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# China News Alert Issue 283

## Capital Markets

### CSRC: Fund managers under new rules

China's fund managers will be governed by new rules starting April 1, the China Securities Regulatory Commission (CSRC) said recently.

According to the new regulation, fund managers should register with the Securities Association of China after passing the required examinations. Those, who have changed their jobs more than twice in the past two years, cannot be enrolled.

"The high turnover rate among fund managers may affect the development of the securities industry. The securities association will soon set up a database of enrolled fund managers to better govern the professional teams," an official with the CSRC said.

The new regulation also clarifies that fund managers cannot trade shares and should report the stock accounts opened by their lineal relatives along with the trading record.

"The CSRC will also keep a close eye on the fund managers' equity investments and take quick actions once insider trading is detected," the official said.

On Feb 28, the Standing Committee of the National People's Congress (NPC), China's top legislature, expanded the ban on insider trading, whereby fund managers involved in insider trading could face criminal prosecution.

According to the amended Criminal Law, employees of financial institutes who take advantage of non-public information for personal trading gains can be sentenced to five to 10 years imprisonment.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-03/20/content_7601823.htm) ([see archive](CSRC_Fund_managers_under_new_rules.pdf))

### First issue of Chinese local gov't bonds by Finance Ministry set for March 30

The Ministry of Finance (MOF) will issue 3 billion yuan (441.2 million U.S. dollars) in local government bonds on behalf of the Xinjiang Uyghur Autonomous Region on March 30, the first such issue in China, the ministry said recently.

The issue marks the start of local government bond sales, estimated to reach 200 billion yuan this year. China plans 950 billion yuan in treasury bill sales this year to finance a record fiscal deficit and massive economic-stimulus program. The local bond sales are part of that larger plan.

The interest rate for the 3-year bonds would be set through bidding, which would start March 27, the ministry said in a statement, with interest to be paid annually.

The bonds would become tradable from April 3 on the interbank market and securities exchanges. All such bonds would be issued by the MOF on behalf of local governments in the form of book-entry national treasury bonds and sold to the rank-A members of the group that usually underwrites national bonds, said the ministry.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-03/24/content_11064670.htm) ([see archive](First_issue_of_Chinese_local_govt_bonds_by_Finance_Ministry_set_for_March_30.pdf))

### New rules unveiled for State-owned assets in financial institutions

The Ministry of Finance has unveiled new rules regulating the transfer of State-owned assets in financial institutions, said a statement on the ministry's website.

According to the statement, the new rules will take effect on May 1.

They require the transfer of State-owned assets in unlisted financial institutions to be handled by provincial or higher level of property rights exchange institutions.

The transfer of State-owned assets in listed financial institutions also must go through a liable securities exchange system, according to the new rules. If the majority shareholder of the listed financial institution wants to make such a transfer, it also must file an application through the Ministry of Finance.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-03/18/content_7591013.htm) ([see archive](New_rules_unveiled_for_State-owned_assets_in_financial_institutions.pdf))

### China bans central SOEs' speculative derivatives trading

China's State-owned Assets Supervision and Administration Commission (SASAC) tightened the rules recently on the conditions under which central State-owned enterprises (SOEs) could use derivatives.

In a statement, SASAC said the low risk awareness of a few SOEs had presented a serious danger to State assets' safety.

SOEs should use derivatives "cautiously" and "strictly" follow hedging rules. No speculative trading is permitted, the statement said.

Several central SOEs have reported huge derivatives losses since last year as the global financial crisis spread.

Three carriers -- Air China, Shanghai Airlines and China Eastern -- had reported a total of 13.17 billion yuan ($1.94 billion) of book losses as of the end of January on aviation fuel hedging contracts.

All derivative activity should be approved by SOEs' boards and trading should be overseen by a specific department. Companies should keep SASAC well-informed of their derivatives activity, the regulator said.

It also said companies with high leverage, huge losses and or impaired cash flow should not engage in derivative trading.

