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# China News Alert Issue 276

## Capital Markets

### Banks get approval for bond trading

China has allowed listed commercial banks to participate in bond transactions on bourses, the securities regulator said recently.

Listed commercial banks can submit the applications to the Shanghai Stock Exchange or Shenzhen Stock Exchange after getting approval from the China Banking Regulatory Commission (CBRC), according to the website of the China Securities Regulatory Commission (CSRC). The government move is expected to spur the bond markets.

During the test period, commercial banks can trade bonds on the fixed-income platform of the stock exchanges, including treasury bonds, corporate bonds and enterprise bonds.

The bourses have been asked to provide a special place for commercial banks to trade bonds and give corresponding technical support. The participating banks are allowed to use only their own accounts for bond transactions.

The CBRC and CSRC will set up joint supervision systems to oversee the bond transactions of commercial banks, the announcement said.

The regulators will gradually enlarge the scope of the pilot units in commercial banks and perfect related regulations, the CSRC said, without elaborating on the detail of the pilot units.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-01/20/content_7411574.htm) ([see archive](Banks_get_approval_for_bond_trading.pdf))

### Chairman of CSRC vows for IPO reform

Chairman of China Securities Regulatory Commission (CSRC), Shang Fulin, vowed to reform its mechanism for initial public offerings (IPO) of shares, as reported recently.

At an annual national work conference on securities and futures, Shang Fulin announced the regulatory commission will give priority to market-oriented system reform and IPO issuance reform.

This announcement came amid an economic slump that has brought the country's stock IPOs to a standstill.

The Commission has also promised to allocate new shares more fairly through a subscription system, and regulate stock pricing that will better reflect supply and demand.

At the meeting Shang sought advices from investment institutions and investors, covering areas of focus like price inquiry systems, price inquiry efficiency and the assignment mechanism of stock, as well as non-circulative stock issue.

Insiders say the Commission considered restricting price inquiry institutions from participating in online purchases and security placement. Industry insiders said that following the development of the securities market, the current regulations on the insurance and underwriting published in 2006 have to be modified and revised.

[Source: China Securities Journal](http://www.cs.com.cn/english/markets/200901/t20090120_1728061.html) ([see archive](Chairman_of_CSRC_vows_for_IPO_Reform.pdf))

### Regulator to roll out GEB norms

China is expected to soon launch its Growth Enterprises Board (GEB), modeled along the lines of Nasdaq, to help small companies raise capital and restore investor confidence, the securities regulator said recently.

"The administrative rules governing the initial public offering (IPO) of the GEB will be launched soon and a set of specified regulations will come out gradually," Shang Fulin, chairman of the China Securities Regulatory Commission (CSRC), said at the annual national securities and futures conference in Beijing.

Shang said regulators would set up the proper listing threshold for GEB and strengthen supervision mechanisms to avoid excessive speculation.

In addition to its main board, China has only one small and medium enterprises (SME) board, which was launched in 2004 in Shenzhen.

According to statistics from CSRC, 75 companies got listed in domestic market in 2008, with the market capitalization reaching 339.6 billion yuan. Among these, 69 companies are SMEs, accounting for 92 percent of the newly listed companies in terms of numbers.

"The road map for launching stock-index futures need to be drafted carefully," Shang said.

Regulators are also expected to add more trading categories for the future markets like steel and grain.

Shang, without elaborating on the timetable, also called upon the officials who are drafting the modalities to "do a good job on pilot units for margin trading and short selling".

The meeting's guidelines are designed to act as the framework for regulators this year.

Shang said the corporate bond market is expected to be well-developed this year, while regulators would also take steps to actively spur mergers and acquisitions.

He also advocated a four-pronged strategy for market revival this year. These are:

Favorable policies to encourage capital market investments by social security funds, insurance capital and public pension funds.

Administrative rules to govern share repurchases by listed companies and to encourage cash dividend payments along with an optimized tax policy for dividend payouts.

Steps to enhance block trading to offer a proper platform for unlocking nontradable shares.

Effective mechanisms to control, warn and monitor systematic risks.

CSRC Vice-Chairman Fan Fuchun said the regulators would try their best to minimize the unfavorable impacts of the global financial crisis.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-01/15/content_7399428.htm) ([see archive](Regulator_to_roll_out_GEB_norms.pdf))

### Private lending can open up credit market

It is reported that a regulation drafted by the central bank on private lending has been submitted to the State Council, the country's cabinet, for review. The regulation is due to allow individuals and companies to extend loans if they do not have bad credit or criminal records. If approved, it will mean domestic banks' monopoly in the country's credit market will be broken and non-public lending legalized.

