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# China News Alert Issue 243

## Capital Markets

### New rules for brokers on wealth management business

The China Securities Regulatory Commission is piloting two sets of rules on wealth management business carried out by brokerage firms, in a bid to regulate the sector and stimulate its growth.

The rules, to take effect in July, state that brokerage firms should own a fund of no less than 100 million yuan (US$14.3 million) and have more than two clients in order to conduct wealth management business.

Firms are limited to investing no more than 200 million yuan of their own money in a single wealth-management deal, and 15 per cent of their net capital in all deals combined.

A single client can only have one investment account opened at the Shanghai Stock Exchange and one at the Shenzhen Stock Exchange.

Also, brokerage firms should deliver regular reports to the securities regulator about the planning of the scheme and its execution.

"The rules aim to protect the interests of investors and limit risk for brokerage firms and their clients," said Wei Tao, an analyst with China Securities Company Limited. "Compared with proprietary trading, the risk from carryout out wealth management business is much less, and the sector is expected to expand quickly."

Some brokerage firms have launched wealth management products on a trial basis to diversify their sources of income.

"The rules will encourage more brokers to conduct wealth management business and make it easier for them to win clients. Fund management firms could face more competition," said Dai Ming, an analyst with Kingsun Investment Management Company Limited.

According to the China Securities Journal, brokerage firms had 82.4 billion yuan in wealth management funds by the end of April, far less than fund management firms' 2 trillion yuan.

The regulator has set a minimum threshold for fund management accounts of 50 million yuan. This will help brokers to win more clients who have less money to manage, said Dai.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-06/03/content_8305500.htm) ([see archive](New_rules_for_brokers_on_wealth_management_business.pdf))

### Restructuring scheme needed in trading suspension application

The Shanghai Stock Exchange (SSE) has issued new rules on the procedures for significant asset restructuring of listed companies.

The SSE Listed Company Department issued the "Memorandum for Information Disclosure of Significant Asset Restructuring of Listed Companies" No.3: "General Statement of Significant Asset Restructuring Scheme" ('General Statement') to listed companies.

If a listed company applies to the Listed Company Department for continuous trading suspension due to significant asset restructuring, it should fill in and submit the General Statement together with a trading suspension application.

The General Statement asks for information regarding the type and standard of significant asset restructuring, the relationship between the listed company and its trading counterpart, whether the restructuring will lead to the change of the company's actual controller, as well as the estimated trading amount of the assets restructured into the listed company and the listed company's payment method.

The listed company must also provide the estimated time of the directorate's review on the restructuring scheme.

In addition, relevant companies must provide explanations on issues such as: whether the price fluctuation of their shares before the trading suspension application conforms to the standard in Article 5 of the "Notice of Regulating Information Disclosure of Listed Companies and Acts of All Parties concerned"; whether the listed company has been put on record for investigation by the China Securities Regulatory Commission, with the case as yet unsettled; and whether the significant asset restructuring involves innovative and unprecedented issues.

According to an official from the SSE Listed Company Department, this act aims to avoid random trading suspension by encouraging listed companies to work out initial schemes and schedules when applying for continuous trading suspension.

However, in the case that a restructuring scheme is extremely important and needs to be reported to the State Council for approval in principle, the Memo allows relevant companies to apply to the Listed Company Department for a proper postponement of trading suspension before the expiration of the promised suspension period, as well as the disclosure of relevant circumstances in the progress announcements.

[Source: Shanghai Stock Exchange](http://english.sse.com.cn/aboutsse/news/c/28476.shtml) ([see archive](Restructuring_Scheme_Needed_in_Trading_Suspension_Application.pdf))

## Real Estate

### China issues new land management statute

China has published a statute, "Methods for Punishing Violations of Regulations on Land Management", that replaces the "Provisional Methods for Punishing Violations of Regulations on Land Management" as of 1st June.

The document was issued jointly by the Central Commission for Discipline Inspection (CCDI), the Ministry of Supervision (MOS), the Ministry of Human Resources and Social Security (MHRSS) and the Ministry of Land Resources (MLR).

The new statute is the latest indication that the Central Committee of the Communist Party of China (CPC) and the State Council are giving priority to issues of land use. It follows several important measures taken by the authorities to maintain order in land management.

The existing regulations have played an important role since they were enacted on 2nd March 2000, but they need to be amended and improved to meet changing requirements, according to an official with the CCDI and the MOS.

China still faces a situation in which there are frequent instances of illegal occupation of land, particularly cultivated land.

The official urged disciplinary inspection and supervision offices to study and implement the new regulations and "strictly investigate and punish law-breaking and discipline-violating activities and protect cultivated land in a substantial way."

The 24-clause statute is based on the Land Management Law, the Law on Administrative Supervision, the Civil Servants Law, and the Provisions on the Punishment of Civil Servants in Administrative Departments, according to the official.