SASAC noted that a few companies, which did not understand the risks and complexity of derivatives and the associated leverage, engaged in speculation that led to mounting losses and posed "severe danger" to the companies' operations and state asset security and produced "very bad impacts," said SASAC.

SASAC said it had urged all central SOEs to overhaul their derivative activities.

SASAC said central SOEs should choose financial products that are relevant to their main business, simple to report under accounting rules and not subject to excessively complicated pricing models.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-03/24/content_7611739.htm) ([see archive](China_bans_central_SOEs_speculative_derivatives_trading.pdf))

## Corporate & Commercial

### Fast food group Yum! Brands to buy 20% stake in China's Little Sheep

Yum! Brands China Division said recently it would acquire 20 percent of Little Sheep, an Inner Mongolia-based hot pot business with outlets around China.

The deal was announced by Yum! Brands China Division, which has its headquarters in Shanghai, during a joint teleconference with Little Sheep, based in Baotou, Inner Mongolia Autonomous Region.

The deal, valued at 493 million Hong Kong dollars (63.7 million U.S. dollars), will make Yum! Brands the second-largest shareholder in Little Sheep, after Possible Way International, which is registered by Little Sheep in the British Virgin Islands.

Little Sheep said Yum! Brands would acquire more than 205 million shares from two British-based private equity firms, 3I and PraxCapital, and Little Sheep's controlling shareholder, Possible Way International.

Yum proposed buying the Little Sheep shares at 2.4 Hong Kong dollars each, an 8.4-percent discount to the Tuesday closing price.

The deal is subject to approval by Hong Kong's Securities and Futures Commission and is expected to be completed by this summer. The proposed deal will be reported to China's Commerce Ministry, although its approval is not required.

The proposed deal comes shortly after the ministry rejected Coca-Cola's bid to acquire China Huiyuan Juice Group on monopoly concerns.

Wang Qun, deputy president of government and public affairs with Yum! Brands China Division, said the difference between the two deals was that the Little Sheep transaction did not involve a total takeover or controlling share.

Pei Liang, secretary general of the China Chain Store and Franchise Association, and Wang Daizong, chief financial officer of Little Sheep, said the deal between Yum! Brands and Little Sheep would not lead to a monopoly situation in China.

According to Pei, the combined annual operating income of Yum! and Little Sheep in the mainland would be about 32 billion yuan (4.71 billion U.S. dollars), which accounted for less than 2 percent of the restaurant and catering business.

Spokeswoman Wang said that at present, Yum! Brands had no plans to build up a larger stake in Little Sheep. Yum! Brands has also promised not to participate in the day-to-day business administration of Little Sheep.

Yum! Brands, Inc, parent company of chain restaurants including KFC and Pizza Hut, entered China in 1987 and operates about 3,000 stores across the country, with 210,000 employees.

Little Sheep was founded in Baotou in August 1999 and runs mutton-based hot pot catering and franchising businesses. It went public in Hong Kong last June, according to its website.

As of Feb. 28, the group owned 130 restaurants and 246 franchises in the mainland, plus more than 20 overseas restaurants.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-03/25/content_11071825.htm) ([see archive](Fast_food_group_Yum_Brands_to_buy_20_stake_in_Chinas_Little_Sheep.pdf))

### Chinese firms face hurdles in Australia

The Australian government has decided to extend its review of two other Chinese firms' investments in the country's miners just one week after a similar extension was granted to examine Aluminum Corp of China's (Chinalco's) investment in Rio Tinto.

The country's Foreign Investment Review Board announced that it would extend its probe of the takeover of OZ Minerals by China's Minmetals by as long as 90 days from March 24, OZ Minerals said recently.

The Minmetals Corp, China's largest metal trader, last month proposed to buy the Australian mining firm for A$2.6 billion ($1.7 billion) in cash to ensure adequate supplies of non-ferrous metals. The Melbourne-based company operates zinc, lead, copper, gold and silver mines in Australia and overseas.

OZ Minerals said it understands the requirement for proper processes to be followed. "It is in the interests of OZ Minerals, its shareholders, employees and all its stakeholders that Minmetals' application is determined as soon as possible," it said.

