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# China News Alert Issue 281

## Capital Markets

### China plans asset management body to accelerate SOE restructuring

China will build an asset management company to accelerate restructuring of smaller state-owned enterprises (SOEs), an official with the State Council (cabinet) said recently.

The official with the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council said the company would merge some smaller and under performing SOEs controlled by the central government.

Those mergers would help achieve the target of cutting the number of SOEs to between 80 and 100 and cultivating 30 to 50 large, globally competitive entities by the end of 2010.

The list of SOEs involved and other details were under discussion, he said.

A researcher who participated in studies of SOEs said the new company would serve as a platform for the government to weed out incompetent SOEs and support companies engaged in emerging industries, especially those vital to the national economy.

The SASAC has so far established two state asset management companies, i.e., the State Development and Investment Corp. and China Chengtong Group. They have played a positive role in restructuring SOEs, but their contributions were limited as they themselves were SOEs, said experts.

Last year, the SOEs posted profits of 665.29 billion yuan (about 95 billion U.S. dollars) despite serious natural disasters and the worsening global financial crisis.

Centrally controlled SOEs were required as of 2007 to pay 5 percent to 10 percent of earnings as dividends, depending on their industries.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-03/03/content_10937270.htm) ([see archive](China_plans_asset_management_body_to_accelerate_SOE_restructuring.pdf))

## Corporate & Commercial

### Chinese lawmakers approve insurance law

The Chinese legislature approved recently the amended Insurance Law which mandates the state regulatory body to prevent risky business operations of insurance companies.

The amended law says the State Council's insurance regulatory body has the right to order the insurance company's shareholders to stop affiliate company transactions that seriously harm the company's interests and undermine its solvency.

The regulatory body could restrict rights of insurance company shareholders if they carry out risky capital operations, the law says.

The revised law will take effect on Oct. 1, according to a statement issued by the National People's Congress (NPC) Standing Committee's bimonthly session.

If the companies refuse to stop harmful transactions, the regulatory body will have the right to order them to transfer their shares, but the new law gives no details as to how or to whom the shares would be transferred.

For those insurance companies with inadequate solvency, the new law authorizes the regulatory body to restrict salaries of the company's board members and senior administrators.

The insurance companies will also be restricted to broadcast TV commercials or other kinds of advertisement and banned to start new operations, according to the law.

"The new article was added based on proposals from lawmakers in previous discussions. It is a supervision measure to prevent and correct the misuse of shareholders' power," said Sun Anmin, deputy director of the NPC law committee, during the session of the 11th NPC Standing Committee.

Since the draft amendment was first submitted for discussion last August, it has been the third time for the top legislature to review the revision.

The new insurance law expands the investment channel for insurance companies from government bonds and financial bills to stocks, securities-investment funds and properties.

It also tightens qualifications for setting up an insurance company to provide better protection for insurant's interests.

In addition to a minimum 200 million yuan (29 million U.S. dollars) of net assets for a company's each shareholders, a good credit record and no record of serious illegalities in the past three years are also required.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-02/28/content_10916287.htm) ([see archive](Chinese_lawmakers_approve_insurance_law.pdf))

### China announces stimulus plans for nonferrous metals, logistics

China's State Council recently announced support plans for the country's nonferrous metals and logistics sectors.

Presided over by Premier Wen Jiabao, Cabinet members agreed to promote company restructuring and will offer subsidized loans to support technical innovations within the nonferrous metals sector.

The export rebate rates of nonferrous products should be adjusted, said the Cabinet without elaborating.

The establishment of a national reserve system for the industry was also demanded.

The product structure of the nonferrous industry should be adjusted to meet the demand of power, transportation, construction, mechanics and light industries, the announcement said.

Cabinet members agreed to eliminate technically undeveloped producers and avoid the increase of excessive output capacity.

Nine key projects were also decided on as a way to boost the logistics sector, including supplying necessary equipment as well as promoting an industry standard and an information platform.

