Charltons - China News Alerts Newsletter - 07 July 2009

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# China News Alert Issue 296

## Capital Markets

### Renminbi trade rule comes into effect

China's central bank recently released a rule permitting companies in selected cities to settle cross-border trades using the yuan, as part of efforts to reduce reliance on the US dollar for international trade.

Banks will be able to offer yuan settlement services from now on, PBOC said in a statement on its website. It said tax authorities were working on the specific regulations for rebates.

The move, it claimed in the statement, would likely reduce companies' exposure to foreign exchange risks, increase liquidity in foreign trade and cut transaction costs.

"Companies in China and neighbouring countries are facing relatively huge risks in exchange-rate fluctuations because of big swings in the US dollar, the euro and other major settlement currencies in the wake of the global financial crisis," the central bank said.

In April the government said that it would allow Shanghai and four cities in southern Guangdong province―Shenzhen, Guangzhou, Zhuhai and Dongguan―to settle international trade in the yuan on a pilot basis. Companies in these cities, and elsewhere, currently have to convert yuan into US dollars or other currencies to settle their export-import bills.

The central government approved the use of the yuan to settle cross-border trade with Hong Kong on 29 June. The first transaction will start this month, according to Hong Kong Monetary Authority Chief Executive, Joseph Yam, who signed a supplementary agreement with central bank Governor, Zhou Xiaochuan, on the same day.

About 50 per cent of Hong Kong's trade with the mainland may be settled in yuan after the programme starts, Stanley Wong, deputy general manager at Industrial & Commercial Bank of China (Asia) Limited, said in a May interview reported by Bloomberg. Hong Kong companies want to use the yuan for trade because they expect it to appreciate against the US dollar by more than 3 per cent annually, he said.

"Hong Kong companies will be very active in yuan settlement trade, and this will help boost the city's financial industry," Ba Shusong, a researcher with the Development Research Center of the State Council said.

Sun Lijian, a professor with Fudan University agreed, saying Hong Kong could act as an offshore financial center that is strong in renminbi and renminbi-denominated securities trading if and when the current foreign exchange mechanism is further reformed.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/03/content_8350939.htm) ([see archive](Renminbi_trade_rule_comes_into_effect.pdf))

### Ministry to encourage foreign firms to list in China

China will develop policies to allow overseas firms to list in China amid efforts to stabilise foreign direct investment, Vice Minister of Commerce, Chen Jian, said recently.

"The country will research and roll out policies on domestic initial public offerings (IPOs) by foreign-funded firms to encourage high-quality overseas firms to list in China," Chen said at a press conference in Beijing for the 13th China International Fair for Investment and Trade.

However, Chen did not say when such policies would be implemented.

Chen also said the ministry is working with other departments to come up with measures to stabilise the flow of foreign direct investment (FDI). "The country is facing unprecedented challenges and difficulties in attracting foreign direct investment," Chen said.

The amount of used FDI in China declined 20.4 per cent year on year in the first five months of 2009, with monthly figures falling for eight consecutive months up to May 2009.

Chen said measures may include more transparent policies, standard and efficient administration services, and support for foreign firms assisting China's economic restructuring, employment expansion, regional development, energy conservation and environmental protection.

He added the country remained a preferred destination for FDI, despite the fact that China has received less FDI in the first half of this year than the same period last year, without giving a specific figure.

In May 2009, FDI into China fell 17.8 per cent to US$6.38 billion. The ministry is expected to release the June 2009 figure in mid July.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-07/02/content_11639099.htm) ([see archive](Ministry_says_to_encourage_foreign_firms_to_list_in_China.pdf))

## Corporate & Commercial

### State firms urged to increase dividends

State-owned enterprises (SOEs) have been urged to give minority shareholders a fair deal by issuing more dividend payouts, thereby setting an example for other listed companies.

For years, publicly-traded companies, most of which are majority owned by the State, have always been wary about paying dividends, chiefly because the management's major concern was to conserve capital to finance growth.

This has become a hotly debated issue as the Chinese stock market is drawing in more and more funds from institutional investors, especially pension funds, which count dividend income as an important source of regular income.

