached warrant or equity warrant bonds topped the sales with 56 billion yuan, followed by corporate bonds (28.8 billion yuan) in the first nine months of this year.

From Sept 24, 2007, when China's first corporate bond was issued, to Sept 30, this year, 16 companies had issued such bonds, worth 40 billion yuan.

The pace of share issues has been much lower this year because of the sluggish stock market, but the bond market has been quite hot.

CSRC figures show 21 listed companies raised 74.5 billion yuan in the first half by issuing bonds.

But in the third quarter of this year, only about 23.5 billion yuan worth of bonds were issued, much less than the first two quarters' average of 37 billion yuan.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/20/content_7120190.htm) ([see archive](Direct_financing_move_to_strengthen_market.pdf))

## Real Estate

### Farmers get leeway on use of land

Farmers can transfer their land-use rights under a new policy to boost agricultural production and rural incomes, according to a landmark policy.

The Communist Party of China (CPC) recently unveiled its broad policy document - approved by a plenary session of the CPC Central Committee on Oct 12 - to revitalize the countryside.

Rural residents, who number more than 730 million according to the 2006 census, have ownership of the produce of their land but not the land itself, and are barred from trading land-use rights under current laws.

The document said markets shall be set up to allow farmers to sub-contract, lease, exchange and swap their land use rights, or join share holding entities with their farmland.

Such transfers of land-use rights must be voluntary with adequate payment and in accordance with the law, the CPC Central Committee said.

Under current law, farmland is collectively owned, but given to farmers in small plots under long-term leasing contracts.

But the present system is rife with abuse. Local governments have seized rural plots to sell to factories and property developers, often paying only minimal compensation to farmers.

Thousands of protests against land grabs every year have alarmed Beijing, prompting discussion on ensuring that farmers have greater security in land rights, if not outright ownership.

Giving farmers more scope to transfer or pool their land into bigger, more modern agricultural holdings would raise productivity and accelerate urbanization, economists say.

Such land transfers have already been taking place, formally and informally, in recent years.

When the document was being drafted, some argued that the new policy might create a few landlords and many landless farmers who will have no means to make living. Another concern was that arable land could be used for non-farming purposes, threatening the country's food security.

To allay such fears, the document said that the country would have in place "the most stringent farmland protection system" and urged local authorities to firmly safeguard the 1.8 billion mu (120 million hectares) deemed as a minimum.

The area of arable land shrank 610,100 mu last year to 1.826 billion mu, only slightly above the government's set target.

The CPC document also:

* said the government will strive to double the per-capita disposable income of rural residents from the 2008 level to more than $1,200 by 2020.
* urged more support be given to hasten the development of special rural cooperatives and turn them into modern agricultural organizations so that farmers are competitive in the domestic and overseas markets.
* promised to revise laws to regulate and push forward rural land management reform in "a normative manner".
* said the government wants to spend more on rural infrastructure and increase crop production. Farmers are encouraged to collectively raise cotton, sugarcane and potatoes in areas with suitable resources and environment, as well as raise production of edible-oil plants.

The plan also aims to ensure grain output stays above 500 million tons until 2010, and reaches 540 million tons by 2020.

Loans and subsidies will be made available to companies which process produce such as frozen vegetables.

The rights and interests of migrant workers are also given priority in the document, which promised the CPC Central Committee will take effective measures to ensure they have same access to social welfare as urban residents in areas such as education, public health care and housing.

The Central Committee said it would further reform the household management system to reduce residency requirements for migrants working in more small- and medium-sized cities.

This way, ex-farmers who live in towns and cities with stable jobs could become urban residents.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/20/content_7120698.htm) ([see archive](Farmers_get_leeway_on_use_of_land.pdf))

### Home buyers get gov't support in Delta cities

New housing policies by governments in Shanghai and Hangzhou, two major cities in the Yangtze River Delta, will boost the sluggish market and make homes more affordable by giving breaks to home buyers and developers.

The Shanghai Housing Provident Fund Management Center issued a notice on Tuesday to raise the threshold of public housing fund lending to 600,000 yuan ($87,732) from October 15.

The supplementary lending quota for households with two or more borrowers was lifted to 200,000 yuan from the previous 100,000 yuan, if they are purchasing houses for themselves for the first time, said the notice.

Couples with access to both basic and supplementary public housing funds are each entitled to borrow up to 200,000 yuan from the basic fund and 100,000 yuan from the supplementary fund.

