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# China News Alert Issue 251

## Capital Markets

### CIRC allows two additional commercial banks to sell insurance policies

The Bank of China and China Minsheng Banking Corporation have been given the go-ahead to sell insurance policies, the China Insurance Regulatory Commission (CIRC) confirmed recently.

The two commercial banks join the mainland's Industrial and Commercial Bank of China and China Construction Bank, and Hong Kong's Hang Seng Bank and Bank of East Asia, on the list of banks providing insurance.

Insurance premiums through bancassurance channels grew 153 per cent in the first half of 2008, accounting for more than half of the total premiums for life insurance.

"Bancassurance is expected to grow much more rapidly as more commercial banks are permitted to sell insurance products," said Wang Xiaogang, an analyst with Orient Securities Company Limited.

But the CIRC has warned against the risks that an unduly fast growing investment-oriented insurance sector might produce, including the weakening of insurance companies, uncertain investment risks, and the possible mass withdrawal of insurance funds.

Insurance premiums amounted to 561.79 billion yuan (US$80.3 billion) nationwide in the first half of this year, a growth of 51 per cent over the same period of last year. The total included 431.86 billion yuan in life insurance, up 64 per cent. Of the life insurance premiums, 79 per cent came from investment-oriented policies, up 0.9 per cent, according to the CIRC.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20080724/14986740.html) ([see archive](CIRC_allows_2_more_commercial_banks_to_sell_insurance_policies.pdf))

### Central bank governor stresses regional financial cooperation

Zhou Xiaochuan, the People's Bank of China (PBOC) governor, stressed the importance of regional financial cooperation at the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) held recently in Xi'an, Shaanxi province.

Zhou said that the East Asia and the Pacific region had witnessed the world's fastest economic growth in recent years and trade and financial ties had become increasingly closer, according to a PBOC website statement.

He added that this trend called for greater efforts to be put into information exchange and cooperation among central banks to maintain financial stability, boost financial market development and improve financial infrastructure.

Top bankers from the region covered a range of topics at the meeting including regional financial development, the influence of the European and United States financial situation and inflation pressure from surging energy and food prices.

Zhou pointed out that, amid the background of deepening economic globalisation, central banks in Asia and the Pacific region should give full play to the EMEAP platform to discuss solutions for maintaining regional financial stability and boosting its healthy development.

Founded in 1991, the EMEAP has evolved into the most important central bank cooperation organisation in this region.

Its members include central banks and monetary authorities from China, Japan, Australia, Hong Kong Special Administrative Region, Indonesia, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-07/29/content_6885825.htm) ([see archive](Central_bank_governor_stresses_regional_financial_cooperation.pdf))

## Corporate & Commercial

### Chinese mainland and Hong Kong sign expanded economic accord

The Chinese central government and the government of the Hong Kong Special Administrative Region (HKSAR) recently signed Supplement V to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), which will allow Hong Kong enterprises greater and easier access to the mainland market.

The supplement was the fifth supplement to CEPA, which has expanded each year since it was first signed in 2003. The supplement was signed by John Tsang, financial secretary of the HKSAR government, and the central government's Vice Minister of Commerce, Jiang Zengwei, at a ceremony witnessed by HKSAR Chief Executive, Donald Tsang.

Donald Tsang said the new economic accord, which comes into force on 1st January 2009, will introduce 29 measures that will build on the liberalisation of 15 service sectors and open two more mining-related service sectors to Hong Kong businesses.

The total number of service sectors covered by CEPA and its supplements will expand from 38 to 40, Jiang said. Under the agreements, the mainland has agreed to exempt tariffs for all products of Hong Kong origin and allow preferential treatment to Hong Kong service suppliers in the service sector.

Donald Tsang welcomed the new agreement, adding that Hong Kong and the neighbouring mainland province of Guangdong have agreed to carry out a package of pilot measures.

"The current CEPA package and the Guangdong pilot measures will offer new business opportunities in the mainland for Hong Kong businesses and service suppliers, making Hong Kong even more attractive to overseas investors," he said.

Under the expanded agreement, enterprises set up by Hong Kong suppliers of convention and exhibition services in Beijing, Tianjin, Chongqing and Zhejiang will be allowed to organise overseas exhibitions on a pilot basis.

Mainland-incorporated banking institutions established by a Hong Kong bank will be allowed to locate their data centre in Hong Kong, subject to certain requirements.

In the construction industry, restrictions on the proportion of capital contributed by mainland partners in joint ventures in the mainland will be removed. Hong Kong service suppliers will be allowed to establish wholly-owned private non-enterprises to operate welfare agencies for the disabled in Guangdong.

The validity of temporary licenses for Hong Kong accounting firms to conduct auditing will be extended from two years to five years, and an examination center in Hong Kong for mainland accounting qualification tests will be allowed in Hong Kong.

Among other measures, Hong Kong permanent residents with Chinese citizenship will be allowed to sit mainland tourist guide qualification exams.

The central government and the HKSAR government also signed agreements on cooperation in trademark protection as well as in the field of accounting.