Noting that SOEs have been more generous in payouts, Li Rongrong, minister of State-owned Assets Supervision and Administration Commission (SASAC), said that was not enough. "We will try to encourage more listed SOEs to pay cash dividends," said Li.

It is quite common for listed companies to skip dividends, denying minority shareholders a share of the profits.

Only 249 listed companies posted a loss in 2008, yet 726 firms, or nearly 45 per cent, did not pay dividends to shareholders, according to financial data provider Wind Info.

Shenyang Jinbei Automotive Company Limited, which has not paid dividends for 15 years, has become the butt of jokes on the Internet. It's nicknamed "the miser" by investors and scoffed at by analysts and bloggers.

According to global risk management consultancy Protiviti, only about one-tenth of listed Chinese companies pay dividends regularly. The ratio of cash dividend to net profit of companies listed on the mainland has remained much lower than those in mature markets.

"The ratio of cash dividend to net profit by Chinese listed companies was 29 per cent in recent years, while the ratio was around 50 per cent in mature markets, such as Japan and Britain. There is still much room for Chinese listed companies to improve," said Christopher Low, president of Protiviti Greater China.

Listed companies should take the responsibility to offer stable investment returns to shareholders, which will benefit the long-term development of the company and help build a healthy capital market, Low said.

China's policymakers have tried to roll out policies to encourage long-term investment and reduce market volatility.

In October 2008, the China Securities Regulatory Commission (CSRC) required listed firms applying for refinancing to pay dividends in cash totaling no less than 30 per cent of its distributed profits over the past three years.

The CSRC have been trying to abolish the stock dividend tax since February 2004. However, parties have yet to reach a consensus. The current tax rate for dividends remains at 20 per cent. "Once the stock dividend tax is abolished, key shareholders of listed companies may have fewer disputes over the cash dividend payout. Therefore, more cash dividend payment plans are likely to be passed at board meetings," said Zhao Xijun, a professor at Renmin University of China.

"The dividend payment status also reflects the growing process of a capital market. The proportion of listed companies that pay cash dividends is increasing year after year," said Li Daxiao, director of the research department at Yingda Securities.

According to statistics, in 2005, about 38 per cent of the companies that were listed on the domestic market paid cash dividends. In 2006, this proportion increased to 45 per cent. It reached 50 per cent in 2007.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/02/content_8345700.htm) ([see archive](State_firms_urged_to_do_more_dividend_spread.pdf))

### Beijing to subsidise new transnational company headquarters

Transnational corporations that establish new headquarters in Beijing will receive government subsidies of up to 10 million yuan (US$1.47 million), according to a new regulation issued by the Beijing Municipal Commission of Commerce.

The government will pay 30 per cent of the company's office building rent in the first year. For those who build or buy their own office buildings, the government will offer a subsidy of 1,000 yuan (US$147) per square meter.

Among the newly-headquartered companies, those with an annual business revenue of over 1 billion yuan (US$147 million) will also receive prize money of up to 10 million yuan (US$1.47 million). One chief director from each corporation will receive 1 million yuan (US$147,000) in prize money from the municipal government.

Other preferential policies for transnational companies include a Beijing “hukou” (permanent residence permit) for senior Chinese executives regardless of age or education level. Foreign high-ranking executives will automatically receive five-year resident cards.

[Source: China Daily](http://www.chinadaily.com.cn/china/2009-06/29/content_8336361.htm) ([see archive](Beijing_to_subsidize_new_TNC_headquarters.pdf))

## Real Estate

### Law on rural land disputes meditation to help ensure stability

China's top legislature has recently adopted a law on the mediation and arbitration of rural land contract disputes, aiming to help settle conflicts that affect rural stability.

President Hu Jintao signed a decree to publish the law.

The law, to take effect on 1 January 2010, will help "settle disputes concerning rural land contract management in a timely and just manner" to ensure farmers' rights and promote the rural economy and social stability, according to the law.

