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# China News Alert Issue 230

## Capital Markets

### Firms warned against large new share issues

China's securities regulator recently warned listed companies to desist from excessively large issues of new shares that could undermine the stock market, a move that analysts believe could boost investor confidence.

"Refinancing by listed companies is one of the capital market's functions, but companies should take the timing, scale and market sentiment into account when planning new share issues Companies should on no account maliciously seize money from the market," the China Securities Regulatory Commission (CSRC) said in a statement on its website.

"The commission will also look at the feasibility of fund-raising plans and whether they conform to regulations when it examines applications by listed companies to offer shares," the statement said.

The benchmark Shanghai stock index has plunged 24 per cent since mid-January because of concern about the market's ability to absorb large supplies of new shares.

Ping An Insurance announced last month that it plans to raise up to 150 billion yuan (US$21 billion), prompting other firms to follow suit, including Shanghai Pudong Development Bank, which is aiming for 40 billion yuan.

So far this year, some 43 firms have released re-financing plans, aiming to raise 260 billion yuan, compared with 394 billion yuan raised by 190 firms for the whole of 2007.

The CSRC statement urged shareholders to use their influence over listed companies to block excessive fund-raising plans.

"The regulator's latest notice could boost investor confidence and ease market concerns of a liquidity crunch," said Dong Chen, a senior analyst with CITIC China Securities.

Given the current bearish sentiment, convertible bonds and small-scale additional shares are a better choice for issues, he added.

According to the CSRC, Ping An has not submitted its share sale plan yet, and the regulator will urge the company to disclose timely and clear information.

Despite the recent big swings in the stock market, triggered both by fluctuations in the international financial market and a correction at home, the CSRC said it will strive to make sure the capital market develops in a steady and healthy manner.

[Source: Xinhua News Agency](http://news.xinhuanet.com/english/2008-02/26/content_7669938.htm) ([see archive](Firms_told_to_stop_large_new_issues.pdf))

### Listed firms ordered to submit green data

The Chinese government will enforce mandatory environmental disclosures for companies with high pollution emissions and energy consumption, according to a regulation released by the State Environmental Protection Administration (SEPA) on 25th February.

The environmental watchdog said the regulation applies to companies that are already publicly listed as well as those seeking listing.

According to Pan Yue, deputy director of SEPA, most domestic listed companies either do not report their environmental performance or only submit "qualitative descriptions" and "scantily useful facts".

The regulation is designed to make environmental disclosure a key criterion for companies raising funds from the Chinese capital markets, he pointed out.

The so-called green securities scheme is meant to help curb the unhealthy expansion of heavily-polluting and energy-intensive industries by preventing them from siphoning funds from the capital market.

The green securities scheme is among SEPA's latest moves to inject environmental factors into the nation's financial policies, the others being endeavours to influence lending and insurance practices.

In the green securities scheme, companies with cross-provincial business in any of the 13 listed industrial operations that may cause heavy pollution will be required to obtain SEPA approval of their environmental performance.

The results of the inspections, to be conducted by SEPA specialists, will be a necessary part of information disclosure to the China Securities Regulatory Commission (CSRC) for either initial public offerings (IPOs) or refinancing.

The 13 types of industrial operations include thermal power generation, and the making of iron and steel, cement, and electrolyte aluminum.

Prior to the release of this regulation, environmental disclosure and inspection were already required of companies filing for IPOs. Domestic firms have to report on environmental conduct for the 36 months prior to the floating of their shares. Deliberate cover-ups are subject to administrative penalties and criminal charges.

Making environmental reporting compulsory is a joint program of SEPA and the CSRC, officials from the environment watchdog told China Daily. The two agencies worked together in reviewing the information submitted by 37 companies applying for IPOs in 2007.

Ten companies were forced to delay their IPOs as their applications were rejected on environmental grounds. Their applications were rejected because their performance had failed to meet government standards or because their reporting was inadequate, according to a SEPA statement.

According to Pan, now that the practice of environmental disclosure in the IPO process has become more or less established, it is time to tighten disclosure rules for companies that listed before environmental impact became a required reporting item.

The SEPA deputy director said that of all listed companies on the mainland, only half included environment performance in their 2006 annual reports. Even for those that did touch on the issue, the quality of reporting was generally poor and of little help to shareholders, he said. Listed companies' environmental disclosure can guide investors in seeking long-term returns, Bie Tao, a senior official of SEPA's policy, law and regulation department, said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-02/26/content_6484453.htm) ([see archive](Listed_firms_ordered_to_submit_green_data.pdf))

### New vice-chairman of securities regulator named

The China Securities Regulatory Commission (CSRC) announced that it has appointed Yao Gang as vice-chairman, amid a spate of high-level personnel changes.

