Charltons - China News Alerts Newsletter - 01 December 2008

[online version](http://www.charltonslaw.com/china-news-alert-issue-268/)

# China News Alert Issue 268

## Capital Markets

### China slashes interest rate by 1.08 percentage points to boost growth

From November 27, the one-year deposit interest rate will be reduced to 2.52 percent from 3.6 percent. The one-year lending rates will be cut to 5.58 percent from 6.66 percent.

It has also cut the proportion of money commercial bank must hold in reserves by 1 percentage point for big banks and 2 percentage points for smaller ones.

The central bank said in a statement the move is aimed to "bring out the role of monetary policy in supporting economic growth".

It was the fourth cut this year, as the economy slowed to 9 percent in the third quarter of this year, against 11.9 percent for last year.

It has also cut the proportion of money commercial banks must hold in reserves by 1 percentage point for big banks and 2 percentage points for smaller ones. After the adjustment, which will take effect from Dec 5, the proportion would drop to 16 percent for the 6 largest lenders, while it will fall to 14 percent for smaller ones.

The move sends a strong signal that the central policymakers have reached a consensus on adopting forceful policies to prevent any economic hard-landing, analysts said.

"Such a big adjustment in interest rates indicates that central policymakers have reached a consensus that the Chinese economy is facing tough times and forceful measures are needed to help it through,” said Zhang Xiaojing, director of macroeconomic research department of the Chinese Academy of Social Sciences.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-11/26/content_7243603.htm) ([see archive](China_slashes_interest_rate_by_108_percentage_points_to_boost_growth.pdf))

## Other

### Retail tycoon embroiled in irregularities

The China Securities Regulatory Commission (CSRC) said recently that a probe into Huang Guangyu, chairman of Gome Electrical Appliances Holding Ltd, was mainly because of his alleged irregularities in asset restructuring and swaps in two listed companies.

The CSRC said it launched probes into some tradings by Shanghai-listed Sanlian Commerce and Shenzhen-listed Zhongguancun on March 28, 2008 and April 28 respectively and found Beijing Pengrun Real Estate Development, controlled by Huang, was involved in irregularities in asset restructuring and swaps in these two listed companies.

Beijing-based Caijing magazine reported recently that Huang was detained by police for allegedly manipulating shares of Shandong Jintai Group Co, a drugmaker controlled by his brother, Huang Junqin.

CSRC has forwarded the case to Beijing police. Gome is registered in Bermuda and listed in Hong Kong and CSRC said it will offer assistance to the Hong Kong regulators if necessary.

Hurun Inc ranked Huang Guangyu the country's richest man on Oct 7, with a fortune of $6.3 billion.

The unfolding of the alleged irregularities could overshadow business for the country's top home appliance retailer, whose trading in Hong Kong has been suspended since November 24.

Gome confirmed in a statement to the Hong Kong stock exchange that it was informed by the Beijing Municipal Public Security Bureau that Huang is under investigation "in connection with a certain suspected economic crime".

Zhou Yafei, group chief financial officer, was also being investigated in connection to Huang's case.

Gome appointed CEO Chen Xiao, who was "unconnected" to the probe, to replace Huang as acting chairman.

The probe might open the door for Gome's rival Suning. Gome had in recent years been expanding its dominance in the country's electronic retailing sector, sometimes by acquiring smaller rivals.

Gome's profit for the first nine months of this year surged more than 110 percent from a year earlier to 1.64 billion yuan, on the back of 36.4 billion yuan worth of sales.

Gome said its major suppliers including Haier have committed their support to the retailer, but a report on www.cnstock.com said at least one bank has started reviewing its lending to Gome.

Gome's lenders include Bank of China, China Construction Bank, China Merchants Bank, China Citic Bank and Industrial Bank.

[Source: China Daily](http://www.chinadaily.com.cn/china/2008-11/29/content_7253268.htm) ([see archive](Retail_tycoon_embroiled_in_irregularities.pdf))

## Corporate & Commercial

### NDRC Reveals Details of Stimulus Package

Minister of National Development and Reform Commission (NDRC) Zhang Ping has made public the breakdown of China's four-trillion-yuan stimulus plan, which will cover livelihood improvements, R&D, environmental protection and other sectors.