The law sets out principles related to the use of mediation or arbitration to settle land disputes. When a dispute arises, the parties concerned can reach a compromise on their own, or resort to a village committee or local government for mediation. If reconciliation fails, the parties can apply for arbitration by a local committee or take their case to court.

Under the law, local governments are to set up arbitration committees on rural land contract management disputes at the county or city levels.

The committees will be responsible for hiring arbitrators, hearing disputes and supervising the process of arbitration. They should inform applicants of whether they will accept cases in less than five working days.

The law also specifies that disputes over land expropriation that involve government organisations are not subject to arbitration and must be resolved through administrative appeals or litigation.

The new law is "an effective guarantee" to ensure farmers' land contract management rights and "an important approach" to safeguard rural stability, Minister of Agriculture Sun Zhengcai said when briefing legislators about the law in December 2008.

The law represents an attempt to standardise the arbitration process, with land contract disputes having become more frequent and varied in recent years. These disputes are addressed as "a factor affecting rural harmony and stability."

Rising land disputes

One of China's basic rural policies is to allocate publicly owned farmland to individual households through long-term contracts on the basis of "household contract management."

Lawmaker Pei Chunliang, director of the Peizhai Village committee in central Henan Province, said in a group meeting deliberating the law that “China's land contract management system faces problems that constrain rural development and affect stability."

More than 50,000 land dispute cases arose in 224 cities and counties across the country from 2003 to March 2008.

Since the end of the 1990s, some Chinese villages have used arbitration to settle disputes. Currently, 23 provincial legislatures have regulations concerning land dispute arbitration.

The Ministry of Agriculture began to conduct pilot programs on land dispute arbitration in 2004, but the arbitration process and procedures were varied and sub-standard due to the lack of a pertinent law.

Under the Legislative Law, a draft law usually takes three bi-monthly legislative meetings to deliberate before being adopted by the top legislature. The law on the mediation and arbitration of rural land contract disputes was first considered in December 2008.

The latest deliberation at the six-day legislative session added "mediation" to the law's title, with a greater focus on reconciliation before conflicts go to arbitration. The law regulates the mediation process in a separate chapter, recommending that local government officials explain laws and regulations to farmers and encourage them to resolve conflicts through mediation.

Disputes over land use have led the Ministry of Agriculture's petition list since 2003, with about 44 per cent of those in 2006 being land-related.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-06/28/content_18027288.htm) ([see archive](Law_on_rural_land_disputes_meditation_to_help_ensure_stability.pdf))

## Other

### China's top legislature adopts revision to statistics law

China's top legislature has recently adopted a revision to the Law on Statistics, which is intended to prevent the falsification of official data.

The revised law, to take effect on 1 January 2010, aims to impose severe penalties on officials who "intervene in government statistical work and manipulate or fabricate data."

The law was enacted in 1983. Under the revised law, government officials and institutional leaders are banned from altering data that statistical workers collect. Statistical workers must retain original records and improve management of data checking, signing, transferring and archiving to ensure the authenticity and credibility of statistics, under the law. Statistical workers are also required to exercise discipline and "keep data unchanged against any interference."

Further, "officials who make willful changes or falsify statistics, ask statistical agencies to fake data or take revenge on staff that refuse to commit such acts will be punished." It adds that those fabricating data to gain honours, material rewards or promotions will receive legal punishment if convicted.

The top legislature found serious data fabrication when inspecting the implementation of the statistics law in recent years. An NPC law inspection report said officials of a town in southwestern Chongqing Municipality asked statistical workers to add a "0" to the production value of a local enterprise, which became "30 million yuan" (US$4.4 million) from the previous "3 million yuan", in order to achieve its annual economic development goal.

Former National Bureau of Statistics (NBS) Director, Li Deshui, revealed in March 2005 that the cumulative gross domestic product data submitted by local governments was 3.9 percentage points higher than the NBS data. The difference was nearly 2.66 trillion yuan.

NBS Director, Ma Jiantang, disclosed last year that acts such as faking statistics and making willful changes in data accounted for about 60 per cent of all violations.

Observers believe that the perceived importance of economic growth, which used to be a metric of official performance, was a major reason for some officials faking statistics.