Yao was formerly an assistant to the CSRC chairman and director of the CSRC public offering supervision department, according to a statement CSRC has posted on its website.

The securities regulator also named Zhu Congjiu, general manager of the Shanghai Stock Exchange, as an assistant to the commission's chairman.

Zhang Yujun, general manager of the Shenzhen Stock Exchange, was appointed general manager of the Shanghai Stock Exchange, and Song Liping was named general manager of the Shenzhen bourse.

[Source: China Securities](http://www.cs.com.cn/english/markets/200802/t20080228_1380709.html) ([see archive](New_vice-chairman_of_securities_regulator_named.pdf))

## Corporate & Commercial

### Inflation is major concern for lawmakers and political advisors

Inflation remains a primary challenge faced by China this year, and thus a focus topic among national lawmakers and political advisors gathering for their annual full session, who say an unwavering tight monetary policy may help maintain steady growth.

China was confronted with domestic economic challenges as soon as the new year started while the world economy continued to slow as the impact of the US subprime crisis was felt.

Having been troubled by a rising consumer price index (CPI) since mid 2007, in January the country was hit by the worst snow fall in 50 years, which caused a loss of at least 111.1 billion yuan (US$15.43 billion).

The CPI, the main gauge of inflation, retouched an 11-year monthly high with a 7.1 per cent rise in January. Increases in food prices had pushed up the CPI by 4.8 per cent in 2007, its highest annual level since 1997.

The volatile international financial markets and spiraling energy and food prices pose challenges, said noted economist Li Yining, a member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), the country's top political advisory body.

However, Justin Yifu Lin, a deputy to the National People's Congress (NPC) and the World Bank's new chief economist and senior vice president, noted the US subprime crisis would have limited impact on China. "The demand by the US, China's second-largest trading partner, would not decrease by a large margin as most Chinese exports to the US were low- and middle-end," the national lawmaker said.

Lin's view was shared by Li. He predicted China's GDP growth could still hit around 10 per cent this year and expected a stable CPI in the second quarter and a light drop in the third and fourth quarters.

A recent online survey by official website xinhuanet.com indicated that price increases are the "topic of most concern" among Chinese citizens as the two sessions of national lawmakers and political advisors approach.

Song Guoqing, a professor at the China Economic Research Center under Beijing University, believes the tight monetary policy and the government's determination to curb inflation is crucial to ease the public concern over inflation. "Even worse than the inflation itself is the anticipation of further price rises by the public," he said.

The People's Bank of China (PBOC) will keep the tight monetary policy unchanged to rein in growing inflation, said the central bank's vice governor Yi Gang.

The central bank had taken a series of measures such as raising the reserve requirement ratio 11 times and the benchmark interest rates six times since 2007 to absorb excess liquidity. These measures have played an active role in slowing down the rate of inflation.

Political advisors and lawmakers, however, have urged the government to take measures to protect the interests of low-income earners, who are affected most by the growing inflation.

"Providing low-income people with a protective umbrella should be put at the top of the government'ss agenda," said Jia Kang, a CPPCC member and director of the Research Institute for Fiscal Science under the Ministry of Finance. "I believe the government will make greater efforts to solve social issues and improve people's livelihood through increasing fiscal revenue and making use of other resources," he said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-03/02/content_6501280_2.htm) ([see archive](Inflation_major_concern_of_lawmakers_advisors.pdf))

### Price rises approved in 7 regions

Chinese authorities have approved price increases for a number of basic necessities, amid rising costs faced by manufacturers and wholesalers.

Two cooking oil producers in Beijing were given permission by local authorities to raise the prices of 13 oil products, with the highest seeing an increase of 9 per cent, the National Development and Reform Commission (NDRC) said recently.

Government agencies in six other provinces including Guangdong, Jilin and Zhejiang also received applications from retailers and manufacturers to raise prices, some of which were dismissed for being "unreasonable", the commission said.

On 17th January, the central government decided to temporarily intervene in the market to control the prices of a range of daily necessities such as grain and meat, in order to rein in inflation.

By 26th January, 31 provinces, municipalities and autonomous regions had introduced similar measures.

Currently, major producers need to obtain government approval before raising their prices, while major wholesalers are required to file a statement with government agencies if they raise prices by 6 per cent within 10 days, or by 10 per cent within a month.

Companies such as cooking oil producer Luhua Group and dairy company Mengniu Dairy must get approval from the NDRC before raising prices.