The two sides agreed to launch 25 pilot measures specially for facilitating economic cooperation between Hong Kong and the neighbouring mainland province of Guandong. Some of the measures were included in the CEPA Supplement.

In tourism, short-term visits to Hong Kong will be made easier for residents of Guandong province, and mainland-authorised Hong Kong travel agencies will be allowed to organise group tours to Hong Kong Disneyland for non-Guangdong residents who have lived in Shenzhen and worked with local firms for over a year.

Hong Kong medical and dental service suppliers will be allowed to set up wholly-owned outpatient clinics in the neighbouring mainland province of Guangdong.

Approval authority for certain activities, including setting up schools for children of Hong Kong residents, has been delegated to the Guangdong provincial government.

The CEPA agreements have injected momentum into the Hong Kong economy over past years by facilitating human, goods and capital flow between Hong Kong and the mainland. From CEPA in 2003 to its Supplement IV last year, 192 liberalisation measures had been implemented covering 38 sectors such as legal, accounting, construction and medical.

Two thirds of the measures allow Hong Kong businesses national treatment.

The CEPA agreements have "created 36,000 new jobs in Hong Kong, and 16,000 in the mainland," in addition to increased investments in both, Donald Tsang said.

Hong Kong has been the leading trade partner for Guangdong province and bilateral trade exceeded US$130 billion in 2007. The pilot measures for Guandong and Hong Kong will no doubt speed up economic integration in the region, he added.

The chief executive encouraged the Hong Kong business community to make the best of the opportunity and develop plans to explore the mainland market, especially Guangdong.

Jiang Zengwei said the CEPA agreements could help strengthen the role of Hong Kong as an international financial, trade and aviation hub. "It is in line with Hong Kong's need to develop modern service industries, and will benefit the Hong Kong economy," he said at the signing ceremony.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-07/29/content_8835431.htm)([see archive](Chinese_mainland_Hong_Kong_sign_expanded_economic_accord.pdf))

### SAIC to provide substantial support for the development of the service industry

China's State Administration for Industry and Commerce (SAIC) emphasised on 28th July that enterprises in the service industry will be entitled to uniform registration standards, registration procedures and requirements for business access, rather than those diversified for domestic and foreign enterprises or local enterprises and enterprises from other administrations.

According to the ‘Several Opinions on Accelerating the Development of the Service Industry', individuals and private operators are allowed to operate service industries and projects that are not prohibited by laws and administrative regulations.

The SAIC also allows enterprises in the service sector to include various newly arising industry terms to indicate their service content in their industrial statements.

The SAIC specified that the minimum registered capital of ordinary enterprises in the service sector will be lowered to RMB 30,000 unless otherwise stipulated by laws and administrative regulations.

The administration will also allow investors to make contribution with non-monetary property, such as intellectual property, to set up service-based enterprises, which may account for 70 per cent of the total registered capital.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4416) ([see archive](SAIC_to_Provide_Substantial_Support_for_the_Development_of_the_Service_Industry.pdf))

### High-tech enterprises may be entitled to tax incentives after re-recognition

High-tech enterprises located either within or outside national high-tech industry development areas and with a high-tech enterprise qualification recognised prior to the end of 2007, may be entitled to preferential enterprise income tax policies in line with rules outlined under the Enterprise Income Tax Law and its implementing rules, once they re-qualify as a high-tech enterprise under new rules.

According to the ‘Guidelines for the Administration of Recognition of High-tech Enterprises' released recently by China's Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation, enterprises must complete registration for recognition as high-tech enterprises after they conduct self-appraisals and submit application materials.

Experts at relevant recognition institutions will examine applications within 60 working days upon the receipt of application materials from enterprises.

If no disagreement is raised during the public notification period, the said enterprises may be issued with a "High-tech Enterprise Certificate" by the recognition institutions.

Qualifying high-tech enterprises can apply for the entitlement to tax incentives in line with rules outlined under the Enterprise Income Tax Law and the ‘Implementing Rules of the Enterprise Income Tax Law of the People's Republic of China'.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4397) ([see archive](High-tech_Enterprises_May_be_Entitled_to_Tax_Incentives_after_Re-recognition.pdf))

### China to restructure major SOEs after Olympic Games

China will restructure centrally administered state-owned enterprises (SOEs) after the Beijing Olympics, State-owned Assets Supervision and Administration Commission chief, Li Rongrong, said recently. Li also told SOEs to limit their investment scale to reduce risks and said that mergers and acquisitions in SOEs should be strictly controlled.

SOEs owned by the central government should have a "reasonable" debt ratio while self-owned capital should be no less than 40 per cent in any investment, said Li. Also, SOEs should closely monitor all investment and limit non-core and high-risk projects.

After the Beijing Olympics, the commission will strengthen restructuring among centrally administered SOEs. "Centrally administered SOEs should definitely be industry leaders, at least ranking among the top six in their field," Li said. "Those who fail to meet the standard will be restructured."

Centrally administered SOEs include China's largest oil producer PetroChina Company and Baoshan Iron & Steel Company.