Also on the same day, the city government of Hangzhou, the capital of Zhejiang province, revealed new policies to boost the healthy development of the housing market, such as granting permanent resident permits and subsidizing tax payments for individual housing purchasers, as well as expanding the developing period for realty developers.

Now, people who purchase houses in designated areas with or above a certain amount of money will be granted Hangzhou permanent resident permits for the household (couples and their child). "Migrants account for no small part of the population in Hangzhou and the policy will certainly be attractive to them," said Zhao Hangsheng, director at the Zhejiang University Real Estate Investment Research Institution.

Meanwhile, to offset deed tax and stamp tax payments on individual's purchase on both new and second-hand housing, the government promised to offer subsidies to cover the local proportion part of the taxes. Zhao said it was an active way to promote housing circulation and stimulate purchasing.

In addition, Hangzhou realty developers will enjoy looser policies. Their corporate income tax will be pre-levied on the floor level and the government will moderately adjust the payment term of land purchases and expand the starting and completing periods of construction projects.

Adjusting the payment terms for land purchases will greatly alleviate the strained capital chain of real estate development enterprises, said a developer. "Expanding the starting and completing periods win time for developers to deal with the changing market," he said.

Housing sales in the main city zone of Hangzhou totaled more than 17,000 units during the January-September period, down 46 percent from the previous year, according to Shanghai Securities News. Encountered with the global financial fluctuations, "further supportive policies by the central government are expected to save the falling housing market, rather than only local policies," said Zhao.

Starting with supportive policies issued in July by the government of Changsha, the capital of Hunan province, some 18 cities have put in place different methods to boost the sluggish housing market, such as Guangzhou, Chongqing, Nanjing and the above mentioned Shanghai and Hangzhou.

Sina.com said in a report that a rumor has been circulated that the central government, plans to change the strict controls on the real estate market to more moderate controls, by measures such as cancelling restrictions over purchasing the second unit, lowering property tax, extending the repayment period for personal housing loans, and others.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/16/content_7113424.htm) ([see archive](Home_buyers_get_govt_support_in_Delta_cities.pdf))

## Corporate & Commercial

### Financial institutions urged to step up supervision

The Chinese banking regulator recently urged financial institutions to step up their supervision in face of world economic turmoil.

The China Banking Regulatory Commission (CBRC) is requiring institutions in the banking sector to tighten up its credit management and avoid embezzlement of funds to the stock market.

Control over property-related credit should be strengthened to encourage normal consumption, strike down on speculation activities and support the rational development of the real estate industry, said the commission.

It also urged commercial banks to make better preparations for possible losses, asking them to increase provisions. Through August, the adequacy ratio of loan loss provisions was up 6.5 percent from the same period last year, and the provisioning coverage ratio rose 5.8 percent. The bad loan ratio dropped 1.3 percent through September.

The banking industry was operating steadily and the risk from the subprime crisis was under control, said the commission.

"We established a banking supervision system with Chinese characteristics within a relatively short time," said CBRC Chairman Liu Mingkang.

Commercial banks should continue to take a prudent stance and strengthen risk analysis and report, said the commission, demanding commercial banks report on a monthly basis.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/16/content_7114851.htm) ([see archive](Financial_institutions_urged_to_step_up_supervision.pdf))

## Taxation

### Experts: China to launch nationwide VAT reform experiments in 2009

In another effort to boost domestic spending while the export sector falls, China's State Administration of Taxation will launch value added tax (VAT) reform experiments in 2009.

The measures are equal to tax cuts in function, according to Liu Zuo, head of the administration's Taxation Research Institute, who revealed the plans at a tax forum recently.

Reforms are also expected to be introduced for corporate income tax, business income tax cuts and personal income tax, he added.

Some analysts have forecast that China's economic growth in the first three quarters might be increased by more than 10 percent, but CPI in September might remain under 5 percent and is likely to continue to drop in the following few months.

China's overall economy is maintaining good shape with increased grain supply and stabilized commodity prices despite the decline in some industries like real estate and exports, which contribute less than before to the country's economy.

China's export growth increased by 2.7 percentage points last year, while the trade surplus dropped 2.6 percent year-on-year, to $180.9 billion, from January to September 2008.

The Chinese Academy of Social Sciences (CASS) has forecast that the consumption contribution to economic growth will continue to increase by 5 percentage points until the end of this year.

With increasing global economic uncertainties, China cannot only rely on the export sector but must intensify its investment and consumption to maintain rapid and stable economic growth, said the CASS, NBS and State Council Development Research Center in a statement to policy makers recently.