* 280 billion yuan for housing projects
* 370 billion yuan to improve people's lives and infrastructure in rural areas
* 180 billion yuan to build highways, railroads, and the power grid
* 40 billion yuan for medical care and education
* 350 billion yuan for ecological and environmental projects
* 160 billion yuan to fund R&D and innovation projects
* 1 trillion yuan for places worst hit by the earthquakes

The new details of the stimulus plan have been revealed together at the same time as China's total domestic investment was forecast to reach 18 trillion yuan in 2009.

For 2008 total investment is expected to reach 16 trillion yuan, while last year it was 13 trillion yuan. The four-trillion-yuan stimulus package is just part of all the investment China needs to drive its economy.

Among the financial stimulus plan, 350 billion yuan will be spent on improving the ecological environment and treating pollution, Zhang said. The four-trillion-yuan investment will not be spent in the energy and resource-intensive industries or high-pollution industries.

Zhou Shengxian, minister of environmental protection, said earlier that the main targets of environmental investment will go to beef up rural environmental efforts. He said China's fledgling green industries, such as those involved in the development of renewable energies and pollution treatment, will also benefit from the investment plan.

Further aspects to the NDRC's plans to stimulate the economy have also been released, including a review of the fuel tax reform formula, undertaken with other government departments. Once the formula is ready, it will be released to seek public opinion on amendments, said Zhang at the press conference.

"The goal for fuel reform is to highlight four concepts, which are fair taxation, a regulated charging system, energy conservation and less financial burden for people," Zhang said.

"It is fair that the more people consume oil the more they have to pay for it," Zhang said. By replacing the maintenance fee for roads, navigation systems and road tolls with a fuel tax, car owners will pay less than before.

"By replacing the fees with fuel taxes, we also hope to regulate road toll stations that used to charge drivers for no legal reason," he added.

Another major measure announced by the NDRC was the government boosting its crop purchases. China has seen a fifth consecutive year of record agricultural harvest but crop prices have started to drop, said Zhang. To prevent those price declines from affecting farmers' incomes, the central government has decided to increase its procurement of grain, cotton, oil products and meat at minimum purchasing prices.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200811/t20081128_1667870.html) ([see archive](NDRC_Reveals_Details_of_Stimulus_Package.pdf))

### More policies set to boost economy

More efforts would be made to encourage enterprises to upgrade their technology and innovate to help the country face the international financial crisis, the State Council said recently.

There would also be policies to aid mergers and acquisitions among enterprises, the council, the country's Cabinet, said.

The moves were laid out at an executive meeting of the council presided over by Premier Wen Jiabao.

The global financial crisis is still spreading and its effect on China's economy will become more visible, the council said.

"Government at all levels need to stabilize production and employment, help companies tide over the tough times and maintain stable and relatively rapid economic growth," it said.

Plans would be mapped out to help key sectors, including the steel, auto, ship manufacturing, petrochemical, textile, nonferrous metals, equipment manufacturing and information technology industries, the council said.

Banks were also urged to increase credit to help small and medium-sized enterprises overcome difficulties.

The council also made plans to increase the storage of key materials and resources, accelerate development of the service industry and enhance measures to promote employment and social security.

Similarly, more education and job training would be provided to increase employment. These measures should also cover rural workers who have returned home from cities because of retrenchment, the council said.

To offset the adverse global economic conditions, the State Council had on Nov 9 announced a 4 trillion yuan ($586 billion) stimulus package to boost domestic demand. This will be combined with other measures, such as loosening credit and cutting taxes.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-11/27/content_7245201.htm) ([see archive](More_policies_set_to_boost_economy.pdf))

### Foreign funds for roads urged

The authorities are calling for more foreign investment in road and port construction next year, in line with plans to spur domestic demand in the sector, a transport official said recently.

Road and port infrastructure projects will need 1 trillion yuan ($147 billion) of investment next year, up from about 800 billion yuan needed this year, Li Xinghua, deputy director of the planning department of the Ministry of Transport, told a press conference.

"The gap in capital financing next year means more foreign capital is needed," he said.

