



MMLC Group – China Update

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Business News

China's steel prices plunge

China's domestic steel prices plummeted an average of 12 percent between October 6 and October 10. That is the biggest single-week decline since the year 2000. Steel hit a record high price of RMB5,960 yuan a ton on June 5, this year.

Soft-drink firm considers bid for Sanlu

The mainland's biggest soft-drink maker, the Hangzhou Wahaha Group, says it has submitted a letter of interest in buying the troubled Sanlu Group, whose products triggered the industry-wide milk contamination scandal. The move makes Wahaha the first company to publicly voice interest in Sanlu, though several mid-sized mainland dairy firms have started positioning themselves to take over the former dairy giant.

China's outsourcing services grow 17%

Chinese companies had signed contracts to provide outsourcing services worth US\$1.9 billion in the first eight months of this year, up 17 percent from the same period last

year, according to the Ministry of Commerce. By the end of August, the number of outsourcing service companies in China was about 1,800 with about 330,000 employees, the Ministry's statistics showed. In 2007, total contracts abroad for outsourced services were worth US\$2.09 billion, up 118 percent over 2005. The government plans to develop 10 outsourcing base cities by 2010 in an effort to build up outsourcing services even further. The cities include Shanghai, Dalian, Xi'an, Shenzhen and Chengdu.

China Eastern-Shanghai Air deal moves forward

A proposed merger between China Eastern Airlines and Shanghai Airlines has been approved in principle by the Shanghai government. The proposal calls for China Eastern to take a 60% stake in Shanghai Air, followed by a cash injection into China Eastern from the State-Owned Assets Supervision and Administration Commission. It is understood that the Chinese government was discussing the possibility of brokering a merger of the two Shanghai-based airlines to create a dominant

player with a 60% share of domestic flights to and from Shanghai.

Even-odd rule to be used in case of heavy pollution

Beijing's environmental protection bureau announced that the city will adopt stricter vehicular restrictions during periods of heavy air pollution. While all cars will be restricted from driving at least one week day depending on the last digit of their license plate numbers, during periods of heavier pollution, an even-odd license plate number rule would ban half the capital's 3.4 million cars from the roads – this system was used during the Olympics.

Reform back on China's post-Olympics agenda

Political reform may be back on the agenda after being sidelined this year by the government's iron-fisted responses to the Tibetan riots in March and security issues associated with the Beijing Olympics, it shows that China will have a form of democracy by 2020. Besides, more time will be needed given the population of the country, educational issues associated with rural residents and cultural issues which are still adverse to democratic rule.

Intel buys into Cleantech Company

Intel Capital, Intel's venture capital arm, has made its first foray into the nation's clean technology sector, purchasing a US\$20 million stake in local solar energy firm Trony Solar Holdings Co Ltd. Intel Capital also signed an agreement to invest in NP Holdings Limited, a technology company focusing on massive electricity storage systems. Over the past 10 years, Intel Capital has invested in more than 80 companies on the Chinese mainland and in Hong Kong. In this April, it established a US\$500 million Intel Capital China Technology Fund II in April.

Chinese planes bound for US market

China will sell 25 jets to a US company in a "breakthrough" deal that marks the

country's entry into the big-plane market dominated by European and US players.

Equator Principles for China's Industrial Bank

China's Industrial Bank has become the first Chinese bank to adopt the Equator Principles, a set of guidelines that require signatory banks to take into account environmental and social issues when financing development projects. The Chinese authorities will encourage more banks to adopt the principles to promote the country's "green" credit program. The Ministry will, together with other relevant ministries, devise preferential policies to mobilize more banks to adopt the new rules.

China approves Multi-billion-Dollar Projects to Spur Economy

China's government announced a number of measures, including approval of infrastructure projects and a further rise in export rebates, in a wide-ranging attempt to stimulate the economy and stave off the effects of the credit crunch and the slowdown of the global economy. The State Council, or cabinet, approved projects with a combined investment of more than 200 billion yuan (29 billion U.S. dollars), designed to help boost domestic demand and offset slowing exports.

Microsoft spending \$1b to boost R&D

Software giant Microsoft has announced plans to spend US\$1 billion on research and development (R&D) in China over the next three years, reiterating its long-term investment after the company's recent anti-piracy effort angered many users in the country.

Legal News

Distributors threaten to sue Sinopec and PetroChina

PetroChina and Sinopec, the mainland's two biggest oil companies, may be sued by a group of domestic private enterprises for allegedly breaching the Anti-Monopoly Law implemented in August. The oil distribution committee of the China Chamber of Commerce, which acts for private fuel distributors, has announced intentions to sue the oil majors claiming they had abused their market dominance by denying the distributors supply or demanding higher prices. If launched, this would be the first private anti-trust suit filed under the new law in China.

