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# China News Alert Issue 229

## Capital Markets

### China strengthens M&A regulations for listed companies

China has set up a committee to oversee the mergers and acquisitions (M&A) of its listed companies, as this activity becomes increasingly important in the country's financial markets.

A total of 73.9 billion yuan (US$10.3 billion) was injected into listed Chinese companies through M&A last year.

M&A increased the market value of these companies by 770 billion yuan and raised their average earnings per share by 75 per cent, according to China Securities Regulatory Commission (CSRC) Chairman, Shang Fulin: "In over 10 years, more than 300 listed companies became stronger and more competitive through M&A, which effectively integrated resources and helped them dominate the market."

The CSRC announced the establishment of the 25-member committee on 20th February. The committee is part of its plan to ensure the transparency and quality of the examination and approval of M&A applications.

The new committee is to exercise part of the function originally designated to the existing listing committee under the Securities Law. "It should be the responsible gatekeeper, which allows high quality resources and trustworthy shareholders into the capital market while keeping dishonest ones out," Shang said.

A consulting committee of 15 members was also created to advise on the establishment of M&A rules.

[Source: People's Daily Online](http://english.peopledaily.com.cn/90001/90776/90884/6357984.html) ([see archive](China_strengthens_M_and_A_regulation_of_listed_companies.pdf))

### People's Bank of China plans monetary policy innovation

China's central bank has said that it will increase innovation in monetary policy tools after the publication of a report showing that the CPI had surged to an 11-year high.

China's economy faces "prominent" problems such as imbalanced international payments and excess liquidity, the People's Bank of China (PBOC) said. The comments were made in a five-year plan for the finance industry, released yesterday on the central bank's website.

"We will improve monetary policy controls, continue to use quantitative measures, widen the usage of price-related policy tools and increase innovation in monetary policy measures," the central bank said in the report, without elaborating further.

China's economy expanded 11.4 per cent in 2007 from a year earlier, the fastest increase in 13 years. CPI climbed by 7.1 per cent last month.

The government will "improve the coordination of domestic and exchange rate policies" and use "multiple" tools to control bank lending, the central bank said in the report.

China will explore more channels for investing the world's biggest foreign-currency reserves, aiming for "higher returns", the report said. The nation set up the China Investment Corporation, a US$200 billion sovereign wealth fund, in September.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-02/20/content_6468962.htm) ([see archive](PBOC_plans_monetary_policy_innovation.pdf))

### CSRC releases format for annual reports issued by fund management companies

The China Securities Regulatory Commission (CSRC) has released the 'Rules for the Content and Format of Annual Reports by Fund Management Companies', to be effective immediately.

The Rules state that fund management companies must disclose all relevant information required by the Rules and submit the report exclusively to the CSRC. Fund management companies may compile a separate annual report for release to the public.

The Rules require an accounting firm, appointed as auditor, to assess and evaluate the internal regulation of the company and issue an assessment report. This report must provide an objective evaluation of the standards and effectiveness of internal regulation relating to financial statements, recommend corresponding measures for improvement, and give a clear judgment on whether there are any significant defects in the internal regulation system.

The Rules require fund management companies to reprint the audit report issued by a certified public accountant in their annual report without any amendment to or deletion of the financial information.

If an audit report contains a request for further explanation, reference to the reservation of an opinion, the inability to issue an opinion or an adverse opinion, the certified accountant must, within four months after every accounting year, report to the CSRC in writing to specify the reason and effect of such an act on the company's financial condition and business operation.

Companies must assess the effect of the economic environment on their main business and performance during the year, and explain the measures taken to deal with these influences during the marketing, sales and management of funds and the management of entrusted funds.

In addition, annual reports must disclose the asset scale, the profits of entrusted investment business and all relevant risks.

[Source: China.com.cn](http://www.china.com.cn/economic/txt/2008-02/21/content_10346620.htm) ([see archive](CSRC_releases_format_for_annual_reports_issued_by_fund_management_companies.pdf))

## Corporate & Commercial

### M&A deals expected to maintain strong momentum

Merger and acquisition (M&A) activity will continue to see strong growth in 2008, especially in China's local market, analysts predict.

The overall state of economic growth facilitates an active M&A market as companies look to restructure, grow in scale and develop new markets. Equity markets, internally generated funds and bank loans will continue to provide ample liquidity for financing M&A deals.

China's domestic M&A market will remain active in 2008 due to government support and the restructuring of State-owned enterprise (SOE), analysts said.