The government wants to preserve 1.8 billion mu (120 million hectares) of cultivated land, which is believed to be the base line to ensure food security for China's 1.3 billion people.

[Source: Sina](http://english.sina.com/china/1/2008/0529/164265.html) ([see archive](China_issues_new_land_management_statute_effective_June_1.pdf))

### PBOC Shanghai headquarters restricts loans to foreign-invested real estate

The Shanghai headquarters of the People's Bank of China (PBOC) has emphasised the restriction of credit provision to foreign investment in the real estate industry, and has prohibited the illegal provision of loans.

According to the recently released 'Shanghai Credit Provision Guidelines' (2008 revision) (the Guidelines), credit provision in Shanghai will be classified under 4 colours within 14 categories: blue for encouraged credit provision, green for supported credit provision, yellow for prudent credit provision and red for restricted and prohibited credit provision.

Credit provision for foreign investment in the real estate industry falls under red.

The Guidelines also stipulate that if foreign invested real estate enterprises fail to fully pay their registered principals, obtain a State-owned Land Use Certificate, or have capital for project development of less than 35 per cent of the project's total investment, financial institutions can not provide either domestic or offshore loans to such enterprises.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=3974) ([see archive](PBOC_Shanghai_Headquarter_Restricted_Loans_to_Foreign-invested_Real_Estate.pdf))

## Taxation

### Import taxes cut to relieve pressure on price rises

The government's move to temporarily reduce import taxes on 26 commodities, including food items, medical products and cotton, will help reduce inflationary pressure, analysts said.

The Ministry of Finance said on 28th May that:

* Tariffs on frozen pork will be lowered from 12 per cent to 6 per cent from 1st June to the end of 2008.
* Temporary tariffs on frozen fish will be reduced from 10-12 per cent to 5 per cent during the same period.
* Tariffs on baby food will be lowered from 10-15 per cent to 5 per cent.
* Tariffs on soy meal and peanut meal, two major livestock feed products, will be reduced from 5 per cent to 2 per cent during the same period.
* Tariffs on coconut oil and olive oil will be lowered from 10 per cent to 5 per cent, effective 1st June to the end of September.

Tariffs on medical products have also been cut. No tariffs will be levied on blood product antiserum, vaccines and antibiotics from 1st June to the end of December. The previous level was 3 per cent.

Cotton imported in excess of annual quotas will be levied 357 yuan (US$52) per ton from 5th June to 5th October. The previous level was 570 yuan per ton.

Hu Yijian, an economist at Shanghai University of Finance and Economics, said the revisions mainly target earthquake-relief efforts in Sichuan. The reduction of tariffs will help the import of commodities badly needed in Sichuan, Hu said.

Other analysts, however, believe that the move is to help control domestic prices, which rose by 8.5 per cent year-on-year in April, the second highest rise in the past 12 years.

Economists and senior officials broadly agree that it is hard to attain the goal of keeping inflation below 4.8 per cent, the central government target this year.

"It does not have much to do with the earthquake," said Ma Hongman, a Shanghai-based economist. "The move is targeted at helping control prices."

Wang Li, researcher at the Chinese Academy of International Trade and Economic Cooperation of the Ministry of Commerce, added: "Failure to bring inflation under control could undermine efforts in earthquake reconstruction and hosting the Olympic Games."

[Source: Xinhua](http://news.xinhuanet.com/english/2008-05/30/content_8281574.htm) ([see archive](Import_tax_cuts_to_relieve_pressure_on_price_rises.pdf))

## Corporate & Commercial

### China Unicom unveils details of merger with China Netcom

More details of the long-anticipated China telecoms industry reshuffle were revealed on 2nd June as China Unicom, the country's second largest mobile service provider, said it would acquire fixed-line operator China Netcom Group Corporation with a share swap deal.

The deal was valued at HK$439.17 billion (US$56.34 billion), based on the closing price of China Unicom at HK$18.48 per share on 2nd June.

China Unicom said in a statement that each China Netcom share would be valued at 1.508 new China Unicom shares, while each American Depository Share of China Netcom would be valued at 3.016 American Depository shares of new China Unicom.

The merger is expected to introduce more competition into the telecoms industry, as part of the overhaul planned by the State-owned Assets Supervision and Administration Commission of the State Council, and the Ministry of Industry and Information.

China Unicom also announced that it had signed a deal with China Telecom, the country's largest fixed-line operator, to sell its code-division multiple access (CDMA) operations and network for 100 billion yuan (US$ 14.49 billion).

The new China Unicom, by incorporating China Netcom, will focus on its global system for mobile communications (GSM). China Unicom originally operated both mobile networks.

China Unicom said that following the CDMA sale, the company would be able to concentrate on development of its GSM technologies for the third-generation high-speed wireless services (3G).

