Charltons - China News Alerts Newsletter - 11 November 2004

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# China News Alert Issue 79

## Headlines

### Financing for securities companies

The People's Bank of China, the Chinese Banking Regulatory Commission ("the CBRC") and the Chinese Securities Regulatory Commission ("the CSRC") have jointly issued the Administrative measures for using stocks of securities companies as security. The Administrative Measures provide that qualified securities companies may use their securities, units in securities investment funds and convertible debts of listed companies as security to obtain capital from commercial banks. The maximum permitted term of such security is one year.

### Shenzhen Stock Exchange implements new adminstrative rules

The Shenzhen Stock Exchange has implemented new rules regulating various administrative matters concerning the Exchange, including trading, membership, securities listings and information disclosure. The new rules aim, among other things, to clarify the conditions upon which the Exchange will grant approvals (relating to, for example, membership of the Exchange). The new rules also set out the relevant departments within the Exchange which will be responsible for various administrative procedures, and the applicable time frames for such procedures. A copy of the new rules can be downloaded from the Exchange's website www.szse.cn (currently in Chinese only).

### CEPA update

The Mainland has concluded agreements with Hong Kong and Macau to extend the scope of CEPA to additional categories of imports.

Under the Hong Kong CEPA Supplemental Agreement, which will come into force on 1 January 2005, the Mainland will impose zero customs duty on 713 categories of imports originating in Hong Kong, as contained in the list attached to the Supplemental Agreement. These imports include sea products, foodstuff, textile products, electrical and electronic products.

Pursuant to the Macao CEPA Supplemental Agreement, 190 new categories of imports originating in Macao will enjoy import duty free treatment from 1 January 2005. As a result, almost all imports from Macao will enjoy zero import duty as of the beginning of next year. In the services sector, the Mainland will relax market entry requirements in 11 categories, including law, accountancy, medicine, audio-visual services, construction, distribution, banking, securities, transportation, shipping agencies and SMEs.

## Capital Markets

### CSRC to implement online voting and online database of voting rights

On 1 November 2004, the vice-chairperson of the CSRC, Fan Fuchun announced that the CSRC will implement several measures to improve investor relations with listed companies. These measures include the establishment of an online voting system for general meetings, and an online database of voting rights. The CSRC also announced that it is currently drafting measures relating to profit distributions by listed companies and periodic financial reporting.

### Further protection for small investors

The People¡¯s Bank of China, Ministry of Finance, CBRC and CSRC have jointly issued the Opinion on purchasing individual creditor and customer securities transaction settlement funds, in an effort to better protect the rights of small investors. The Opinion contains rules setting out the scope of individual creditor rights, customers securities trading settlement funds purchases, principles and procedures relating to the disposal and purchase of creditor rights, standards for the calculation of creditor rights, raising of purchase funds, and the responsibilities of various parties.

### Shanghai Stock Exchange recommends more transparency from listed companies changing registered accountants

The Shanghai Stock Exchange has recommended that listed companies be more transparent when changing their registered accountants. The Exchange is encouraging listed companies to adopt a prior resolution for any change in their registered accountants, and to avoid using the services of new registered accountants prior to their official appointment to the company. The Exchange is also encouraging independent directors of listed companies to issue an opinion in relation to a change of registered accountant and to improve the information disclosure in this regard.

### QFII developments

SAFE has granted an investment quota of USD 75 million to BNP Paribas under the QFII scheme. At the same time, SAFE has approved the establishment by the Bill and Melinda Gates Foundation (which was granted an investment quota in July 2004) of a special RMB account at HSBC Shanghai. QFIIs are required to set up a special RMB account with an approved custodian bank in China.

## Funds

### Provisional measures on securities investment fund management abolished

The CSRC recently released a public notice announcing that the State Council has approved the abolition of the Provisional measures for the administration of securities investment funds. Following the abolition of the Provisional Measures, the legal framework for the funds industry in China will comprise the Securities Investment Fund Law, together with six regulations, including the Administrative measures for fund management companies, Administrative measures for senior management personnel in the funds industry, Administrative measures for the operation of securities investment funds, Administrative measures for securities investment fund sales, and Administrative measures for fund trust banks, and the Guidelines on securities investment fund information disclosure.