A recent report, released by brokerage firm Hongyuan Securities, listed those industries expecting to see more domestic M&A deals in 2008. These include steel, cement and equipment manufacturing, which will see integrations in line with the national energy saving and pollution reduction policy.

The report also lists the IT, electronic equipment, biotechnology and retail industries, for which M&As are necessary to boost competitiveness, especially in the international market.

The national defense industry, which will restructure and go public according to last year's 'Commission of Science Technology and Industry for National Defense' guidelines, is also tipped for more M&As this year.

According to PricewaterhouseCoopers (PwC), overall M&A deal volumes (excluding outbound transactions) in the first 11 months of 2007 increased 18 per cent in volume to more than 1,700 transactions, and 25 per cent in value to over US$80 billion.

The financial services, real estate, manufacturing and mining sectors had the strongest M&A growth in 2007. There were industry-specific factors involved last year, such as the restructuring and capital replenishment of securities companies.

China's domestic sector was ahead of foreign activity with a growth of 45 per cent by volume (to 987 transactions) and 53 per cent by value (to US$50.6 billion). In 2007, domestic deal activity was twice as high as foreign-backed M&A activity, according to PwC: "Domestic activity will continue to benefit from three principal drivers: market opportunity, liquidity and government support".

Increased domestic deals during 2008 will continue the trend that emerged in 2006. Previously, foreign direct investment had been the key driver of M&A growth.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-02/21/content_6472336.htm) ([see archive](M_and_A_deals_will_maintain_strong_momentum.pdf))

### Government joins forces with property developer

Shanghai Putuo District Government joined forces with an international leading property services provider on 20th February to establish a strategic partnership as part of its efforts to accelerate real estate development in the district.

Under an agreement signed between the district government and Colliers International, the property developer will serve as an international strategic consultant for the local government and offer property services including comprehensive development planning, real estate promotions for overseas investors and tenants, and professional property management services.

The strategic partnership, probably the first of its kind in the city between a district government and an international property consultancy firm, could be a win-win deal.

"With a successful track record and nearly 20 years' operating experience in the Chinese market, Colliers is expected to help attract more international investors and multinational cooperation to either invest in or build their centers here in the district," said Lu Nanting, director of Putuo Investment Service Office. "We believe Colliers' extensive network and resources around the globe will be of great help."

Colliers, which entered the Chinese market in 1989 and now manages properties in more than 60 cities across the nation, sees Putuo as the most promising district for new CBDs to emerge, outside the traditional zones.

Source: Shanghai Daily (Link no longer active)
http://www.shanghaidaily.com/sp/article/2008/200802/20080221/article\_349422.htm

## Taxation

### China raises tax for diesel and naphtha

The Chinese government has begun charging the full rate of consumption tax for fuel oil and naphtha, the finance ministry and taxation bureau have said.

Rates under the new tax scheme are 0.10 yuan a liter for diesel and 0.20 yuan for naphtha, which is used as a petrochemical feedstock and blending component for gasoline.

The government began levying consumption tax on fuel oil and naphtha at these levels in April 2006, but has allowed a 70 per cent cut for both products since then, saying it would charge the full rates at the "appropriate time".

The latest adjustment is a continuation of the country's recent efforts to curb resource-intensive sectors and promote energy efficiency, analysts said. However, analysts also say that the limited adjustment would not add more pressure to prices. The CPI, a barometer for inflation, rose to an 11-year high of 7.1 per cent in January.

Meanwhile, the government has decided to raise export tariffs on some fertiliser products to ensure domestic market supply and has offered preferential tax policies on the importation of parts used to make high-end farming equipment.

The Ministry of Finance said it will raise taxes on ammonium dibasic phosphate and ammonium biphosphate to 35 per cent from the current 20 per cent from 25th February to the end of September. It will restore the previous tax rate in the remaining months of the year, according to a statement on its website.

Analysts said the move is aimed at easing exports, ensuring demand from the domestic market and anchoring domestic prices, especially given the challenge faced by the agricultural sector cause by heavy snowstorms.

The ministry, meanwhile, said it will offer a rebate for tariffs and value-added tax for domestic manufacturers who import key parts of farming equipment, such as tractors and sowing machines, for their own R&D.