China Mobile Communications Corporation, the first to reveal the broader plan for the whole industry, on 23rd May released plans for its acquisition of fixed-line operator China Tietong Telecommunications Corporation (China Tietong).

Analysts believe that the five state-owned companies in the telecom sector, China Mobile, China Telecom, China Unicom, China Netcom and China Tietong, will be restructured into three groups, each able to provide both mobile and fixed-line services.

They had also expected the restructuring to give impetus to the country's preparation for the long-awaited 3G technologies, which requires huge investment.

[Source: People's Daily Online](http://english.people.com.cn/90001/90776/90884/6423036.html) ([see archive](China_Unicom_unveils_details_of_merger_with_China.pdf))

### China Merchants Bank acquires Hong Kong's Wing Lung

China Merchants Bank Company, the mainland's fifth largest listed bank, will acquire control of Wing Lung Bank Limited, a family-run bank in Hong Kong, Merchants Bank said in a statement on 2nd June.

The Shenzhen-based bank signed an agreement with Wing Lung on 30th May to buy a 53.1 per cent stake at HK$156.50 (US$20.05) per share, in a cash deal costing Merchants Bank 17.2 billion yuan (US$2.48 billion).

Merchants Bank was suspended from trading in Shanghai on 2nd June because of the acquisition, it said.

Acquiring a controlling stake of Wing Lung, which has 35 branches in Hong Kong, will help Merchants Bank boost its business in Hong Kong and catch up with rivals Industrial and Commercial Bank of China (ICBC) and Bank of China in the city.

"The acquisition is a significant step for China Merchants Bank to build its franchise overseas," said Wang Yihuan, a Beijing-based banking analyst at China Asset Management Company.

ICBC and Australia & New Zealand Banking Group Limited have also made offers for Wing Lung, but Merchants Bank beat them by paying 3.1 times the book value of Wing Lung.

The stake deal, also the bank's first overseas acquisition, reflects the bank's determination to expand outside the mainland, analysts said.

Merchants Bank has only one branch in Hong Kong, while Bank of China, the mainland's third largest lender by market value, has more than 280 branches and ICBC has more than 40.

Acquiring Wing Lung is a convenient way for Merchants Bank to open branches in Hong Kong, analysts said.

Merchants Bank plans to make a general offer to other shareholders for the entire company after sealing the deal.

Wing Lung, founded in 1933 with registered capital of US$5,700, has US$12 billion of assets. Chairman Michael Wu owns 24.9 per cent of the bank, while Vice-Chairman Patrick Wu and CEO Philip Wu own 28.2 per cent, according to the bank's annual report.

Wu's family will sell off the combined 53.1 per cent stake.

Wing Lung reported a first-quarter loss on 30th April after writing off US$61 million investment in collateralised debt obligations and structured investment vehicles.

Merchants Bank, based in Shenzhen, has 570 branches on the mainland.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-06/03/content_6730856.htm) ([see archive](China_Merchants_Bank_acquires_HKs_Wing_Lung.pdf))

### Easier way into rural areas for banks

China plans to make it easier for foreign banks, such as HSBC Holdings Plc, to set up rural operations as the government seeks to boost funding for farmers, sources said.

Overseas banks will be allowed to manage operations in different areas through a single unit or a locally incorporated subsidiary, the sources said, declining to be identified before an official announcement. Banks must now oversee rural businesses through offshore entities with separate teams for each unit.

"This will spare them the trouble of having to either find a management team locally for every rural subsidiary or send experienced bankers from outside China," said Roy Zhang, a Shanghai-based banking lawyer and partner at King & Wood, one of China's largest law firms. "It helps contain costs and makes management much easier."

China Banking Regulatory Commission (CBRC) will initially let two or three foreign financial firms operate under the new rules in a pilot program, the sources said. Current rules will not be formally revised until after the program is evaluated.

China first eased rural banking rules in December 2006, allowing foreign firms such as HSBC and Citigroup Inc, along with local investors, to establish rural banks and loan companies in selected areas.

HSBC, Europe's biggest bank by market value, set up a rural bank in Suizhou, in Hubei province, in December, the only foreign-owned countryside lender so far.

Citigroup, which has recorded more than US$40 billion of credit losses and write-downs since the US subprime mortgage market collapsed, plans to set up at least 10 rural banks and loan firms in China, Zang Jingfan, CBRC's cooperative finance head, said in October.

HSBC will open a second rural bank in China in the third quarter of 2008, Executive Director Peter Wong said in Beijing recently. Wong, chairman of HSBC's rural bank in China, said running a countryside lender from outside the nation hasn't led to difficulties. "We operate our China rural banking operations out of Southeast Asia, which is very familiar with Chinese culture and ways of doing business," he said in an interview.

[Source: People's Daily Online](http://english.people.com.cn/90001/90776/90884/6419738.html) ([see archive](Easier_way_to_countryside.pdf))

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