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# China News Alert Issue 218

## Capital Markets

### SSE Sets up Review Committee

The Shanghai Stock Exchange (SSE) has set up a committee to improve the review system for self-regulation.

After the China Securities Regulatory Commission recently gave approval, the SSE issued and implemented the "SSE Provisional Rules on Review System". The list of committee members on the first Review Committee, established according to the rules, was also officially released to the public.

When establishing the Review Committee to improve the review system, the SSE has taken the following four aspects into consideration.

1. To continue to implement the new Securities Law. Improvement of the review system and the establishment of the Review Committee will help the SSE to implement the new Securities Law, standardise self-regulation and improve supervision according to law. The new Securities Law further defines the legal status of self-regulation, entitling the SSE to vetting rights over securities listing, suspension and delisting. The SSE is required to set up a review body to review the comments raised over decisions on listing, suspension and delisting. The SSE's Listing Rules, Trading Rules and Member Management Rules also stipulate that parties can apply for a review concerning severe disciplinary punishment and regulatory measures.
2. To continue to improve the procedures of self-regulation. The Review Committee, set up by the SSE, will help to implement the specialisation and systematisation of the review function, as commonly adopted by overseas exchanges with mature markets in internal governance and self-regulation. These measures have further improved the mechanism and procedures of the SSE's self-regulation, thus improving the standardisation and legalisation level of self-regulation.
3. To effectively protect the legitimate rights and interests of the main market. It is normal for different parties in the market to voice concerns over the SSE's self-regulation and regulatory measures. Improvement of the review system and the establishment of the Review Committee will provide the SSE with an effective system guarantee to hear different opinions and appeals from parties and to guarantee their rights and interests.
4. To diversify the dispute settlement mechanism in the securities market. The SSE's self-regulation focuses on the maintenance of market order and public interest. Improvement of the review system and the establishment of the Review Committee will provide the parties with channels to exercise their rights. This will help to settle disputes among industry and market organisations in a timely manner and to decrease unnecessary litigation.

The first SSE Review Committee, a special committee under the Board of Governors, has a total of eleven members appointed by the Board from among qualified professionals. The committee will take charge of review issues concerning market participants such as listed companies and securities dealers from different industries including law, accounting and securities. Taking this into account, the committee consists of representatives from these areas who enjoy a good reputation within the market and industry. This has guaranteed the representation, specialist knowledge and authority of the committee.

The rules announced by the SSE define the review scope, the basic functions of the committee, the member qualifications and the review procedures. According to the rules, the committee members must independently fulfill their duties and must not be influenced by any group or individual.

[Source: Shanghai Stock Exchange](http://edu.sse.com.cn/sseportal/en/c01/c03/p994/c150103_p994.shtml) ([see archive](Shanghai_Stock_Exchange_About_SSE.pdf))

### SSE 180 Financial Index to be launched

According to an announcement made by the Shanghai Stock Exchange (SSE) and China Securities Index Co., Ltd. (CSI), the SSE 180 Financial Index will be officially launched on 10 December. The new index, reflecting the trend of financial stocks in the SSE 180 Index covering banks, securities, insurance and trusts, will provide investors with another investment target index. Its base day, 28 June 2002, is the same as that of the SSE 180 Index. Its base point is 1,000, with the code of 000018 and the short description of "SSE 180 Financial".

According to the published index scheme, the SSE 180 Financial Index is composed of stocks from banks, insurance, securities and trusts in the SSE 180 Index. So far, the SSE 180 Financial Index consists of twelve stocks. There are nine bank stocks including Bank of China Limited and Industrial and Commercial Bank of China Limited, two insurance stocks including China Life Insurance Company Limited and Ping An Insurance (Group) Company of China, Ltd., we well as CITIC Securities Co., Ltd. The total market capitalization of the twelve stocks has reached RMB6,960.2 billion, or 28.11% of the total on the SSE. Their floating capitalisation is RMB1,143.5 billion, or 21.44% of the total on the SSE.