The plan would also build a special district for logistics development, and boost urban delivery, wholesale and rural logistics.

The logistics industry was a service sector that could give a major boost to production and consumption, as well as provide a great number of job opportunities, said the meeting.

Company merging and restructuring should be encouraged in order to nurture large and modern logistics companies which could compete in the international market.

The development of logistics for energy, mining, automobile, and medical industries and agricultural products should be especially encouraged.

The meeting underlined the development of technical innovations and decided that central and local governments should allocate 100billion yuan within two years to support the promotion and application of innovative products.

China has unveiled stimulus packages for 10 industries. Previous support packages include the auto, steel, shipbuilding, textile, machinery-manufacturing, electronics and information industries, the light industry and petrochemical sectors.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200902/t20090226_1770824.html) ([see archive](China_announces_stimulus_plans_for_nonferrous_metals_logistics.pdf))

### Sanyuan buys scandal-hit Sanlu dairy company at auction

Beijing-based dairy producer Sanyuan has bought Sanlu Group, the Chinese dairy company at the center of last year's milk contamination scandal.

Sanlu, which has been declared insolvent, was auctioned in north China's Hebei Province on Feb. 25 at the Intermediate People's Court of Shijiazhuang.

It was sold to Sanyuan for 616.5 million yuan (90 million U.S. dollars).

Auctioneer Yuan Guoliang said the previous valuation of Sanlu assets of 800 million yuan put for bidding included two Sanlu plants, the Tangshan Sanlu Dairy Plant Ltd. and the Junlebao Dairy Ltd., which were not among the assets on auction on Feb. 25.

"The assets of the plants will be for sale at the next auction," Yuan said, adding he did not know the date.

The auction started at 6 million yuan, based on the valuation of Sanlu Group's core assets, including land use rights, buildings, machinery and equipment as well as one of Sanlu's subsidiaries, the Linhe Dairy.

The Beijing Sanyuan Group Co. Ltd., the parent company of the Shanghai-listed Beijing Sanyuan Foods Co. Ltd., made the joint bid with the Hebei Sanyuan Foods Co. Ltd., a subsidiary of the Beijing Sanyuan Foods Co. Ltd.

Sanyuan bid against just one other prospective buyer during the auction, which lasted 15 minutes.

The auction company, the Hebei Jiahai Auction Co. Ltd., declined to name the rival firm represented by board No. 88.

The auction, which was open only to domestic dairy producers, required bidders to meet two criteria: no involvement in the melamine scandal; and a minimum of 1 billion yuan in total revenue from liquid milk and milk powder product sales last year.

Both of China's leading dairy producers, Yili and Mengniu, were unqualified to bid, since the chemical substance melamine was found in their milk products, though in smaller proportions than that detected in Sanlu's products.

Sanlu had been China's leading seller of milk powder for 15 years until the melamine scandal broke in September last year. The group's revenue hit 10 billion yuan in 2007, while Sanyuan's revenue was 1 billion yuan.

Sanyuan's stock was suspended from trading in the morning of Feb.25 at the Shanghai Stock Exchange, as the auction was held. Its share price rose by the daily limit of 10 percent on Feb. 24.

Fan Xueshan, a board director of the Sanyuan Group, said Sanyuan would renew labor contracts with 3,070 staff on Sanlu's payroll after the takeover.

"The auction on Feb. 25 did not relate to Sanlu's debts. Sanlu's existing production and sales team is skilled and competitive," he said.

He said Sanyuan would provide capital and management to revive the production, and consolidate its market share.

"Strict production monitoring measures will be imposed to ensure the safety and quality of the milk products," he said.

Sanlu stopped production on Sept. 12 last year, as the melamine scandal broke. It leased some of its plants to a subsidiary of Beijing Sanyuan Foods Co. Ltd. in December, days after the bankruptcy petition was accepted by the Shijiazhuang court.