The company has asked its lenders to extend a March 31 debt deadline to Sept 15 to give it time to conclude the deal. If the takeover fails, OZ will be unable to refinance $1.3 billion in debt. Minmetals said yesterday it was "optimistic" it would win approval for the bid from Australia.

Bloomberg quoted Wang Jionghui, general manager of the mineral resources division at Minmetals, as saying that the obstacles to overseas investments would fall because mining companies need capital.

The Review Board announced recently that it would extend its review of Fortescue's planned sale of a stake to China's Hunan Valin Iron and Steel for up to 30 days.

Fortescue said it remains confident that the structure of the share subscription agreement will enable Valin to obtain government approval. Valin plans to pay about $770 million for a 16.5 percent stake in Fortescue under a deal announced last month.

A steep fall in the prices of key resources, triggered by the global economic downturn, has provided opportunities for Chinese companies to make overseas investments, analysts said. But such intensive acquisitions may rouse public as well as government concerns at the destination countries.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-03/25/content_11068872.htm) ([see archive](Chinese_firms_face_hurdles_in_Australia.pdf))

### Govt helps manufacturers

Processing trade firms funded by investors from Hong Kong, Macao and Taiwan in South China's Guangdong province are under less pressure from the global economic downturn thanks to the support of provincial authorities.

"Many of the firms that had difficulty last year are in a better position and the province has seen less businesses closing down or relocating," said Huang Huahua, provincial governor of Guangdong, without giving figures, at a press conference at the just-concluded National People's Congress session in Beijing.

The governor attributed the decrease to a series of policies the provincial government announced in January and last year's national 1.5 billion yuan tax incentive for processing trade businesses.

"Guangdong has borne the brunt of the global financial crisis since it has most of China's manufacturing" he said. "Most firms in the province would be in great trouble without government help."

Process manufacturing accounts for half of the Guangdong's annual foreign trade, which in turn makes up about one quarter of the nation's total trade each year.

Huang said that the province fully made use of the central government's tax incentive worth 1.5 billion yuan for processing trade enterprises to formulate relevant policies to help strengthen local businesses' technology initiatives. The policies are helping the related enterprises overcome the hard time on the part of the decrease of overseas orders and capital shortage, he added.

"Many local enterprises saw their business recovering despite the global economic slowdown and weakening overseas demand," Huang said.

The provincial measures included a special fund of 1 billion yuan to help businesses upgrade their industrial structure, a 2-billion-yuan fund for starting credit re-guarantee firms, cutting out 100 types of administrative fees (worth a total of 2.2 billion yuan), reducing the amount business must spend on employees' social pension by 13.46 billion yuan and cutting power prices by 0.1 yuan per kWh.

"This shows the province realizes the sector is a crucial part of Guangdong's economy and that it urgently needs support," said Li Pingfan, a researcher with Guangdong Academy of Social Sciences.

Guangdong has more than 58,000 businesses with investors from Hong Kong, Macao and Taiwan, many of them involved in process manufacturing, according to statistics of the provincial government.

The figure makes up 64 percent of the province's 91,000 foreign-invested companies.

"Direct financial support, the tax incentive and taking out administration fees are of course welcomed by us," said Linda Ng, general manager of a Hong Kong-funded shoe factory in the Pearl River city of Dongguan.

She said her firm has been eyeing the domestic market and plans to set up 10 chain stores across the country in first-tier cities by the end of the year.

"Many firms like ours are suffering from a massive fall in orders as well as a shortage of funds; we need money to survive," she said. "The policies and the financial aid came just right in time."

[Source: China Daily](http://www.chinadaily.com.cn/bw/2009-03/23/content_7604266.htm) ([see archive](Govt_helps_manufacturers.pdf))

### Revised rules 'help lift travel market'

The move to slash the amount of capital needed by foreign-owned travel agencies to set up in China will further widen the market and help reduce rogue operators, said senior tourism officials recently.