And the recent Several Opinions of the General Office of the State Council on Providing Financing Support for Economic Development also prove the determination of central government to include the social funds in lending market.

Opinion 20 is set to give full play to the role of financial institutions including rural credit cooperatives as a main force in supporting agricultural development, expand the pilot operation of such new-type rural financial institutions as village and town banks and the pilot operation of small-sum loan companies to more areas, develop non-government financing and setting up a multi-layer credit supply market.

Private credit business has long been labeled "underground banking" in China. The move by the central bank, the country's prime financial monitor, to legalize it indicates the long-thriving business in some coastal regions can come out in the open from its previous backstage operation.

The move will be of great significance to the introduction of competition to the country's financial market that has long been dominated by State-run banks.

It also indicates the authorities' strong intention to rope in non-government capital to make up for an insufficiency in the official capital market.

The global financial crisis has forced China also to face a grim economic prospect.

A number of domestic enterprises, especially middle and small-sized ones, are being plagued by severe funding insufficiency because of the bleak external consumption demands.

The lack of steady capital supply will further erode these enterprises' waning ability to endure the coming economic cold and thus will add to a further shrinkage in social investment and demands.

The central bank's intention to open up the unofficial lending channel is expected to ease the current embarrassing situation.

If the domination of domestic commercial banks over the domestic credit market is broken, the long-sluggish lending business is likely to make a new breakthrough.

Experiments by some small-scale creditors in the country, however, point to another problem. They show that quite a number of unofficial lending bodies may find it difficult to meet the requirements set by relevant State departments, although they have established a well-developed apparatus to run their daily business.

The relevant regulations stipulate that the practitioners should possess banking business experiences and should have a certain level of academic background.

However, for a majority of these lending bodies, what they have resorted to is a skillfully utilized network of social relations as a main means to monitor possible financial risks in their business.

This kind of risk control model, although very different from the models used by bigger commercial banks, has proved highly efficient in the smaller-scale unofficial credit market.

Take an obscure cooperative bank in Wenzhou, Zhejiang province as an example. The eastern coastal province is well known for its booming middle and small-sized enterprises.

The rural cooperative financial body, set up in June 2005 and with nearly 4,000 farmers among its 4,639 shareholders, extended a total of loans worth 4 billion yuan last year, 60 percent of them flowing to rural areas.

The bank achieved a profit of 112 million yuan the same year. Its great success has made establishment of similar financial agencies the most tempting investment target in the city.

One of the effective measures used by the bank to minimize its potential risks is to put any borrowers with bad credit records on a blacklist, which, alongside others, will contribute to the defaulters being deserted by the local society.

The outstanding business achieved by the Wenzhou rural cooperative bank, managed by not so highly educated shareholders, fully demonstrates the existence of financial wisdom at the grassroots.

It is true the government should set some entry standards for the unofficial credit business from a long-term perspective.

But the authorities should also try to extend some preferential polices to the fledgling sector in its transition to formal financial bodies.

The opening of the sector will surely help the country's struggling medium and small-sized enterprise to survive the financial winter ahead.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-11/19/content_7219925.html) ([see archive](Private_lending_can_open_up_credit_market.pdf))

### Taiwan stocks may get mainland access soon

Mainland investors will be able to access Taiwanese stocks after the respective bourses iron out the modalities for cross-listing exchange traded funds (ETFs), according to leading market experts.

Taiwan Stock Exchange Chairman Schive Chi said that the Shanghai and Taiwan bourses would start talks on cross-listing ETFs and indicated that a memorandum of understanding would be signed soon.

Taiwan-based securities house Polaris Securities said because of their diversity, ETF products carry lesser risks for mainland investors, especially for those who have little knowledge about the Taiwan market.

Polaris Securities Managing Director of Research Odie Ou welcomed the cross-listing moves and said ETFs are the ideal introductory vehicles.

"Many overseas investors know only one or two large Taiwanese brands, such as Foxconn," he said. "Mainland investors can avoid blindly investing in Taiwan stocks with a balanced investment portfolio of ETFs."

Ou said the brokerage plans to introduce an ETF, which tracks the performance of the Top-50 Taiwan enterprises, in the Hong Kong market in the first quarter. Similar products would also be available on the mainland after listing hurdles are removed, he said.