The tax rebates will be used to support local manufacturers' independent innovation, according to a statement on the ministry's website and took effect from the start of this year.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-02/20/content_6468966.htm) ([see archive](Nation_raises_tax_for_diesel_naphtha.pdf))

### New individual tax threshold to take effect on 1st March

China's amended individual income tax law, which raises the tax levy threshold from 1,600 yuan (about US$220) a month to 2,000 yuan, will take effect on 1st March accompanied by some implementation regulations.

Individuals who earn money from contractual operations and contract-to-lease businesses will also receive a raised tax threshold from 1,600 yuan to 2,000 yuan, according to the regulations.

A joint explanation on the regulations made by the Legislative Affairs Office of the State Council, Ministry of Finance and the State Administration of Taxation said that this was due to an increase in the living costs of those individuals and their family members.

Individual tax payers who have housing in China but work overseas, or live overseas but earn income in China, will maintain their tax threshold of 4,800 yuan a month, according to the regulations.

This will help reduce the gap between tax thresholds of different taxpayers, the joint explanation said.

The raised individual tax threshold will reduce government revenue by 30 billion yuan annually, according to official statistics. It will also mean that 70 per cent of income earners will be exempt from income tax, compared to 50 per cent now.

The individual income tax cutoff point was raised from 800 yuan a month to 1,600 yuan in 2006. This was based on basic living costs at the time. However, the consumer price index increased several times in 2007, further burdening low- and medium-income earners.

[Source: CRI English](http://english.cri.cn/2946/2008/02/22/48%40326026.htm) ([see archive](New_Individual_Tax_Threshold_to_Go_into_Effect_March_1.pdf))

## IPR

### New rules on payouts in IPR cases

China's Supreme People's Court (SPC) has ordered courts at all levels to adhere to a "full-compensation" principle when dealing with intellectual property rights (IPR) cases.

"Courts should apply logical reasoning and everyday life experiences, and comprehensively and objectively examine the evidence for calculating the amount of compensation," SPC vice-president Cao Jianming told a national work conference on IPR trials in Jinan.

"Courts should avoid applying simple methods of legal compensation when handling IPR infringement cases. Instead, they should try to guide parties involved to calculate the amount, using methods of infringement damages and gains."

In a typical case, handled in June 2007, the SPC awarded Japan's Yamaha Motor Co record damages of 8.3 million yuan (US$1.16 million) for a trademark infringement, against Zhejiang Huatian, one of the country's largest motorcycle makers.

The Japanese firm and legal experts called the verdict "epoch-making". The damages were said to be based on all evidence gathered for the lawsuit".

Jiang Zhipei, chief justice of the SPC IPR Tribunal, told China Daily: "If it were handled simply according to legal compensation regulations, because of being unable to reach a clear compensation amount, the figure would have been about 500,000 yuan. "But the fact was that the plaintiff lost millions according to the evidence," he said.

Cao said the conclusion of such compensation claims should be reasonable and compelling. He asked judges to be prudent when dealing with copyright infringements relating to cultural products.

"Courts should fully consider the actual transaction circumstances, including online business behaviour, and present the full market value," Cao said.

He encouraged courts to introduce specialists such as auditors and accountants to assist in calculating infringement compensation details, especially in cases of copyright royalties, losses and illegal gains.

Chinese courts have reportedly been exploring ways to have specialist agencies access IPR infringement compensation, so as to establish an infringement compensation affirmation system.

Covering all IPR legal areas, Chinese courts last year accepted and concluded more than 17,800 and 17,300 IPR cases, up 26 and 24 per cent, respectively, from 2006.

In addition, the conclusion rate of first trials has also improved, rising from 73 per cent in 2001 to nearly 80 per cent in 2007.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-02/22/content_6475740.htm) ([see archive](New_rules_on_payouts_in_IPR_cases.pdf))

## Other

### Policies to actively promote employment

China is stepping up its policy support to promote employment, said a circular released recently on the government's official website.

The circular raises the ceiling for the amount of small loans, a policy partly designed to help the unemployed open their own businesses, and allows the threshold for qualified borrowers to be lowered when necessary.

Preferential tax policies, which reduce or remove the tax burden from the unemployed and the disabled, will continue to be effective until the end of 2008. New policies will be introduced in 2009.

The government has been taking measures to encourage companies to recruit those who have had difficulty in finding employment. It is also creating more public service jobs.

China has implemented active employment policies since 2002. It has increased the number of newly employed in cities from 8.4 million in 2002 to 12.04 million people in 2007.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-02/20/content_6469274.htm) ([see archive](Policies_to_actively_promote_employment.pdf))

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