Past road constructions have preferred domestic funds over foreign capital because they were said to offer "more favorable terms than foreign loans", Li said.

But the amount of foreign funds in road construction is "sure to exceed" that of the past, he said.

The country currently uses $600 million to $800 million of loans from the World Bank, Asian Development Bank and foreign governments each year for building roads, with the amount of funds expected to increase next year, Li said.

"From expressways to ports, all transport infrastructure projects are open to foreign capital as usual, and we have already established mature operational mechanisms for using the funds from past experiences," he said.

The foreign capital, as well as central and local government funds and domestic private capital, will together fund large-scale road and port construction next year, Li said.

The majority of investments next year will go to expressway projects, he said. About one-fifth will go to rural road projects, 70 billion yuan to coastal port projects and 20 billion yuan to inland port projects.

The exact amount of investment in expressways will have to be approved by the State Council, or the country's Cabinet, Li said.

The ministry's plans for the sector follow latest efforts of the State Council to fend off economic slowdown by investing 4 trillion yuan in areas that also cover housing and rural infrastructure.

The focus on expressways also stems from the strong effect such projects have in spurring demand, seen in the late 1990s when the Asian financial crisis struck, Transport Ministry spokesman He Jianzhong said.

He cited studies saying that building 1 km of expressway will consume 1,000 tons of steel, 9,000 tons of cement and 1,900 tons of asphalt on average, and every 100 million yuan invested in the roads will create 1,800 jobs directly and 2,100 jobs indirectly.

These large-scale investments on the transport network will help boost plans for a 100,000-km national highway network, He said. The country had 54,000 km of expressways by the end of last year.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-11/26/content_7240347.htm) ([see archive](Foreign_funds_for_roads_urged.pdf))

### China's discipline watchdog targets graft in government-funded projects

China's Party discipline watchdog recently vowed to put government-funded projects under scrutiny when the country is investing 4 trillion yuan to stimulate the economy.

"We would try to prevent corruption, when a project is tabled for review and approval, when the land is allocated to it, when a public bidding is held for contractors," said He Yong, deputy secretary of the Communist Party of China Central Commission for Discipline Inspection (CCDI), at a meeting recently.

Besides government-funded ones, other projects with state investment would also be the top priority, he said.

The CCDI would issue a set of rules to regulate business activities and officials' work as soon as possible, he said. For instance, it would push local governments to publicize urban planning documents, which listed infrastructure projects to be implemented, and issue detailed rules to protect fair play in public bidding.

To curb graft in this field, discipline officers would also target commercial bribery, which has implicated officials.

They will establish a database specially for commercial bribery cases. A company involved in such cases would be excluded from any business, He said.

On November 24, the CCDI also issued a statement jointly with the National Development and Reform Commission (NDRC), the Ministry of Supervision, the Ministry of Finance and the National Audit Office to ensure close supervision on the stimulus package.

The statement said two dozen inspection teams will be sent to follow projects funded by the package.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200811/t20081128_1667909.html) ([see archive](Chinas_discipline_watchdog_targets_graft_in_government-funded_projects.pdf))

### National Treasure Stops Collecting Land-use Fees Imposed on Central-level Foreign-invested Enterprises

Beginning on January 1, 2009, National Treasure will not collect the land-use fees imposed on central-level foreign-invested enterprises, and will not arrange subsidy funds for foreign-invested environmental construction.

The aforementioned provisions are made by the Circular on Not Handing in Land-use Fees Imposed on Central-level Foreign-invested Enterprises by Local Financial Authorities (Circular) released by China's Ministry of Finance. The aforementioned incomes refer to the shared part of land-use fees paid by Sino-foreign joint venture and cooperative enterprises that are jointly established by enterprises subordinate to central authorities, enterprises managed by central government and foreigners or that are co-established by enterprises subordinate to central authorities, enterprises managed by central government and local enterprises.

The Circular shall take effect as of January 1, 2009.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5056) ([see archive](National_Treasure_Not_Longer_Collect_Land-use_Fees_Imposed_on_Central-level_Foreign-invested_Enterprises.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 268 - 01 December 2008**