Taiwan ETF products underwent a rapid growth over the past few years. Between 2003 and 2008, there were 10 Taiwan ETFs listed in overseas markets and they had raised funds of NT$3.9 billion.

China Merchants Securities (HK) Managing Director Ronald Wan said he believes the mainland and Taiwan can reach an agreement within a year to allow mainland investors to purchase Taiwan stocks. But mainland investors are still not that enthusiastic about the Taiwan market, he said.

"Many mainland investors are not familiar with the market," he said. "With its immature financial system and unstable political environment, they might take a wait-and-see investment strategy toward the emerging market."

JP Morgan Asset Management Vice President of Investment Services Grace Tam said the scope of the Taiwan market is too narrow to attract overseas investors.

However, she believes the mainland and Taiwan bourses will soon reach a consensus on the cross-listing of ETFs.

Ou said the market-valuation-to-GDP ratio of Taiwan remains at an eight-year low, and he believes the index has room to pick up from the 4,000 level last November to around 6,000 this year.

[Source: China Securities Journal](http://www.cs.com.cn/english/markets/200901/t20090120_1727925.html) ([see archive](Taiwan_stocks_may_get_mainland_access_soon.pdf))

## Corporate & Commercial

### China unveils support package to auto, steel industries

China's State Council unveiled a long-awaited support package for the auto and steel sectors to boost the two "pillar industries".

Under the plan, the government will lower the purchase tax on cars under 1.6 liters from 10 percent to 5 percent from Jan. 20 to Dec. 31 in a bid to stimulate sales.

It will also allocate 5 billion yuan (730 million U.S. dollars) to provide one-off allowances to farmers to upgrade their three-wheeled vehicles and low-speed trucks to mini-trucks or purchase new mini-vans under 1.3 liters from March 1 to Dec. 31. It will also increase subsidies for people to scrap their old cars and will straighten out and cancel regulations that restrict car purchase.

The plan encourages large auto companies, as well as major auto-part makers to expand through mergers and acquisitions so as to optimize resources and improve their competitiveness on the international market.

In the next three years, the central government will earmark 10 billion yuan as a special fund to support auto companies to upgrade technologies, and develop new engines that use alternative energies. The government will offer financial support to promoting the use of energy-saving autos and those fueled by new energies, and support automakers to develop independent brands and build auto and parts export bases.

The plan also urges improvements in the credit system for car purchase loans. More than 93 percent of Chinese vehicles are sold in the domestic market, but less than 10 percent are purchased on credit.

It also requires accelerated upgrading of the steel sector, transforming "big" industry competitors into "strong" international players.

It said the industry needed to eliminate outdated technology, and must not establish new projects that merely add to steel output.

China also needed to increase domestic demand for steel and adopt a more flexible tax rebate policy to keep international markets.

Special funds will be allocated from the central budget to promote technological advancement of the sector, readjustment of products mix and improvements of product quality, according to the plan.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200901/t20090115_1721747.html) ([see archive](China_unveils_support_package_to_auto_steel_industries.pdf))

### CITIC Guo'an gets nation's first-ever acquisition loan

The China Development Bank signed a contract recently to extend 1.63 billion yuan ($240 million) in acquisition loan to the CITIC Guo'an Group, the first such case after the country allowed banks to issue acquisition loan last month.

The CITIC Guo'an would use the loan to increase its shareholding in the Baiyin Group, a non-ferrous metal processing company in northwest China's Gansu province.

CITIC Guo'an planned to spend 3.26 billion yuan to bring its stake in Baiyin Group to 45 percent. However, CITIC Guo'an's previous percentage of shareholding was not available yet.

CITIC Guo'an, a subsidiary company of the CITIC Group, covers information industry, hi-tech, natural resources development and real estate development.

The China Banking Regulatory Commission (CBRC) allowed commercial banks to provide loans to domestic enterprises conducting acquisition both at home and abroad, starting from December of 2008.

Commercial banks, including domestic urban and rural commercial banks and foreign banks in the country, must meet certain criteria to initiate the business. These included a capital adequacy ratio above 10 percent and a loan loss provision taking up more than one percent of the total loan, among others.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-01/21/content_7417426.htm) ([see archive](CITIC_Guoan_gets_nations_first-ever_acquisition_loan.pdf))

### Sanlian sues Gome for 50m yuan

Sanlian is seeking 50 million yuan compensation from Gome. The case is scheduled to come up for hearing on Feb 18, Sanlian said in a statement to the Shanghai Stock Exchange.