Local governments also oversee the price adjustment of smaller producers, wholesalers and retailers.

In a recent case, local price authorities required a supermarket in Nanton, Jiangsu province, to lower its pork prices, which were raised much faster than its purchase prices.

"The tight approval process highlights the government's concern over inflation," Chen Jijun, chief analyst for Beijing-based CITIC Securities, said.

The consumer price index (CPI) grew 7.1 per cent year on year in January, the highest level since 1997. Government statistics show inflation has been largely confined to food prices, which jumped 18.2 per cent in the past month. "But now signs are clear that inflation has spread to other sectors, as more and more manufacturers are trying to raise prices," Chen said.

Production prices climbed 6.1 per cent year on year in January, the fastest in three years, adding pressure to efforts to curb inflation, analysts said.

The producer price index also climbed 6.1 per cent in January from a year earlier, the fastest in three years. The index measures the average change in the prices received by producers for their output, and reflects potential inflationary trends.

Ma Jun, an economist from Deutsche Bank, said inflation is likely to hit two or three new highs in the first quarter and exceed 8 per cent, year-on-year, next month.

[Source: China Securities](http://www.cs.com.cn/english/ei/200802/t20080228_1379955.html) ([see archive](Price_rises_approved_in_7_regions.pdf))

### 30 new state-level high-tech industrial bases named

China has named 30 new state-level high-tech industrial bases, lifting the total number to 65.

Vice Premier Zeng Peiyan awarded the state-level high-tech industrial bases to 30 cities, including Beijing, Shanghai, Guangzhou, Xi'an and Tianjin recently in Beijing.

The 30 bases include six all-around bases and 24 that specialise in civil aviation, new energy resources, microelectronics, information or biology.

High-tech bases have played an important role in transforming economic growth modes and upgrading industrial structures.

In 2007, the industrial output of the high-tech sector reached 1.91 trillion yuan (US$269 billion), 7.8 per cent of China's gross domestic product. Meanwhile, new high-tech exports hit US$347.8 billion, accounting for nearly 30 per cent of the nation's total exports.

Industrial output and exports had risen at average annual rates of 21.5 per cent and 37.7 per cent, respectively, during the past seven years up to 2007.

[Source: Xinhua News Agency](http://news.xinhuanet.com/english/2008-03/01/content_7698004.htm) ([see archive](China_names_additional_30_state-level_high-tech_industrial_bases.pdf))

### New measures relating to automobile financing companies take effect

New measures relating to automobile financing companies have recently taken effect.

The measures adjust the entry requirement for automobile financing companies, their business scope and risk management.

Six new business areas are added to the new measures: granting loans to automobile dealers; issuing financial bonds; borrowing and lending between automobile financing companies; automobile financial leasing services; the sale of automobiles for scrap value; investing in firms conducting automobile-related business.

The three core businesses of automobile financing companies are retail loans, wholesale loans and financial leasing.

[Source: China Law Info](http://www.pkulaw.cn/fulltext_form.aspx?Db=news&Gid=21106&keyword=&EncodingName=&Search_Mode=accurate) ([see archive](New_measures_relating_to_automobile_financing_companies_take_effect.pdf))

### Over 20 foreign banks gain corporate status by end of 2007

More than 20 foreign banks had received permission to operate on the Chinese mainland with corporate status as of 2007, according to statistics recently released during a summit on foreign banks held in Shanghai.

The banks, including Citibank, Deutsche Bank, Standard Chartered Bank and Mizuho Corporate Bank, may conduct comprehensive business in foreign currencies and the Renminbi. This includes Renminbi business for Chinese residents, according to the Administration Rules on Foreign Banks.

"The development of the foreign bank business in China is closely related to the development of China's economy," said Deng Xianhong, vice head of the State Administration of Foreign Exchange.

He suggested that foreign banks consider "the overall situation of China" and "do business in compliance with China's regulations."

Lin Xun, a senior official of HSBC, said the bank's cooperation with China's domestic banks had been a win-win situation.

Fast growth in China's banking service industry has meant that more foreign banks want to set up branches or gain corporate status. The most recent case involved Venshtorgbank, Russia's biggest bank, which opened its first Chinese branch in Shanghai on 26th February.

Branches of foreign banks mainly do foreign exchange business and only offer Renminbi services to companies and institutional clients.

[Source: China Securities](http://www.cs.com.cn/english/ei/200802/t20080227_1379392.html) ([see archive](Over_20_foreign_banks_gain_corporate_status_by_end_of_07.pdf))

## Other

### Draft law on energy due soon

China's new draft energy law will soon be submitted to the State Council for review as the period for public comment has ended, a senior energy official said recently.