The company's melamine-tainted baby milk powder was found to have caused the deaths of at least six children and sickened more than 300,000 other children.

On Dec. 19, Sanlu borrowed 902 million yuan to pay the medical fees of children sickened by baby formula tainted with melamine and to compensate victims, which increased its debt to 1.1 billion yuan.

Sanlu was fined 49.37 million yuan by the Shijiazhuang court after being convicted producing substandard products in January. The same court also imposed a life sentence for Sanlu chairwoman Tian Wenhua, who was convicted of manufacturing and selling fake or substandard products.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-03/04/content_10940214.htm) ([see archive](Sanyuan_buys_scandal-hit_Sanlu_dairy_company_at_auction.pdf))

### Six Authorities to Jointly Conduct 2009 Annual Examination over Foreign-invested Enterprises

China's Ministry of Commerce (MOFCOM), Ministry of Finance (MOF), the State Administration of Taxation (SAT), State Administration For Industry and Commerce (SAIT), the National Bureau of Statistics (STATS) and the State Administration of Foreign Exchange (SAFE) will conduct the 2009 joint annual examination over foreign-invested enterprises between March 1 and June 30, 2009.

Under the aforementioned authorities released on February 26, 2009 the Circular on Conducting 2009 Joint Annual Examination over Foreign-invested Enterprises (Circular), for the enterprises' capital contribution terms expired after July 1, 2008, and which do not have any illegal records and fail to make the capital contribution in a timely manner because of the tight financing, they are eligible to extend the deadline of capital contribution to the end of 2009 if they apply for it to the SAIT in line with law.

Besides, for enterprises which fail to start the business within 6 months since the establishment or suspend the business by themselves for more than 6 months after the practice because of the international financial crisis, they are eligible to extend the deadline of capital contribution to the end of 2009.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5445) ([see archive](Six_Authorities_to_Jointly_Conduct_2009_Annual_Examination_over_Foreign-invested_Enterprises.pdf))

## Taxation

### SAT Tightens Control over Taxation on Projects Contracted by Non-resident Enterprises

Beginning on March 1, 2009, non-resident enterprises which contract projects or provide labor services in China must process the taxation registration to the local competent taxation authorities within 30 days since signing the contracts or agreements.

Under the Tentative Measures for the Taxation Administration over Contracted Projects and Labor Services of Non-resident Enterprises (Measures), released by China's State Administration of Taxation (SAT) recently, if non-resident enterprises which have operation institutions in China are engaged in business tax or value-added taxable businesses in China, they must declare and pay the business tax or value-added tax by themselves.

Besides, if non-resident enterprises with business tax or value-added taxable businesses in China fail to establish any operation institutions in China, the business tax or value-added tax payable must be withheld by their agents.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5437) ([see archive](SAT_Tightens_Control_over_Taxation_on_Projects_Contracted_by_Non-resident_Enterprises.pdf))

## Other

### Law amendments adopted to protect personal information, punish bribe-taking relatives of officials

China's top legislature approved a number of criminal law amendments recently that better protect personal information and punish bribe-taking relatives of officials.

One of the amendments adds an article which forbids staff in government offices, financial, medical and educational institutions, as well as transport and telecommunications departments, which usually have access to personal data, to sell or leak such information.

Offenders can face a maximum jail term of three years as well as fines. But how much someone will have to pay is not specified.

For offenses systematically committed by government offices or corporations, those directly responsible will face the same penalties, according to the amendment, which was proposed in August last year.

People who obtain another person's private information illegally will face the same penalties as those who illegally divulge information, said Lang Sheng, vice chairman of the Legislative Affairs Commission of the National People's Congress (NPC) Standing Committee, the national legislature.

Another amendment bans relatives of people who have close relations with government employees from conducting corrupt deals between the employee and bribe-givers.

Lang said the amendment not only targets the officials' family members but also their lovers, classmates and other acquaintances. It is aimed to prevent people around officials from taking bribes and helping others to seek illegal benefits from the officials.