This lawsuit is the latest blow to the mainland's largest electrical appliance retailer whose founder and former chairman Huang Guangyu and his wife Du Juan were questioned by Beijing police for alleged wrongful share dealing.

Trading in the H-shares of Gome on the Hong Kong stock exchange has been suspended from Nov 24, after the Huang incident.

Since then the company has been troubled by unconfirmed reports that it was losing the confidence of its bankers and suppliers. The company has said that its business is unrelated to the police investigation of the affairs of its former chairman.

But the litigation with Sanlian could pose an added strain on the company in its efforts to calm the nerves of creditors and suppliers.

Matthew Kwok, head of research at Tanrich Financial, said the incident is related to the company and it is different from the earlier cases in which only the company chairman and his wife were involved.

"Credibility is very important for retail business. The uncertainties surrounding Gome may force the banks and suppliers to tighten credit lines," he said.

Security houses such as Credit Suisse and Nomura also issued research notes in November indicating their concerns on the financial situation at Gome.

Banks are now more cautious in lending due to the credit crisis. They are particularly sensitive to negative news and would often call in their loans in such cases to safeguard themselves, he said.

Huang's wife Du Juan, the former executive director, resigned from the board on Dec 23 because of her association with her husband, according to Gome's statement to the Hong Kong stock exchange.

The company has named Chen Xiao its acting chairman. Chen told reporters last month that the company had no plans to sell shares and stressed that company operations are running normally.

However, Kwok noted that it is difficult for the company to raise funds through a bond issue or share sale. "It may not be easy for companies to finance as the credit condition remains tight, not only at Gome but also at other firms," he said.

Dickie Wong, director of research at Hong Kong's Kingston Securities, said the suspension period of Gome may be extended due to the lingering uncertainties.

"According to previous cases, I am afraid Gome's trading may be halted for half a year or more than a year," he said.

Gome's shareholders need to wait until the uncertainties about the company are cleared, and Wong said it's hard to predict the share performance after trading resumes.

Both Wong and Kwok believe that the uncertainties would not affect the daily retail business operations in Hong Kong for now.

[Source: China Securities Journal](http://www.cs.com.cn/english/com/200901/t20090115_1721488.html) ([see archive](Sanlian_sues_Gome_for_50m_yuan.pdf))

## Taxation

### SAT regulated the collection of stamp tax on vouchers of enterprise groups

Stamp tax shall be collected in line with law on vouchers which are voluntarily signed among entities with equal legal status within the enterprise groups, and which specify the purchase and sales relationship of both parties, are used as the evidence for goods supply and settlement and are provided with the property of contracts.

The Circular on Issues Concerning the Collection of Stamp Tax on the Relevant Vouchers Used within the Enterprise Groups (Circular), released by China's State Administration of Taxation (SAT) on January 5, 2009, stamp tax shall not be levied on vouchers which are used for implementing plans within the enterprise groups and are without the property of contracts.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5264) ([see archive](SAT_Regulated_the_Collection_of_Stamp_Tax_on_Vouchers_of_Enterprise_Groups.pdf))

## Other

### Two ministries release Second Supplementary Provision for the Tentative Measures on Sino-Foreign Equity and Cooperative Medical Institutions

The Second Supplementary Provision for the Tentative Measures on Sino-Foreign Equity and Cooperative Medical Institutions (the “Provision”) was approved by Ministry of Health and Ministry of Commerce and came into force on January 1, 2009.

According to the Provision, Hong Kong and Macao service providers may establish wholly foreign owned outpatient clinics in Guangdong province with no limitation to the total investment of the outpatient clinics. Service providers in Hong Kong and Macao may also establish sino-foreign equity and cooperative outpatient clinics with domestic enterprises in Guangdong province without limitation to the investment proportion and total investment. The foreign invested outpatient clinics should be approved by Guangdong Department of Health and Guangdong Department of Foreign Trade and Economic Cooperation.

Chinese source: PRC central government

http://www.gov.cn/flfg/2009-01/14/content\_1205285.htm) ([see archive](Two_ministries_release_Second_Supplementary_Provision_for_the_Tentative_Measures_on_Sino-Foreign_Equity_and_Cooperative_Medical_Institutions.pdf))

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