These suggestions are identical with the discussions of the third Plenary Session of the 17th CPC Central Committee, which stresses expanding domestic demand and plans to double per capita disposable income of rural residents in 2020.

The government could launch some investment projects, especially in infrastructure, to stimulate domestic demand, an NBS expert pointed out.

It could also expand investment in low-rent housing to promote real estate's growth, and cut the tax to stimulate consumer consumption, he said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/17/content_7116362.htm) ([see archive](Experts_China_to_launch_nationwide_VAT_reform_experiments_in_2009.pdf))

### China to raise export tax rebates for textile, garment products

China is raising tax rebates for certain exports to help producers cope with smaller profit margins as a result of slacking market demand, the yuan's appreciation and rising production costs.

Those rebates will start Nov. 1, according to a circular on the web site of the Ministry of Finance (MOF) on Oct. 21.

The adjustment involves 3,486 items from labor intensive industries such as textile, garment, toy, hi-tech and high added value sectors like anti-AIDS drugs and tempered glass. Those items account for 25.8 percent of what's covered by the country's Customs Tariffs.

The new rebates are classified into six categories: five, nine, 11, 13, 14 and 17 percent.

For example, the export tax rebate for some toys, textiles and garments will be raised to 14 percent. There will be a nine percent rebate for certain plastic products, 11 percent for daily necessities and porcelain artifacts, 11 and 13 percent for some furniture.

According to an unnamed MOF official, the rebates will ease operation pressure for export enterprises and enhance their competitiveness. He added the adjustment would also have a positive impact on the development of the national economy.

Because exporter industries will have more money as a result of the rebate increase, China is hoping they will be able to withstand the world's financial crisis.

The MOF official also said the additional money could be used to accelerate industrial upgrades at hi-tech enterprises.

The world's financial situation, rising production costs and a stronger Renminbi dented export growth of China's enterprises. From January to September export growth was down 4.8 percent from the corresponding period of last year.

Garment and accessory exports in the same period were 87.1 billion U.S. dollars, up 1.8 percent year on year. However, the growth rate was down 21.2 percent from the same period last year.

From January to July, toy exports stood at 4.18 billion U.S. dollars, up 2.1 percent from the same period last year but the growth rate fell 22.7 percent, according to the latest statistics from China Customs.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-10/21/content_10229531.htm) ([see archive](China_to_raise_export_tax_rebates_for_textile_garment_products.pdf))

## Other

### Reparation law revision to go to NPC

The draft revision of the 14-year-old State Compensation Law will be given its first reading by deputies to the National People's Congress (NPC) recently, it was announced at a meeting in Beijing hosted by the country's top legislator Wu Bangguo.

The proposed changes to the statute came about following criticism from the legal sector of the way in which the law - designed to protect the public from the improper practices of government organs - was being implemented.

Legal experts have said that despite the growing number of malpractice cases now being brought against the government, the law in its present form is too narrow in its scope, fails to guarantee the payment of fair levels of compensation, and is too unwieldy to function smoothly.

Shen Kui, a law professor at Peking University, told that he expected NPC lawmakers to include mental damages for the first time within the State compensation system and to clarify what defines improper practice by the government.

"On some occasions, the government can harm the public interest without actually breaking any specific law," he said.

"At present, these cases are not covered by the State Compensation Law, so government agencies are immune.

"However, many lawmakers believe such cases should be included and be eligible for compensation," he said.

While most experts agree that the amendment will likely expand the scope of the law, others have said the greater need is for a change to the way in which people can apply for compensation.

Sun Guihua, a procurator with the Harbin People's Procuratorate who has twice proposed amendments to the law, said that under the current legislation simply applying for compensation is beyond the means of most people.

Similarly, Professor Wang Chengdong from the China University of Political Science and Law said that an independent State compensation commission beyond the control of government agencies should be set up to handle such cases.

"The current system isn't working," Wang said.

"The revised law should ensure governments are made to face up to their mistakes and pay compensation for their wrongdoings."

Ma Huaide, vice-president of the Administrative Law Association of China, agreed.

"It is essential that the compensation law seeks to stop the abuse of power by government agencies and officials, and better protects citizens' legal rights and interests," he said.

The revised draft of the State Compensation Law will be read at the fifth session of the NPC Standing Committee, which runs from Oct 23-28.

[Source: People.com](http://english.people.com.cn/90001/6515794.html) ([see archive](http://www.charltonslaw.com/en/publications/NewsAlertsChina/2008/262e/Reparation_law_revision_to_go_to_NPC.pdf))

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