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# China News Alert Issue 258

## Capital Markets

### Central bank cuts credit interest rate and reserve requirement ratio

China's central bank said recently that it will reduce the benchmark loan interest rate and the reserve requirement ratio for commercial banks to ensure steady and rapid economic growth.

The benchmark interest rate for one-year yuan denominated loans will be reduced by 0.27 percentage points as from 16th September, its first downward movement since October 2004.

In addition, the ratio of deposit that lenders are required to set aside will be lowered by 1 percentage point from 25th September, the People's Bank of China said.

However, the country's major lenders will be exempt from the reserve requirement ratio adjustment. They include the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank, the Bank of Communications and the Postal Savings Bank of China.

The reserve requirement ratio will be reduced by 2 percentage points for local financing institutions in areas badly hit by the 12th May Wenchuan earthquake, the central bank said.

After adjustment, the interest rate for one-year loans in the Chinese currency will be 7.2 per cent. The overall reserve requirement ratio will be 16.5 per cent, down from a record 17.5 per cent after five consecutive increases this year.

The move reflects the government's concern over the slowing economy and is a result of long-time consideration, said Zhuang Jian, a senior economist with the Asian Development Bank Resident Mission in China.

"It shows the government is eager to maintain economic growth as enterprises face difficulties, especially funding strain. The eased inflationary pressure also provides more room and time for the adjustment."

China has reported that its consumer price index in August 2008 rose 4.9 per cent from a year ago, down from the 12-year high of 8.7 per cent in February and the lowest since July 2007.

There has been long debate in China over whether the government should loosen its tight monetary policy as its economy slowed, Zhuang said.

The country started to adopt a tight monetary policy in the second half of 2007 to curb inflation. Its gross domestic output posted a year-on-year growth of 10.4 per cent in the first half of 2008, 1.8 percentage points lower from the same period last year.

"The news will bolster investor confidence in China's economy and somewhat offset the impact of the bad news in the U.S.," Tang Min, the China

Development Research Foundation deputy secretary, said. He was referring to reports that U.S. investment bank Lehman Brothers had filed for bankruptcy protection while its rival Merrill Lynch agreed to be taken over.

"The central bank has provided a large gift," said Tang. "The lending rate was cut by 1 percentage point this time, much larger than the usual 0.5 or 0.25 percentage points in previous adjustments."

However, Tang said officials still intended to keep liquidity in check as the deposit interest rate would stay the same.

Zhuang told Xinhua that China was prudent in the policy adjustment. "The government still places priority on controlling inflation as the deposit reserve ratio has not been lowered for the top four lenders."

This action will also give small- and mid-sized banks an advantage in extending loans and will benefit small enterprises, which are the main customers of these banks and had suffered most in the past year, he said.

China's gross domestic product has slowed for four consecutive quarters up to June 2008. Its export growth fell 5.3 percentage points year on year to 22.4 per cent in the first eight months of 2008.

The central bank said its move was to "solve prominent problems in the current economic operation, implement different policies for different needs, optimise the economic structure, and ensure steady, rapid and sustained development."

The adjustment will show its effect in the next two to three months and further action will depend on how the economy reacts, Zhuang said.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200809/t20080916_1586377.html) ([see archive](Central_Bank_Cuts_Credit_Interest_Rate_Reserve_Requirement_Ratio.pdf))

### China to adopt new methods to value suspended stocks amid market slump

China's fund management companies will adopt new methods such as incorporating industry indexes to value suspended stocks, China's securities regulators said recently.

The move is aimed at preventing abnormally high prices of suspended stocks, which resume trading amid a market slump.

Before the move took effect, the price of a stock that had just resumed trading was calculated by its price on the last trading day before the suspension.

An official with the China Securities Regulatory Commission (CSRC) said that fund management companies were asked to adopt proper methods of valuing suspended stocks to ensure the fairness and transparency of the valuation process. The recent market downturn would probably make them adopt industry indexes on both stock exchanges as they were more objective and transparent.

He said the new method could temporarily reduce the net asset value of some stock funds. But it would standardise the valuation process and would not lessen the internal value of those suspended stocks.

The CSRC are studying the exiting regulations on stock suspension to prepare for further amendments, he added.

[Source: People's Daily Online](http://english.people.com.cn/90001/90776/90884/6499697.html) ([see archive](China_to_adopt_new_methods_to_value_suspended_stocks_amid_market_slump.pdf))

## Corporate & Commercial

### State asset rules greeted

Legal experts welcomed new rules published recently on the punishment of managers of State-owned enterprises responsible for huge losses of State assets.

However, the rules still need to be made more practicable in order to properly safeguard assets, worth around 30 trillion yuan, they agreed.

Senior executives of China's 147 centrally administered State-owned enterprises (SOEs) will face a permanent ban from their management posts or even be removed from their company if found responsible for severe losses, the State-owned Assets Supervision and Administration Commission (SASAC) said in a statement.

Managers responsible for misconduct in areas such as procurement, sales, investment, guarantee, asset transfer and corporate restructuring will face measures including warnings, fines, demotion or even dismissal if their businesses run up severe losses.

The draft State asset law, reviewed for a second time by the nation's top legislature in June 2008, stipulates that managers responsible for major losses will be banned for life from taking up posts including board director, supervisory board member or high-ranking executive.

"Even if it is finally passed, the law can only set out some principles," said Li Shuguang, a law professor at China University of Politics and Law.

The new rules spell out 50 situations causing economic losses that will lead to the punishment of company executives, including irregular practices in daily operation.

