Charltons - China News Alerts Newsletter - 08 July 2004

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# China News Alert Issue 62

## Headlines

### China to further reduce restrictions on foreign-invested banks with goal of eliminating all restrictions in the future

On June 30, Vice-Chairman of China's CBRC Li Wei expressed that China will further open up the country's banking industry to foreign investments, and will further reduce the number of geographic restrictions and restrictions in terms of clientele and types of services for foreign-invested banks. Recently, the Chinese government has also raised the cap on investment by any single foreign entity in Chinese banks from 15% to 20%. Currently, six Chinese commercial banks have received the Chinese government's approval to raise funds through shareholding participation by foreign investors.

### SASAC to streamline management structure of Central Government owned enterprises

Recently State-owned Assets Supervision and Administration Commission (SASAC) issued an opinion to state-owned enterprises requesting the latter to streamline their management structure by the end of 2005 and to restrict their management structure to three layers or less for smaller state-owned enterprises, and four layers or less for larger state-owned enterprises owned.

### Chinese Ministry of Information Industry promulgated new rules governing subcontracting services in telecommunications sector

Recently the Ministry of Information Technology has issued its new rules governing the subcontracting of telecommunication services to local authorities in charge of communications as well as the six major Chinese telecommunications companies, including Huawei Technologies Co., Shanghai Lucent Technology, Shanghai Bell Telecommunication Equipment Manufacturing Co., China Telecom, China Mobile, and China Unicom.

According to the new rules, telecommunications operators may, based on their business needs, subcontract the sale of telecommunications services, technical support and other types of direct customer services to third party organizations or individuals.

## Capital Markets

### Three major Chinese financial supervisory agencies agreed on work division

China's three major financial supervisory agencies, China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC) and China Insurance Regulatory Commission (CIRC) have reached a cooperation memorandum regarding the division of work amongst themselves so as to avoid bureaucratic redundancies and administrative overlap in the future.

According to the cooperation memorandum, the CBRC will be responsible for supervising banking institutions, financial assets management companies, investment trust companies, and other financial institutions with similar operations nationwide. The CSRC will be responsible for supervising the Chinese securities and futures markets nationwide on a consolidated basis. The CBRC will also be responsible for supervising the Chinese insurance market to ensure compliance and the stability of the country's insurance industry.

## Insurance

### China's insurance market to be opened up before this year-end

A spokesperson for CIRC recently indicated that by this year-end, China will eliminate the existing geographic restrictions as regards foreign-invested insurance companies. According to the spokesperson, China will also allow foreign-invested insurance companies to provide health insurance, group insurance and annuities services to Chinese residents. With regards to life insurance, there will be no operational restrictions on foreign investments aside from the 50% cap on foreign investments in any given foreign-invested insurance company. With regards to non-life insurance, there will be no operational restrictions on foreign investments. In addition, the mandatory insurance renewal rate has been reduced to 5%.

### CIRC readjusted investment ratios for insurance companies

China's CIRC has recently adjusted the ratios for permitted investments made by insurance companies in secondary bank bonds, secondary fixed-term bank debts and corporate bonds. The adjustments were made to strengthen the macro-control and administration of insurance fund operations, and to diversify insurance fund investments and the associated risks.

Based on the adjustments, the total amount of investment in secondary bonds by an insurance company shall not exceed 15% of its total assets as of the end of the preceding month. The cumulative percentage of an insurance company's total investments in secondary bonds issued by any single bank shall be equal to or less than 3% of the insurance company's total assets as of the end of the preceding month.

The adjustments also apply to self-funded investments in secondary bonds by insurance asset management companies, and to investments in secondary bonds by Chinese branches of foreign-invested insurance companies.

## Foreign Investment

### Largest Sino-foreign joint venture iron and steel project went into production, with anticipated annual production of 400, 000 tones

Amid the recent decline in China¡¯s iron and steel sector, the joint venture project funded by Tyssenkrupp Stahl AG of Germany and Anshan Iron and Steel Group Corporation (Angang Group) to produce galvanized plates official started production in Dalian on June 4. The total investment in the project is USD 180 million, and the annual production of galvanized plates is estimated to be 400,000 tones.

This is the largest joint venture project in the Chinese iron and steel sector to date. Thyssenkrupp Stahl AG is Europe¡¯s second largest carbon steel producer, and Anshan Iron and Steel Group Corporation (Angang Group) is the second largest iron and steel enterprise in China.

## Funds

### CSRC released Measures regarding the administration of sales for securities investment funds and Administrative measures regarding the operation of securities investment funds

The CSRC has implemented the Measures regarding the administration of sales for securities investment funds (Sales Measures) and Administrative measures regarding the operation of securities investment funds (Operational Measures). The Sales Measures consists of seven chapters, and purports to regulate advertising or promotion of funds by fund managers or their agents, sale of fund units, and subscription and repurchase of fund units.