Offenders in "very serious cases" can face a minimum jail term of seven years, according to the amendment.

Proposed punishments also include fines and confiscation of personal property, but the draft does not define the seriousness of a case or the exact amount of fines.

This also applies to government employees who have already left their posts, as well as their family members, if they are involved in power-for-money deals.

The revised law doubles the sentence to ten years in prison for officials who are found in possession of large amounts of money or property but cannot explain how they get them.

The amendments also ban the counterfeiting, theft, sale or illegal transfer of military license plates. Offenders can face three to seven years in prison.

The amendments also impose penalties on computer hackers and on people involved in pyramid selling and illegal banking.

One of the amendments prohibits employees of financial organizations to provide insiders' information to non-financial personnel to help them make profits in securities trading.

Lang said financial organizations include securities companies, fund management companies, commercial banks, insurance companies, securities and futures exchanges, related regulatory institutions and industry associations and other financial institutions.

He said if people are found doing inside trading, they will face up to five years in prison and fines one to five times the amount of their illegal gains. Serious offenders will face five to ten years in prison.

The amended law also tightens controls on abductors, abettors who organize adolescent crimes and cultural relic smugglers.

Winning 161 out of the 165 votes, the amendments were approved at the seventh meeting of the Standing Committee of the 11th NPC, which was held from Feb. 25 to 28.

President Hu Jintao signed an order to put the amended law into effect.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-02/28/content_10916168.htm) ([see archive](Law_amendments_adopted_to_protect_personal_information_punish_bribe-taking_relatives_of_officials.pdf))

### China adopts law to strengthen food safety control, vows to punish offenders

China's top legislature approved the Food Safety Law recently providing a legal basis for the government to strengthen food safety control "from the production line to the dining table."

The law, which goes into effect on June 1, 2009, will enhance monitoring and supervision, toughen-up safety standards, recall substandard products and severely punish offenders.

The National People's Congress (NPC) Standing Committee gave the green light to the intensively-debated draft law at a four-day session, following a spate of food scandals which triggered vehement calls for overhauling China's current monitoring system.

Winning 158 out of the 165 votes, the law said the State Council, or Cabinet, would set up a state-level food safety commission to oversee the entire food monitoring system, whose lack of efficiency has long been blamed for repeated scandals.

Departments of health, agriculture, quality supervision, industry and commerce administration will shoulder different responsibilities.

These would include risk evaluation, the making and implementation of safety standards, and the monitoring of the food production and circulation sectors.

The law stipulated a ban on all chemicals and materials other than authorized additives in food production, saying that "only those items proved to be safe and necessary in food production are allowed to be listed as food additives."

Health authorities are responsible for assessing and approving food additives and regulating their usage.

Food producers must only use food additives and their usage previously approved by authorities, on penalty of closure or revocation of production licenses in serious cases, according to the law.

Producers of edible farm products are required to abide by food safety standards when using pesticide, fertilizer, growth regulators, veterinary drugs, feedstuff and feed additives. They must also keep farming or breeding records.

Offenders could face maximum fines which would be 10 times the value of sold products. If businesses are found producing or selling a substandard foodstuff, consumers can ask for financial compensation which is 10 times the price of the product. That's in addition to compensation for the harm the product causes to the consumer.

To better protect consumer rights, the law bans food safety supervision and inspection agencies, food industry associations and consumers' associations from advertising food products.

Individuals or organizations are prohibited from advertising substandard food products. Those advertising such products would face joint liability for damages incurred.

The law has been revised several times since it was submitted to the NPC Standing Committee for the first reading in December 2007. In April 2008, it was opened to public scrutiny and more than 11,000 comments were made to the lawmaking body.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-02/28/content_10916180.htm) ([see archive](China_adopts_law_to_strengthen_food_safety_control_vows_to_punish_offenders.pdf))

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