The SSE 180 Financial Index will have a 15% weighting restriction on each stock. An upper limit will be adopted to ensure a single stock remains below 15% of the value of the whole index or if it rises above 15% it will only remain there for a short period of time, thus weakening its impact on the index. Like the SSE 180 Index, the upper weighting limit will be modified twice a year on the first trading day of January and July following the stocks' regular adjustment. For the compilation method and details of the SSE 180 Financial Index, please refer to the SSE and CSI websites.

The introduction of the SSE 180 Financial Index aims to reflect the trend of major financial stocks on the Shanghai securities market. With the high number of large and medium financial enterprises listing in the second half of 2006, financial stocks, whose trend greatly influences the market, have become some of the most important. The launch of the SSE 180 Financial Index, giving investors a better and clearer understanding of the comprehensive operational features of financial stocks, will serve as a reference for investors in investment analysis and decision-making.

The SSE 180 Financial Index closed on 22 November, 2007 at 6,292 points, up 529.2% from the base day.

[Source: SSE, CSI](http://edu.sse.com.cn/sseportal/en/c01/c03/p994/c150103_p994.shtml) ([see archive](Shanghai_Stock_Exchange_About_SSE.pdf))

### China's CPI forecast at 4.5 to 4.6% for the year

China's consumer price index (CPI) will rise between 4.5 and 4.6 per cent for the whole of the current year, which will indicate moderate and tolerable inflation, the country's top statistician Xie Fuzhan said on 22 November at Tsinghua University. Xie, head of the National Bureau of Statistics, added that the CPI monthly rate of increase would likely linger at around 6 per cent year on year for several months yet.

Xie said the CPI rises were influenced mainly by increases in food price, which, in turn, were caused by rising production costs.

According to Xie, global price rises for crude oil fuelled price rises for industrial products. Price rises for nonferrous metals and iron ore also contributed to the CPI increase. "Substantial price rises for real estate and equities translate to higher risks on economic growth in the long term," he said.

To stabilize the national economy, Xie believes the volume of gross domestic product should be brought under control and the GDP growth rate should be returned to within 10 percent through use of both monetary and fiscal policies.

Xie forecasts China's GDP growth will be at 11.5 per cent for the whole of this year. He also said the foreign exchange rate of China's currency, renminbi, should be more flexible.

[Source: Xinhua](http://www.cs.com.cn/english/ei/200711/t20071123_1249932.html) ([see archive](Chinas_CPI_forecast_at_45-46_for_whole_year.pdf))

### Central bank unveils inter-banking system for individuals

The People's Bank of China launched a inter-banking system for small payments on 19 November. The first batch of 14 banks in Beijing will implement this system.

After signing contracts with their account-holding banks in advance and receiving a twelve-digit payment code, clients can deposit, withdraw or transfer small sums of money amongst bank branches participating in this program.

Clients need to pay certain fees for small-amount transactions. The charges vary among banks. For instance, China Construction Bank (CCB) and Bank of China (BOC) will both charge clients one per cent of the transaction value, though the minimum charge for a single transaction is 10 yuan in CCB and 1 yuan in BOC, and the maximum is 200 yuan in CCB and 100 yuan in BOC. CCB also sets a limit of five million yuan for a single deposit or withdrawal, while BOC has no such limit.

Fourteen banks appear in the first batch of banks adopting the inter-banking payment system in Beijing, including the Industrial and Commercial Bank of China, Agricultural Bank of China, BOC, CCB, and Bank of Communications.

[Source: China Daily](http://www.cs.com.cn/english/ei/200711/t20071120_1247545.html) ([see archive](Central_bank_unveils_trans-bank_system.pdf))

## Taxation

### SAT to abolish or merge 31 tax items next year

The State Administration of Taxation (SAT) recently disclosed that as from next year, 31 tax items would be abolished or merged.

SAT issued a notice stipulating that in order to reduce the burden on taxpayers they have adjusted the amount of material to be submitted by applicants.