Both direct and indirect losses will be calculated to assess executives' performance.

For example, if an executive, who is only entitled to make investments of up to 200 billion yuan, actually invests 500 billion yuan in a project, he will be punished according to the new rules, Li said.

"Some conduct is not so serious as to be subject to civil or penal clauses and the new rules will deal with these."

"Someone must be held responsible for the loss of State assets," he said.

According to the rules, former executives cannot escape liability if they are found responsible for the losses after they leave their posts.

The rules, however, do not clarify who should have the power to punish; it is not clear whether it is the corporate board or SASAC, said Zhang Huiming, a researcher with Fudan University's corporate research institute.

China recently cut the number of its centrally administered State enterprises to 147 after two rounds of restructuring.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200809/t20080912_1585175.html) ([see archive](State_asset_rules_greeted.pdf))

### SMEs to get benefit package soon

The Ministry of Finance will "soon" draft special rules requiring local governments to buy more products from small and medium-sized enterprises (SMEs).

Funding to SMEs will be increased significantly to help them cope with the tightening credit situation and falling global demands, the ministry said recently.

The ministry will earmark 3.51 billion yuan (US$512 million) worth of special funds to help the growth of SMEs, which will also enjoy preferential tax policies. However, it did not say when exactly the new government procurement rules would be announced.

Analysts said the new rules would change the prevailing situation in which governments shun SMEs to buy goods from big companies.

The country has about 40 million SMEs, including those run by individuals. They have become the national economy's most dynamic factor, accounting for about three-fourths of the urban labour force. Due last year's tightening monetary policy, aimed at reining in the runaway economy, it has become difficult for vulnerable SMEs to obtain bank loans.

Moreover, demand for their products has fallen, thanks to the slowing of economic growth from 11.9 per cent in 2007 to 10.1 per cent in the second half of 2008. The drop in exports, as a result of this year's gloomy global economy, has made things even worse.

The central treasury has also given financial help to enterprises facing multiple problems.

Of the 3.51-billion-yuan support package, 500 million yuan (US$73 million) will go into helping SMEs acquire state-of-the-art technology. This year's amount is 25 per cent more than last year's.

A total of 200 million yuan (US$29.2 million) of the technology development fund will be used to subsidise institutions that guarantee SMEs will receive bank loans, the ministry said.

The SMEs' technological innovation fund will get 1.4 billion yuan (US$204.4 million), up 27.3 per cent from 2007.

The ministry will use 1.2 billion yuan (US$175.2 million), up 20 per cent, to help SMEs tap the international market by providing them with information and helping them go through the often complicated global certification process.

The ministry imposes a 20 per cent tax on SMEs with low profit levels, and has cut the tax rate for high-tech SMEs to 15 per cent, according to the newly promulgated corporate tax law.

The government passed a unified corporate tax law for domestic and overseas companies in March 2008, imposing a flat tax rate of 25 per cent on them. Before that, domestic enterprises had to pay 33 per cent tax.

The law stipulates that high-tech firms and small enterprises with marginal profits will enjoy preferential tax rates.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200809/t20080912_1585162.html) ([see archive](SMEs_to_get_benefit_package_soon.pdf))

### China raises requirements on foreign investment in telecommunications

China's State Council announced on 12th September the revised 'Administrative Provisions on Foreign-invested Telecommunications Enterprises' (Provisions), which has raised the registered capital of foreign investment in nationwide or cross-province fundamental telecommunications businesses to RMB 2 billion from the original RMB 1 billion.

According to the revised Provisions, if foreigners invest in and operate provincial fundamental telecommunications businesses, they must have a registered capital of RMB 200 million rather than previous RMB 100 million. However, registered capital required for value-added telecommunications businesses remain unchanged.

The revised Provisions removes the clause for feasibility research reports by foreigners for their investment in telecommunications businesses and the rule that domestic telecommunications enterprises must have their offshore listings approved by the competent information industrial authorities of the State Council.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4701) ([see archive](China_Relaxed_Requirements_on_Foreign_Investment_in_Telecommunications_Businesses.pdf))

## Other

### China's Commerce Ministry to hold hearing on Coke offer for Huiyuan

China's Ministry of Commerce will hold a hearing on Coca Cola's US$2.4 billion offer to buy China's largest juice maker, Huiyuan, a local newspaper said recently.

Domestic juice producers will jointly submit to the ministry three new acquisition plans for Huiyuan to replace the Coke deal, the Beijing Morning Post cited an unnamed source as saying.

According to these plans, Huiyuan could be split and sold to Chinese enterprises separately, or be purchased by a yuan-denominated fund jointly set up by domestic companies. Another proposal was to accept the Coke-Huiyuan union but retain the Huiyuan brand and sell it to Chinese companies.

Coca Cola said on 13th September that it has offered to buy China Huiyuan Juice Group Limited, a Hong Kong-listed company that owns the Huiyuan juice business throughout China, for the equivalent of US$2.4 billion in cash. If successful, it would be the second-largest acquisition in the U.S.-based company's history.

Three major shareholders of Huiyuan are said to have accepted the offer. They hold approximately 66 per cent of Huiyuan shares. But the offer needs to be approved by the Ministry of Commerce according to the newly-issued Anti-Monopoly Law.

[Source: People's Daily Online](http://english.people.com.cn/90001/90776/90884/6499566.html) ([see archive](Chinas_Commerce_Ministry_to_hold_hearing_on_Coke_offer_for_Huiyuan.pdf))

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