## Foreign Investment

### China's logistics sector to be opened up as part of WTO accession commitment

Vice Minister of the Commerce Bureau, Zhang Zhi Gang announced that China will comply with its WTO accession commitment to fully open up its logistics sector before the end of this year. To date, the Ministry of Commerce has revised some 2,300 laws and regulations to comply with China's WTO commitments.

## Real Estate

### Ministry of Land Resources issues circular to strengthen land control

The Ministry of Land Resources recently issued a circular on the decision to strengthen land reform by the State Council. According to the circular, all local governments should continue to tackle the problem of abusive land use, and the excessive utilisation of agricultural land for other uses. According to the circular, the protection of agricultural land use is a top priority.

## Corporate & Commercial

### Catalogue on prohibited merchandise to strictly restrict low grade processing

On 1 November 2004, the Chinese government issued the Catalogue on Prohibited Merchandise in the Processing Trade, which came into effect on the same day. The Catalogue prohibits the processing of a list of low-quality, poisonous and toxic products, including waste electrical and electronic equipment, as well as prohibiting the use in processing of low grade products which add minimal value to the materials being processed.

### SAFE to strictly supervise settlement of foreign exchange

SAFE has announced that it is to strengthen its control of foreign exchange inflows into the PRC, through stricter supervision of the settlement of foreign exchange by individuals and foreign exchange held in corporate capital accounts. According to SAFE, while the impact of foreign exchange inflows into the PRC has generally been positive, it is necessary to control such inflows in order to avoid a negative impact on the macro-economic structure of the country.

### Relaxation of market entry requirements for non public-funded cultural enterprises

On 18 October 2004, the Ministry of Culture issued the Opinion encouraging, supporting and guiding the development of non-public funded commercial cultural enterprises, to further relax the market entry requirements for non public-funded economic entities undertaking commercial activities in the cultural industry, including performance and theater, the distribution of visual and audio products, and the management of entertainment venues. However, the Opinion excludes the publishing sector, which is separately regulated by the Central Government.

### China to develop logistics sector

Speaking at the "China's Development of Modern Logistics and International Relations Executive Forum 2004", Vice Minister of the Commerce Bureau, Zhang Zhi Gang, announced an action plan to develop the Chinese logistics sector. He stated that the modernisation of the logistics sector would include the following measures,

* strengthening the infrastructure for enterprises' internal logistics systems;
* establishing professional logistics enterprises through the conformity of logistics resources;
* improving services provided by data production and distribution enterprises;
* encouraging selected major manufacturing and commercial enterprises to invest in professional logistics companies and distribution centres, or to enter into joint ventures with existing logistics enterprises to develop logistics and distribution businesses;
* speeding up the standardization of the logistics system and the establishment of the statistical indicator system;
* facilitating international cooperation in the logistics arena.

According to existing statistics, the Chinese logistics sector increased in value by RMB 788 billion in 2003. Currently there are more than 730,000 logistics companies registered with the Administration of Industry and Commerce in China. It is anticipated that the Chinese logistics sector will continue to develop at a rate of 20% per annum.

## Insurance

### New motor vehicle insurance approved

The CIRC has announced that new motor vehicle insurance products issued by the China People's Insurance Company on 1 November 2004 have been approved by the CBRC. The major change in the new product is a RMB 500 excess. However, customers can opt out of the higher excess by paying a larger sum in premium.

### New asset management companies approved

The CBRC has granted approval to China Reinsurance Company and Huatai Property Insurance Company to set up the China Reinsurance Asset Management Company and the Huatai Insurance Asset Management Company respectively. In addition to the China People's Insurance Asset Management Company and the China Life Insurance Asset Management Company, at least 4 insurance companies will be allowed to set up asset management companies by the end of 2004, which together will manage 60% of the total of RMB1,100 billion in insurance assets.

## Other

### First batch of enterprise registration officers approved

The first batch of industry and commerce enterprise registration officers has been approved by the central government to officially take up posts in Shanghai. This ends the previous job-for-life system for government staff. The newly appointed registration officers will hold renewable contracts of three years.

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