Charltons - China News Alerts Newsletter - 02 June 2004

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# China News Alert Issue 57

## Headlines

### Shenzhen Stock Exchange publishes implementation measures on new share placings

The Shenzhen Stock Exchange implementation measures for the placing of fixed price new shares for secondary market investors ("Implementation Measures") were issued recently.

The Implementation Measures provide that an investor may, for each lot of shares of RMB 10,000 market value held, apply for 1,000 new shares, with the number of the new shares applied for to be in integral multiples of 1,000. An investor holding less than RMB 10,000 (market value) of shares is not permitted to apply for new shares on the secondary market on the Shenzhen Stock Exchange by way of placing.

The Implementation Measures only apply to the issue of new shares listed on the Shenzhen Stock Exchange to secondary market investors by way of placing based on market value.

### China encourages foreign insurance companies to conduct business in Western China

The China Insurance Regulatory Commission (CIRC)'s Vice-President, Li Kemu stated that China will encourage and support foreign insurance companies to provide health, agriculture, and catastrophe insurance coverage in Western and Northeastern China.

According to Li, as part of China's WTO ascension commitments, China will gradually lift the existing geographic restrictions and restrictions on the business scope of foreign insurance companies. As of the end of last year, there were 37 foreign insurance companies operating in China.

### China Banking Regulatory Commission (CBRC) welcomes foreign investors' participation in the restructuring of the Chinese banking industry

An official from the CBRC recently welcomed qualified foreign investors' active participation in the restructuring and reform of the Chinese banking industry.

The official stated that the permitted shareholding of a single foreign institution in a PRC bank has been increased from 15% to 20%. If the total foreign investment in the PRC bank is lower than 25%, the nature and business scope of the domestic banks in question will not be changed. Recently, the CBRC has also simplified the examination and approval procedures for the establishment of branches and representative offices by foreign banks.

## Capital Markets

### First two new stocks issued on the SME (small to medium enterprise) board

On 27 May 2004, Zhejiang Xin He Cheng Joint Stock Co., Ltd. issued its prospectus, and the company will issue 30,000,000 shares to investors to be listed on the SME board on 2 June 2004.

On 28 May 2004, Jiangsu Qiong Hua Hi-Technology Joint Stock Co., Ltd. issued its prospectus, and will issue 30,000,000 shares to investors to be listed on the SME board on 3 June 2004.

### China to allow PRC multinationals to run their own foreign exchange operations overseas

The Vice-Director of the State Administration of Foreign Exchange ("SAFE") Wei Ben Hua stated that SAFE is drafting measures to allow qualified PRC multinationals to run their own foreign exchange operations overseas in future.

Wei explained that it has become necessary to lift the foreign exchange limit on capital items and to allow qualified PRC multinational companies to put to use their own foreign exchange overseas.

One of the most urgent problems for overseas PRC enterprises is the shortage of working capital and the high cost of overseas financing. Under current regulations, the only way that an overseas PRC enterprise can get capital support domestically is by way of capital injection from its domestic parent company which involves an application process, and which fails to solve working capital shortage problems. Many Chinese multinationals have therefore lobbied the Chinese government to allow them to inject their own foreign exchange into their overseas enterprises.

## Corporate & Commercial

### China's State Council cancelling and amending 495 items currently requiring administrative approval

China's State Council recently decided to cancel and to amend 495 administrative items currently requiring approval, among which 409 items will be cancelled and 86 items will be amended.

### Ministry of Culture issues circular on inspections of the content of network games

China's Ministry of Culture has issued a Circular to strengthen inspections on the contents of network games ("Circular") The approval of the Ministry of Culture is now required before starting operation of foreign network games in China. Network games already in operation before the release of the Circular have to be approved before 1 September 2004.

Importers of network games must obtain a network culture business license before they start operating the network games in question. The permitted imported network game products will carry an approval number, and their name and contents must not be changed without appropriate government approval. Domestic network games also have to be reported to the Ministry of Culture before 1 September, and a record number obtained which is to be listed on the network game's website.

### Jiangsu Province issues regulations on the assignment of state-owned properties

On 18 May 2004, the Jiangsu branch of the State-owned Assets Supervision and Administration Commission ("SASAC") issued Regulations on the assignment of state-owned property in Jiangsu Province ("Regulations").

The Regulations stipulate that the transfer of state-owned property shall be processed by a property trading institution approved by the provincial (or higher) SASAC branch. The transferor and the entrusted property trading institution must sign a "Letter of Authorisation on the Assignment of State-Owned Property". The transferor shall authorise the property trading institution to publish information about the transfer in Xinhua Daily and on the trading institution's website. If there is only one proposed transferee, the transferor may transfer the state-owned property to the transferee by way of a transfer agreement, subject to the approval of the provincial branch of the SASAC, or publicly call for transferees after having lowered the transfer requirements. If there is more than one proposed transferee, the transfer shall proceed by way of auction.