The Operational Measures purports to regulate raising of capital, subscription and repurchase of fund units, investment of fund assets, distribution of dividends, general meeting of unit holders, and other fund-related operational activities.

## Corporate & Commercial

### SASAC to learn from Temasek Holdings (Singapore) structure

On June 22, a delegation of eight people led by SASAC's Chairman Li Rongrong visited Singapore for three days with the main purpose of holding an exchange with Temasek Holdings, one of the largest and most renowned state-controlled investment companies in the world. Established in 1974, Temasek Holdings is a limited liability company wholly owned by the Ministry of Finance of Singapore. It has more than 20 subsidiaries, and also indirectly controls some 2,000 companies. At the end of Li's Singapore trip, SASAC established a long-term cooperation relationship with Temasek, who will be assisting the Chinese government in training the management personnel of Chinese state-owned enterprises.

### State Council passed Outline of Mid to Long-term Plan in the Power Sector

During a meeting held on June 30, China's State Council passed the draft Outline of Mid to Long-term Plan in the Power Sector (2004-2020). Also during the meeting, the State Council recognized that in order to resolve China's issues with power, the Council identified the following eight aspects which required urgent attention:

* Making the preservation of power a primary focus;
* Fully developing natural gas and new power sources in addition to coal and electricity;
* Ensuring the adequate distribution of power according to regional needs;
* Making full use of both domestic and overseas power sources and markets;
* Focusing on technological innovations and developments in the sector;
* Strengthening environmental protection;
* Implementing safety measures to ensure consistent provision of power; and
* Furthering relevant policy reforms on power resources.

### SASAC's Jiangsu branch issued circular on valuation of corporate state-owned assets

Traditionally, the valuation of state-owned assets in Chinese enterprises had been a tricky issue. Recently, SASAC's Jiangsu branch issued a circular on the valuation of corporate state-owned assets. According to the circular, enterprises in Jiangsu province shall conduct valuation of their state-owned assets in the following situations, namely:

* Partial or total restructuring of the enterprise into limited liability companies or joint stock limited companies;
* Overseas investments using non-currency assets;
* Merger, split and liquidation;
* Changes to the percentage of shares held by the company's original shareholders;
* Transfer, disposal and sale of all or part of the enterprise's state-owned assets (including shares);
* Lease of all or part of the assets to private entities or individuals;
* Where valuation of assets is required for litigation purposes.

### State Administration of Industry and Commerce (SAIC) to strengthen protection of registered trademarks

Commencing in July this year, the Chinese Central Government will place greater emphasis upon cleaning up registered trademark counterfeiting activities in the marketplace. According to SAIC, the crackdown on trademark counterfeiting will be conducted in three stages. First, from mid-July to mid-September this year, SAIC will focus on investigating trademark counterfeit cases involving foodstuff, pharmaceuticals, and overseas entities or overseas markets. Then from mid-September to mid-November, SAIC will launch a crackdown on counterfeit cases involving well-known trademarks, certified trademarks and licenses to use a collective trademark. Lastly, from mid-November to mid-December, the Chinese government will launch a crackdown on the printing, purchase or use of counterfeit packaging, labels or trademarks.

## Venture Capital

### Administrative measures for venture capital enterprises to be implemented

Currently China's State Development and Reform Commission (SDRC) is working with several other state departments in drafting the Administrative measures for venture capital enterprises (Venture Capital Measures). The future Venture Capital Measures will regulate the establishment of venture capital enterprises and the investment operations of venture capital funds, and will offer legal protection and policy support for venture capital enterprises.

When enacted, the Venture Capital Measures will also allow venture capital enterprises to invest overseas by way of investment in convertible preferred shares or other internationally accepted stock investments.

## WTO

### EU refused to recognize China as a market economy

The EU has recently issued its preliminary report on China's market economy status, in which the EU expressed that it is not prepared to recognize China as a market economy due to shortcomings in four important areas. Namely, there is excessive government interference in the country's economy, discriminatory company laws and lack of transparency thereof, lack of transparency in the country's legal system, and lack of an independent financial sector.

## Other

### China to implement "zone-to-harbor" pilot project

It was in May 2004 that China established its first tax-free zone ¨C Shanghai Waigaoqiao tax-free zone. Today there are 15 tax-free zones in China, and enterprises located in these tax-free zones enjoy numerous preferential tax treatments. For instance, exports produced by enterprises located in tax-free zones could be freely exported to overseas markets, and on entering the tax-free zones, goods originating from other Chinese regions become eligible for export tax refund as if they have been exported.

As part of the "zone-to-harbor" project, the Chinese government will create a storage and logistics industry zone within approved harbor zones. The designated storage and logistics industry zone will then be linked to an approved tax-free zone, thus allowing for even greater ease in both inbound and outbound flow of goods.

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