The financial requirement to run inbound and domestic tours has been lowered to just 300,000 yuan ($44,000) in the revised Regulations on Travel Agencies, which will take effect on May 1.

It is a sharp drop from the previous minimum of 4 million yuan for foreign-funded agencies and 1.5 million yuan for Chinese tour companies. Also, the quality guarantee deposit for all operators was cut to just 200,000 yuan to help reduce running costs.

"Foreign tour operators are given an equal footing with their Chinese counterparts in domestic and inbound business," Du Yili, deputy chief of the China National Tourism Administration (CNTA), said recently.

However, the regulation still bans overseas agencies from handling outbound business in China, the only exceptions being Hong Kong and Macao firms under the Closer Economic Partnership Arrangement or those approved by the State Council, added Zhang Jianzhong, director of the department of policy and law for CNTA.

Insiders are expecting the revision to make an impact on China's travel market, and Zhang Yuhong, a senior manager with a joint-venture agency in Beijing, said the previous requirements allowed only wealthy, renowned foreign companies to operate.

The changes will also help bring illegal travel firms to the surface, said Shen Dahai, general manager of China Mountain and River Special Tours.

According to Zhang Jianzhong at the CNTA, the number of rogue operators is three times the number of registered agencies, which stands at 19,800 and includes 18,000 running only domestic tours.

"With the lower requirements, illegal operators can register and become legal," he said.

But the quality experienced by foreign tourists will not be affected, assured Du, who said the revised regulations include tougher punishments for any illegal conduct by tour agencies.

"Opening the market is the irreversible trend. Those providing good service will survive, while the market will drive out sub-standard companies," she said.

[Source: China Daily](http://www.chinadaily.com.cn/cndy/2009-03/19/content_7593120.htm) ([see archive](Revised_rules_help_lift_travel_market.pdf))

## Other

### Shanghai aims at int'l financial and shipping center

The State Council recently gave the green signal to speed up the process of turning Shanghai into a major international financial and shipping center by 2020.

"Accelerating Shanghai's development in modern services, manufacturing, finance and shipping would be of great advantage for the Yangtze River Delta and the whole nation at large," it said at an executive meeting.

It urged Shanghai to be developed into a multi-functional financial center by 2020 to keep up with "China's economic influence and the yuan's international position."

To achieve the target, Shanghai needs to open up more financial sectors and improve services.

Shanghai can now expect strong growth momentum after the city's industrial output dropped by as much as 12.7 percent year-on-year in the first two months of the year due to dwindling exports.

Shanghai's GDP growth dropped to 9.7 percent year-on-year in 2008, the first time it fell below 10 percent since 1992.

"The decision clearly shows the central government's determination to fight the global financial crisis," She Minhua, a Shanghai-based analyst from CITIC China Securities, told China Daily.

With government support, financial companies in Shanghai will now have the opportunity to pilot many financial innovations. For example, they could develop into first-tier financial holding groups that deal with various types of financial businesses like lending, insurance and brokerage, he said.

More than 184 multinationals had set up their regional headquarters in Shanghai as of January 2008.

However, economic indicators have shown that the impact of the financial meltdown on Shanghai is more severe than most of the other cities due to its export-oriented economy.

In January and February, of the 30 export-oriented industries, 27 showed falling export volumes, and by more than 10 percent in 22, according to the Shanghai statistics bureau.

The meeting also decided to raise tax rebates on some textile, iron and steel, nonferrous metal, petrochemical, electronic information and light industrial exports starting April 1.

The meeting agreed that it was necessary to raise tax rebates on some export products to fully implement the country's economic stimulus package and the support plans for 10 industries, which were released in the past two months.

The rates of the rebates have not been revealed.

The government raised export tax rebates rate for textiles four times since last August, the last increase in February rising to 15 percent from 14 percent.

The nation's exports plummeted 25.7 percent year-on-year in February, the worst decline in more than a decade.

[Source: China Daily](http://www.chinadaily.com.cn/china/2009-03/26/content_7617756.htm) ([see archive](Shanghai_aims_at_intl_financial_and_shipping_center.pdf))

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