According to the Regulations, the transferee must, within the agreed time period as set out in the property transfer contract, pay the consideration; or, where the consideration is large, upon entering into a written agreement with the transferor and a lawful guarantee, pay the consideration in instalments, the first payment being not less than 30% of the consideration.

## WTO

### Foreign exchange loans provided by foreign banks to PRC companies not to be regarded as foreign debts

The Vice-Director of SAFE Ma De Lun stated on 23 May 2004 that foreign exchange loans provided by foreign banks to PRC enterprises are not to be regarded as foreign debts, thus enlarging the permitted PRC client base of foreign banks.

Previously, clients of foreign banks in China consisted mostly of foreign-invested enterprises. Although foreign banks were allowed to provide foreign exchange loans to PRC enterprises, the loans were regarded as state foreign debts, and were governed by strict rules.

### China and U.S. enter into environmental protection agreements valued at USD 72 million

On 24 May 2004, China entered into commercial contracts and cooperation terms relating to environmental protection projects with the U.S., the total value of which is estimated to be USD 72 million.

### European Union reachs agreement with China on coke trading

The European Union Commission declared on 28 May 2004 that the European Union has reached an agreement with China concerning the country's export limit on coke, thereby resolving the dispute between the two parties on coke trading. China will provide the same amount of coke to the European Union in 2004 as last year (4,500,000 tons).

Currently China is the largest coke supplier in the world, producing 138,790,000 tons of coke in 2003, of which 14,720,000 tons were exported. On 24 May 2004, the Ministry of Finance and SAT suspended the export tax refund on value-added tax for coke, coalite and coking coal. Around 30% of the coke consumed in the European Union originates from China, and the price of coke increased 600% after the Chinese government imposed a ceiling on its coke exports.

## Insurance

### Detailed implementation rules for the administration of foreign-invested insurance companies

The CIRC recently issued Detailed Implementation Rules for the Administration of Foreign-Invested Insurance Companies ("Detailed Rules"). The Detailed Rules grant foreign insurance companies national treatment. Foreign insurance companies may not directly or indirectly hold more than 50% of the shares of a Sino-foreign jointly invested insurance company. The conditions, requisite application materials, approval procedures and the required increase in capital for the establishment of branch offices by foreign insurance companies in China are clarified.

## Taxation

### Ministry of Finance and State Administration of Taxation (SAT) suspend export refund tax on coke

China's Ministry of Finance and SAT issued an urgent circular on 24 May 2004 suspending export tax refunds on value-added tax for coke, coalite and coking coal, which is likely to reduce the country's coke exports.

### Ministry of Finance and SAT issue circular granting preferential tax treatment to enterprises and institutions undertaking environmental protection projects

China's Ministry of Finance and SAT recently issued a circular to grant tax relief on real estate tax, local land use tax and motor vehicles and ship use tax for enterprises and institutions undertaking projects for the protection of national natural forestry resources.

According to the new policy, enterprises or institutions located north of the Yangtze river, in the central region of the Yellow river or north of the Yellow river, in the North East, or in Inner Mongolia that are undertaking projects for the protection of national natural forestry resources, are exempt from real estate tax, local land use tax and motor vehicles and ship use tax incurred in relation to such projects.

## Foreign Investment

### SAFE improves administration of foreign debt registration and forex settlement of capital accounts for foreign invested enterprises

China's SAFE recently issued a Circular on Improving the Administration of Foreign Debt Registration and the Approval of Forex Settlement of Capital Account for Foreign Invested Enterprises ("Circular"). The Circular will come into force on 1 July 2004.

In particular, the Circular sets out the "Settlement of Exchange upon Payment" system according to which enterprises may only apply for settlement of exchange on capital account and on foreign debts on a transactional basis. Banks must process large payments in respect of settlement of exchange in accordance with a written "payment order" to be provided by the enterprise, and must make the payment directly to the recipient without going through the enterprise's RMB account.

### First batch of foreign companies receive local headquarters licences

A number of foreign companies were the first foreign companies to receive Chinese government approval to set up wholly-owned foreign local headquarters in China.

With the licence, foreign companies are allowed to directly sell products manufactured by foreign invested enterprises set up by the foreign companies in China, to directly import and sell products manufactured elsewhere in the world by the foreign companies, and to directly offer after-sales services.

## Other

### PRC Land Transportation Regulations to come into force on 1 July 2004

The Chinese State Council signed State Council Order No. 406 on 30 April 2004 to promulgate the PRC Land Transportation Regulations ("Regulations"). The Regulations comprise general provisions, land transportation operations, business operations related to land transportation, international land transportation, supervision, legal responsibilities, and supplementary provisions and come into force on 1 July 2004. The gist of the Regulations is the promotion of competition in the land transportation industry aimed at preventing any enterprise or individual from monopolizing the industry.

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