The ninth session of the Standing Committee of the 11th National People's Congress, the top legislature, closed its latest six-day, bi-monthly session recently.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/27/content_8329657.htm) ([see archive](Chinas_top_legislature_adopts_revision_to_statistics_law.pdf))

### China bars use of virtual money for real goods trading

China has unveiled its first official regulation banning the use of virtual currency in the trade of real goods and services to limit its possible impact on the nation's real financial system.

The government also spells out the definition of ‘virtual currency' for the first time, which includes virtual game prepaid cards, but excludes virtual game items such as costumes and weapons, according to a joint circular issued by the Ministry of Culture and the Ministry of Commerce.

"Virtual currency, which has a certain exchange rate with real money, will only be allowed to be used to trade virtual goods and services provided by its issuer, not real goods and services." it said.

China has the world's largest population of Internet users, with 298 million people online by the end of 2008.

Media reports showed that virtual money trade topped several billion yuan last year after an annual rise of around 20 per cent.

Since 2007, the vibrant virtual money trade has caught the attention of government officials, who demanded tighter controls as it had become a target for gambling and illicit trade under the guise of e-commerce.

Under the new rules, the use of virtual money for gambling will be punished by the public security authority, and those under a certain age are prohibited from buying virtual money.

The Ministry of Culture also vowed to improve control over money laundering via virtual credits, and other illegal online activities.

The most popular Chinese online credits are "QQ coins" issued by Tencent.com, which has at least 220 million registered users. In a media statement, the company said it "resolutely" supported the new rule.

The statement said Tencent had strongly opposed the underground trading of virtual money, which could enable online theft and fraud. According to the statement, the company will work with the authorities to combat online crime.

Cui Ran, an expert on the Chinese online industry, said the regulation aimed to "nip illegal online activities in the bud," as current trading volumes are still too small to shake the nation's entire financial system. But as the trade expands steadily, with increasing conversions between virtual and real money, there will be an impact on the financial system, he noted.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90776/90884/6687729.html) ([see archive](China_bars_use_of_virtual_money_for_real_goods_trading.pdf))

### China's top legislature abolishes eight outdated and redundant laws

China's top legislature recently adopted the nullification of eight laws, including one covering police stations dating back to 1954, as part of an effort to eliminate redundant, contradictory and obsolete laws.

The laws include those covering police stations, urban neighborhood offices, the use of state-owned wasteland and barren hills by overseas Chinese and the establishment of schools with donations by overseas Chinese; four laws that date back to the 1950s.

The other four laws cover taxation, tax evasion, law implementation inspection and cross-border human trafficking. They have been replaced by or contained in later laws.

The eight laws are among the first package proposed for abolishment in more than two decades, experts said.

These laws are "not applicable to the current economic and social development, especially to the needs of a socialist market economy," said Li Shishi, director of the Commission for Legislative Affairs of the NPC Standing Committee, while briefing lawmakers.

The top legislature started streamlining laws last July and "has offered 1,972 clearing-up advisories about more than 200 laws," Li said.

As of 26 June 2008, China had 229 laws, with categories including the Constitution, civil and commercial law, administrative and economic law, and criminal law.

"Some laws are not consistent with each other, while some laws are not feasible or are hard to enforce through state power," Li said.

Zhou Wangsheng of the Beijing University Law School said a mature legal system needed to remove obsolete laws.

Han Deyun, director of the Suotong Law Office in southwestern Chongqing Municipality, said although China's legal system had taken shape, some laws were poorly formulated or not feasible. "Clearing up laws should be a priority" for legislators, Han said.

The top legislature announced the nullification of 111 laws in 1987 in a comprehensive overhaul of laws passed between 1949 and 1978. The State Council has conducted 10 reviews of regulations since the reform and opening-up drive began in 1978.

The ninth session of the Standing Committee of the 11th National People's Congress ended its six-day, bi-monthly session on 27 June.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-06/27/content_11609763.htm) ([see archive](Chinas_top_legislature_abolishes_eight_outdated_redundant_laws.pdf))

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