Foreign media rules coherent to open policy

China's new rules on foreign media reflected the country's determination to carry on the policy of opening up to the outside world. The new rules draw on the experience of providing service and managerial assistance for foreign correspondents during Beijing Olympics, and they will make foreign correspondents reporting activities in China more convenient. An item in the old version of the rules was also cancelled, which asked foreign reporters to get approval from the local government's foreign affairs department when they wanted to do reporting in the regions open to them. According to the new rules, foreign reporters wishing to interview organizations or individuals in China no longer need to be received and accompanied by Chinese organizations.

Microsoft for Black Screen Remedy

Microsoft has been sued by a Chinese lawyer, for installing Windows Genuine Advantage on his computer in China. The lawyer has also asked the Ministry of Public Security to file criminal charges against Microsoft and accused the company of hacking into people's computers. The

lawyer considered that Microsoft has the right to protect its intellectual property but it is taking on the wrong target with wrong measures. He has claimed that Microsoft should target producers and sellers of fake software, not users. The China Software Industry Association is also said to be considering taking action against Microsoft.

Environmental guidelines for firms investing abroad

China is drafting environmental guidelines for companies investing in or providing economic aid to overseas countries. The work is being undertaken by the Chinese Academy for Environmental Planning (CAEP), in cooperation with the Global Environmental Institute (GEI) and the University of International Business and Economics. The first draft is now being discussed. China's overseas investment and aid mainly focuses on exploring oil and other resources, processing, manufacturing, and construction in African, Southeast Asian countries and Australia. Without proper management, such projects are likely to cause environmental problems.

MOFCOM approves InBev/AB merger

China's Ministry of Commerce (MOFCOM) has approved Belgium brewer Inbev's \$52 billion takeover of Anheuser-Busch Cos Inc (AB), but MOFCOM required the two parties can not increase their ownership stakes in domestic beer companies without approval from the Ministry. This is the first acquisition deal that has passed MOFCOM's review under China's Anti-Monopoly Law since it took effect in August. MOFCOM concluded that the tie-up of the two companies would not restrict competition in the domestic beer market. However, to maintain a competitive environment, the Ministry also instructed that without its approval, AB could not raise its 27 percent share in Tsingtao Beer and Inbev could not

increase its 28.56 percent share in Zhujiang Brewery Group. Also, the one page decision states that the two parties are not allowed to acquire shares in CR Snow or Beijing Yanjing Brewery, two of the largest domestic brewers, without consent from the Ministry. The conditional approval of the acquisition deal is aimed at upholding fair competition in China's beer market and to protect major domestic brands. The landmark decision is a positive sign for foreign investors, since it shows a sensible balancing approach is to be delivered by MOFCOM.

CBRC to Publish New Rule Lifting Ban on Acquisition Financing from Chinese Banks

The China Banking Regulatory Commission ("CBRC") reportedly approved draft measures, which would allow Chinese banks to provide financing for mergers and acquisitions. The Administrative Measures on Acquisition Lending (the "Administrative Measures"), adopted on November 14, 2008 but not yet promulgated, would represent a dramatic reversal of a long-standing policy against Chinese banks financing buy-outs. The CBRC is finalizing certain pending details, but the Administrative Measures are expected to be published soon.

Guidelines for Trust Companies to Operate a Private Equity Investment Business in China

The China Banking Regulatory Commission recently issued guidelines which provide additional legal basis and specific operational guidelines for trust companies in China. The Guidelines require each trust company to have a management team, with at least five people in charge of investments and at least three of whom must have at least two years experience in

equity investments or a related field. The Guidelines also set forth certain qualifications for investment advisers. An investment adviser must own at least 10% of the trust units of the trust and investment advisers must have at least Rmb20 million in paid-in capital.

China to launch nationwide VAT reform experiments in 2009

In another effort to boost domestic spending while the export sector falls, China's State Administration of Taxation will launch value added tax (VAT) reform experiments in 2009. The measures are equal to tax cuts in function. Reforms are also expected to be introduced for corporate income tax, business income tax cuts and personal income tax.

Mainland restores Export Tax Rebates

The mainland has unveiled a detailed plan to restore rebates of value-added tax to labour-intensive industries in an attempt to throw a lifeline to tens of thousands of struggling exporters. The Ministry of Finance recently announced that VAT rebates on 3,486 export products, including textiles, garments, toys, certain plastic products and furniture, would be restored on December 1.

This update is aimed at keeping our clients informed of developments in Greater China. Whilst every care has been taken to ensure the accuracy of this update, it should not be relied upon before individual advice is obtained. The MMLC Group is an international legal and corporate advisory group.