After consolidation over the past few years, the number of SOEs has been cut to 149 from 196.

In the first half of 2008, the sales revenue of China's centrally administered SOEs jumped 25.7 per cent to 5.77 trillion yuan (US$84.6 billion). The growth was 5.4 per cent higher than the same period last year.

Profit from these SOEs, however, was down 10.3 per cent year-on-year to 425.6 billion yuan in the first half of 2008.

Li demanded SOEs pay close attention to cost and risk control as well as fund management, and to weather challenges such as weaker external demand, stronger yuan and surging prices of primary commodities.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/?id=367940&type=Business) ([see archive](China_to_restructure_major_SOEs_after_Olympic_Games.pdf))

### China to help unemployed start businesses

China's Ministry of Finance (MOF) announced recently that the government has suspended, for three years, administrative fees for unemployed people who register their own individually-run businesses.

"The disabled, ex-servicemen and graduates without employment two years after graduation are also entitled to enjoy this preferential policy," said the ministry in a circular jointly-released with the National Development and Reform Committee, the top economic planner.

The waived charges include license registration fees levied by industry and commerce administrations, tax registration fees by tax authorities, health check fees by health administrations and vocational training certificate fees by human resources and social security agencies.

The ministry also called on local finance and market price watchdogs to step up efforts to carry out the preferential policy, which is intended to help create jobs.

The circular did not indicate whether the suspension would be extended beyond 2011.

The country's urban registered unemployment rate stood at 4 per cent last year, down 0.1 per cent from 2006. The government promised in February to help 10 million urban dwellers find jobs this year.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-07/29/content_6885900.htm) ([see archive](China_to_help_unemployed_start_businesses.pdf))

### New rule to regulate firms' foreign contracts

Chinese companies will face fines of up to 1 million yuan (US$146,000) if they undertake contracts abroad without official approval, under a new regulation issued recently.

The regulation from the State Council was signed by Premier Wen Jiabao and sets out fines of 500,000 to 1 million yuan for firms that fail to obtain "international contractor" qualifications.

"Besides safeguarding China's national interests and protecting the legitimate rights of the employees sent abroad, China's international contractors should also comply with the laws in the host nations or regions," said the regulation, which takes effect on 1st September.

It stresses the importance of respecting local customs, protecting the regional environment and helping to develop local economies.

Centrally-administered state-owned enterprises must apply to national commerce departments for qualification assessment, and other firms should apply to their local commerce departments.

The commerce authorities will formulate a risk analysis appraisal system to track and warn Chinese contractors against any dangers and risks in the countries or regions where they operate.

The contractors must sign labour contracts with employees sent abroad, and provide reasonable working conditions, payment and accident insurance.

The regulation also prohibits contractors from securing international projects through corruption or other illegal practices.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-07/28/content_6884497.htm) ([see archive](New_rule_to_regulate_firms_on_foreign_contracts.pdf))

## Other

### Hong Kong's mainland investment up 95%

Hong Kong Special Administrative Region investment in the Chinese mainland in the first half of 2008 nearly doubled in value from a year earlier, the Ministry of Commerce reported recently, although it's unclear how much of this investment was actually speculative funds or so-called "hot money".

From January to June 2008, the Chinese mainland approved the establishment of 6,900 Hong Kong-invested projects, down 8.2 per cent year-on-year, but investment actually used rose 94.5 per cent to US$23.39 billion.

Given the close trade and economic ties between the Hong Kong Special Administrative Region and the Chinese mainland, analysts said that at least some of the investment might be speculative funds.

This is because the amount invested surged while the number of projects fell at a time when numerous foreign-funded processing enterprises were closing in the Pearl River Delta, adjacent to Hong Kong, according to professor Ding Zhijie with the Beijing-based University of International Business and Economics.

Ding said that given the close Hong Kong-Chinese mainland relationship, it was much easier for "hot money" seeking to profit from interest and exchange rate differentials, to enter the Chinese mainland through Hong Kong.

Also, he said, "in comparison with other channels, it is much easier for speculative funds that entered the Chinese mainland in the form of direct investment from Hong Kong to leave. This can be more hazardous."

China has recently tightened control over foreign direct investment (FDI) and intensified scrutiny of investors' credentials. The aim is to curb the influx of short-term speculative funds, which has added to the inflationary pressure on the Chinese mainland.

According to the Ministry of Commerce, as of the end of June 2008, the Chinese mainland had approved the establishment of 292,663 Hong Kong-funded projects, involving US$331.93 billion of actually used capital, or 40.7 per cent of the total FDI used in the Chinese mainland.

These figures are cumulative since 1978, the start of the reform and opening-up polices on the Chinese mainland.

Chinese mainland-Hong Kong trade was US$97 billion in the first half of 2008, up 8 per cent year-on-year. The total included US$90.65 billion in exports to Hong Kong, up 7.8 per cent, and US$6.35 billion in imports from Hong Kong, up 9.8 per cent.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-07/24/content_6874761.htm) ([see archive](HKs_mainland_investment_up_95_in_H1.pdf))

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