The list of abolished and merged items includes tax registration and invoice management. In total, 31 tax items are to be abolished or merged with other items. After the adjustment, there will be 218e tax items.

[Source: Xinhua](http://www.china.com.cn/economic/txt/2007-11/22/content_9276929.htm) ([see archive](SAT_Tax.pdf))

### Preferential income tax for enterprises with infrastructure business

An expert has recently disclosed that the new Corporate Income Tax Law, which is under discussion, may provide preferential tax treatment to enterprises engaged in infrastructure operations such as wharves, airports, railways, highways, electricity, and water. The initial plan is to grant 3 years' income tax exemption and 3 years' reduction from the date that the enterprise shows business income.

In addition, enterprises engaged in agriculture, forestry, animal husbandry and fishery projects might also be granted preferential tax treatment. Enterprises engaged in businesses such as breeding or agricultural machinery, technology and services would pay zero income tax. Companies in high-profit businesses such as flower or tea farming will be granted an income tax reduction of 12.5%.

Enterprises in environmental protection sectors will also enjoy preferential treatment.

Experts say enterprises can enter the preferential period as soon as they begin business and can remain for up to six years. "It is easier to judge the period by adopting this standard, though it is less favorable than the "making profits" standard".

S[ource: China Securities News](http://www.china.com.cn/economic/txt/2007-11/20/content_9254789.htm) ([see archive](Preferential_Income_Tax.pdf))

### Car-emission tax study

Car owners may have to pay tax on car emissions in the future. A government official disclosed at a forum that the Ministry of Finance, the State Administration of Taxation and the State Environmental Protection Administration are researching a policy to impose product tax and emission tax.

The official explained that taxes on emissions from cars will be levied on the consumer. The car owner must pay tax on automobile exhaust that contains carbon monoxide, sulfur dioxide and other pollutants. The tax is likely to be charged when refueling. Product tax is already paid by high-polluting enterprises.

The official said the policy is under research and will be released during the Eleventh Five Year Plan. He also said that the Ministry of Finance and the State Administration of Taxation would be responsible for the establishment and promulgation of the policy, while the State Environmental Protection Administration will provide technical support.

The Comprehensive Plan for Energy Saving and Reduction of Emissions, which was promulgated in June 2007, clarifies that China will charge environmental protection taxes.

[Source: Beijing Business News](http://www.china.com.cn/economic/txt/2007-11/19/content_9249984.htm) ([see archive](Car_Emission_Tax_Study.pdf))

## Corporate & Commercial

### Early warning system to stabilize oil supplies

The Chinese Ministry of Commerce (MOFCOM) issued a notice on 24 November to urge local commerce bureaus to set up and improve early warning systems amid efforts to stabilise domestic oil supplies.

According to the notice, many petrol stations across the country are experiencing shortages due to the dramatic increase in oil prices in the international market. The state has increased the price of oil to smooth the shortages. However, in some areas there are still shortages in diesel oil.

MOFCOM requires that local commerce bureaus pay close attention to the oil market and establish an early warning system to ensure the stable supply of oil in their jurisdiction. Local commerce bureaus must take immediate measures when there is a shortage of oil and control the distribution of resources to ensure supply for production, daily living requirements, key projects, public services, emergency services and agricultural production.

MOFCOM called on China National Petroleum Corporation (CNPC) and China Petrochemical Corporation (Sinopec Group), the nation's two largest oil producers, to do their best to ensure fuel supplies.

MOFCOM also requires local commercial departments to strengthen cooperation with other bodies to tighten inspection of the oil market.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2007-11/25/content_6277176.htm) ([see archive](Early_warning_system_to_stabilize_oil_supplies.pdf))

### Legislator: China to unveil 20 regulations governing foreign M&A

Cheng Siwei, vice chairman of the Standing Committee of the National People's Congress said recently that there should be regulations governing foreign mergers and acquisitions (M&A) to ensure national economic security and development.