The draft law calls for a more market-oriented pricing system and requires oil companies to set up inventories to supplement the state's strategic petroleum reserves.

After review by the State Council, the long-anticipated law still needs approval by the National People's Congress before it can be enacted, said Xu Dingming, deputy director of the Office of the National Energy Leading Group.

"There is not a timetable for the law's enactment, as we have to follow proper procedures," Xu told an industry conference in Langfang, Hebei Province.

In January, Ye Sirong, deputy chief of the drafting team, said the draft could be submitted to the National People's Congress this year and be enacted in 2009 at the earliest. The law's draft was published for public opinion in December 2007, and comments were solicited until 1st February.

Xu said thousands of suggestions from private companies had been collected concerning regulation and taxation, and some had been adopted.

However, Xu declined to comment on the progress of creating a new energy ministry. Some in the media have speculated that a new ministry is unlikely to be approved by the annual session of the National People's Congress.

China has been considering setting up an energy ministry for a few years in order to boost efficiency and protect energy security while oil prices are hitting highs above US$100 a barrel. But such a ministry would be difficult to set up because of the delicate balance of interests between various government bodies and state-owned oil giants.

Currently, China's energy policy is set by the National Development and Reform Commission, China's top planning agency, and the Office of the National Energy Leading Group. Both report to the State Council.

Xu was previously the head of the energy bureau under the NDRC.

[Source: CRI English](http://english.cri.cn/3130/2008/03/03/1601%40329104.htm) ([see archive](Draft_Law_on_Energy_Due_Soon.pdf))

### Tougher law to curb water pollution

China's top legislature recently adopted an amended water pollution law that toughens punishment of company officials through hefty fines.

The revised Water Pollution Prevention and Control Law was passed at the 32nd session of the Standing Committee of the Tenth National People's Congress (NPC).

The law, with eight chapters and 92 provisions, will take effect on 1st June.

"Enterprise bosses directly responsible for causing severe water pollution and others with direct responsibility will be fined up to half their income from the previous year," said the law.

Enterprises will be held responsible for 30 per cent of the direct losses resulting from any serious water pollution incident they cause and 20 per cent for incidents with medium level consequences.

Previously, corporate executives faced only administrative penalties.

"The fine amount should be imposed according to the severity of the violation, and small fines cannot effectively tackle the long-standing problem of 'low violation cost'," said a statement by the NPC's Law Committee, issued in December.

The law also stipulated that the country would set up a water protection target as well as an assessment system, which would be applied to local officials. Whether local officials reach the target will be directly connected with their performance evaluation, according to the law.

The new law allows environmental protection departments and relevant social organisations to support water pollution victims in lawsuits and the government encourages law firms and lawyers to provide legal aid to the victims.

A provision has been included to stipulate that the aquiculture industry should properly use nutrient feed in a bid to prevent over-nutrition.

Water pollution is among the top environmental concerns of the Chinese government and the public. A 2006 survey found that surface water generally was classified as containing intermediate levels of pollution, but one third of the 744 samples tested were graded at the worst pollution rating.

The State Environmental Protection Administration (SEPA) handled 161 emergency environmental pollution incidents in 2006, of which 59 per cent involved water pollution.

[Source: Sina English](http://english.sina.com/china/1/2008/0228/148031.html) ([see archive](Tougher_law_to_curb_water_pollution_china.pdf))

### Property disputes becomes first grade cause of action for civil litigation

The Supreme People'ss Court (SPC) recently announced the 'Regulation for Causes of Action of Civil Litigations', which will go into force as of 4th April.

The regulation states that property disputes will be upgraded to a first grade cause of action for civil litigation.

According to the spokesperson of SPC, the cause of action of one civil case can reflect the legal relationship therein and is an overview of the civil dispute. The scientific classification of causes of action can benefit the parties involved as well as courts at various levels.

The SPC released the 'Trail Regulation for Causes of Action of Civil Litigations' in January 2001. Nevertheless, the trail version urgently needs revision to adapt to the Property Law.

Before the implementation of the Property Law, there was no legal system for property and the trail regulation classified cases relating to property as ownership disputes.

[Source: China Law Info](http://www.pkulaw.cn/fulltext_form.aspx?Db=news&Gid=21078&keyword=&EncodingName=&Search_Mode=accurate) ([see archive](Property_disputes_becomes_first_grade_cause_of_action_for_civil_litigation.pdf))

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