Cheng told a forum in Beijing that under the Antitrust Law, China would scrutinize foreign M&A proposals if they posed a potential threat to national security. China will introduce more than 20 supporting regulations on foreign M&A of domestic firms before August 2008. The regulations will come out in a series before the Antitrust Law comes into effect on 1 August 2008. Cheng stated that the regulations will help ensure that foreign M&A deals promote China's economic growth without threatening its economic security.

When evaluating foreign M&A deals the first factor to look at is whether the domestic firms were fairly priced. The second is whether the deal would lead to company asset growth, Cheng added.

[Source：Xinhua](http://english.cri.cn/4426/2007/11/25/262@297919.htm) ([see archive](China_to_Unveil_20_Regulations_Governing_Foreign_M_and_A.pdf))

## Real Estate

### Supervision tightened on new projects to cool economy

According to a document published on 21 November on the State Council's website, the government is to strengthen the management of all new investment projects and will shut down any that do not have appropriate approval in respect of the environment and energy saving.

The document said there has been too many new investment projects in recent years, some of which have failed to follow relevant laws and regulations. Coupled with poor management and law enforcement, these have led to excessively fast investment growth. Analysts said the measure is designed to stop the economy from overheating.

In this document, the government stipulates that all new projects must be properly authorised and must abide by land use, energy efficiency, market access and environmental protection criteria.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2007-11/22/content_6271509.htm) ([see archive](New_steps_to_control_investment.pdf))

## Other

### Regulation on recalls under development

China has taken a major step toward launching a recall system for a wider range of consumer products in the domestic market by completing the first draft of the regulation.

Apart from automobiles, toys, drugs and food, which are already covered by various recall systems, the draft regulation on the recall of defective products applies to all products that might harm public health or personal safety, Liu Zhaobin, director of the policy and legislation department of the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), told reporters at a quality control symposium. He did not list the products covered by the draft but they may include medical apparatus, home appliances and public facilities such as elevators and cable cars.

The draft has been completed and public opinion is being sought. "We will accelerate the promulgation of the regulation and enhance governmental supervision in this aspect," he said, "If everything goes smoothly, the draft regulation could be adopted by the State Council as early as next year."

According to the draft regulation, producers are required to take back unsafe products or else the government will order a recall, then fine and punish producers, Liu said.

If passed, the regulation will be China's first regarding the recall of defective products.

Jiang Tianbo, a senior official with the State Council Legislative Affairs Office, confirmed that listing the draft regulation on the legislative agenda for next year is being considered.

[Source: China Daily](http://www.china.org.cn/english/news/232812.htm) ([see archive](Regulation_on_recalls_in_pipeline_--_china.org.cn.pdf))

### Drinking water polluters to face heavy fines

China's State Environmental Protection Administration (SEPA) has issued a draft notice on its website warning that any discharge of waste water containing highly toxic chemicals into drinking water sources will result in heavy fines of up to 500,000 yuan.

The draft regulation gives those who suffer from damages or losses the legitimate right to demand that polluters eliminate the dangers and compensate for any losses caused. It states that the government encourages the establishment of an ecological compensation mechanism at drinking water sources. The details for the compensation system will be produced by several government ministries.

Meanwhile, concentrated drinking water sources will be labeled as first and second-class protection areas and definite boundaries must be marked with warning signs.

The regulation stipulates that violations involving direct discharge of toxic liquids into drinking water sources, dumping or burying underground soluble poisonous chemical residues including mercury, cadmium, arsenic, chromium, cyanide and yellow phosphorus near drinking water sources, and leakage of toxic materials through wells, pits, crevices or caves, will result in severe fines. The minimum fine will be no less than 50,000 yuan, and the highest 500,000 yuan.

The regulation also forbids the dumping of industrial, urban and other waste into water at drinking water sources.

[Source: Xinhua](http://www.cs.com.cn/english/ei/200711/t20071126_1250259.html) ([see archive](Drinking_water_polluters_to_face_heavy_fines.pdf))

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