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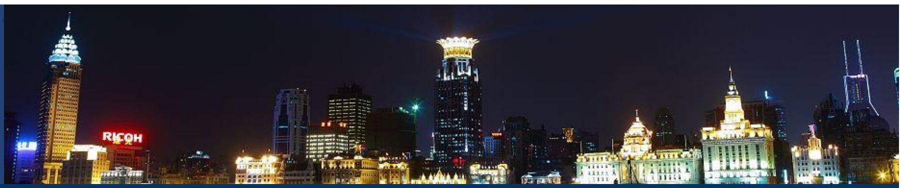

China Regulatory Updates

June 2010

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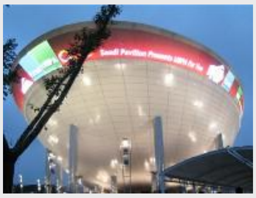

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Supervision on Information Disclosure by Insurance Companies Strengthened

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Foreign Investment

NDRC to Delegate Its FIE Approval Authorities

On May 4, the National Development and Reform Commission ("NDRC") issued a notice (the "NDRC Notice") to delegate certain approval powers over foreign investment projects to lower level authorities.

Pursuant to the NDRC Notice, unless otherwise specifically provided by laws and regulations, projects that fall into "encouraged" or "permitted" categories with a total investment of (including capital increase) no more than USD300 million, originally approved by NDRC, should be subject to approval by relevant provincial NDRC office, except for those requiring approval by departments of the State Council as provided in *Category of Investment Projects subject to Government Approval*. However, the approval authority over projects that fall into "restricted" categories should remain vested in NDRC for the time being.

Subject to the NDRC Notice, construction of projects that are "high-polluting, energy incentive or resource-dependent" or with low production capacity should be strictly restricted. Further, foreign investment in high-end manufacturing industries, high-tech industries, modern service industries as well as environmental protection industries should be encouraged. In addition, NDRC requires that local NDRC offices should simplify the approval procedures and improve the transparency of the approval procedures, so as to create a sound investment environment.

China's Economic Reform Focuses on 11 Areas in 2010

On May 31, the State Council issued the *State Council Approved NDRC's Notice on Deepening Economic Reforms in 2010* (the "Reform Notice"), according to which the PRC economic reform in 2010 will focus on 11 Areas. Among others, the following issues are noteworthy:

(a) Equity Investment Funds. According to the Reform Notice, relevant government authorities should facilitate the establishment of the administration regime for equity investment funds (the "EIFs"), by ways of formulating specific administrative measures and improving the managerial mechanism for investment in emerging industries. In addition, as reported, NDRC will modify the current EIFs' filing system, according to which only EIFs that complete their capital raise can be duly filed with NDRC office, and large-scale industrial funds will not need to be classified by scale before approval.

(b) Foreign Investments Approval and Foreign Related M&A. Relevant government authorities will modify current laws and regulations governing foreign investment in order to simplify and standardize the approval procedures for foreign investment. Moreover, a national security review regime will be established for foreign related M&A deals.

(c) Loan Rules. In accordance with the Reform Notice, a new edition of general rules on loan will be promulgated to promote the development of private capital financing and to set up a mature multilevel credit market.

SAIC Issued Opinions to Boost Further Development of FIEs

Recently, the State Administration for Industry and Commerce ("SAIC") issued the *Certain Opinions on Fully Exercising the Functions of SAIC Offices to Further Boost the Development of FIEs* (the "Opinions"), providing several measures to further encourage foreign investors to increase their investment in China and to improve the foreign investment structures.

According to the Opinions, SAIC offices at all levels should (i) support and encourage foreign investors and foreign invested enterprises or FIEs to set up group companies and partnership enterprises, and make capital increase through debt-for-equity swap;

and (ii) help FIEs to resolve their difficulties in capital contribution.

In addition, the Opinions pointed out that, unless otherwise stipulated in relevant laws and regulations, FIEs engaging in service industries and their authorized branches may directly apply with local SAIC offices for registration of a business branch. Further, multinational corporations are encouraged to establish functional institutions (such as district headquarters or R&D centers) and invest in service outsourcing industries.

Privatization

New 36 Rules Issued to Boost Investment by Private Capital

In order to encourage the private investment in non-prohibited sectors and industries, recently, the State Council issued *Several Opinions of the State Council on Encouraging and Guiding the Development of Private Capital* (GUO FA [2010] 13 Hao) (the "New 36 Rules").

First, the New 36 Rules encourage and guide private capitals to invest in basic industries and infrastructure sectors, such as oil and gas exploration, exploration of minerals, telecommunication, electric power, hydro-engineering and even national defense science and technology.

Second, the New 36 Rules permit private capitals to establish financial institutions, and encourage private capitals to (i) invest in financial institutions, such as commercial banks, rural banks and loan companies; (ii) participate in reorganization of rural credit cooperatives and urban credit cooperatives; and (iii) set up guarantee companies and other financial intermediaries.

Third, private capitals are encouraged by the New 36 Rules to participate in the construction of municipal public utilities and policy-subsidized houses and the reorganization of state owned enterprises.

Compared with *Several Opinions on Encouraging and Guiding Development of Non-Public-Owned Economies* issued in 2005, the New 36 Rules provide more detailed provisions and indicate the government's favorable attitude toward the development of private capital. However, uncertainties remain as to whether such policies could be carried out in practice before the formulation of auxiliary regulations and establishment of a supervision system.

Insurance

Administrative Measures on Equity Interest in Insurance Companies Issued

Recently, the China Insurance Regulatory Commission ("CIRC") has issued the *Administrative Measures on Equity Interest in Insurance Companies* (the "Measures") to regulate capital contribution, shareholder qualifications and equity transfer of insurance companies. The Measures will come into effect on June 10, 2010, replacing the *Provisional Rules on Investment in Insurance Companies* (BAO JIAN FA [2000] No.49) and the *Notice on Regulating Relevant Matters concerning Chinese-Funded Insurance Companies' Absorption of Foreign Equity* (BAO JIAN FA [2001] No.126). Compared with previous regulations, highlights of the Measures are enumerated as follows:

(a) Ceiling for equity ratio of a single shareholder raised. Pursuant to the *Provisional Rules on Investment in Insurance Companies*, CIRC's approval is required for any single shareholder proposed to hold more than 10% of the total equity interest of an insurance company (including holding such equity interest indirectly, in the name of other shareholders or through its affiliates). The Measures raise the ceiling to 20%.

(b) Requirements for contribution in cash reiterated. Consisting with the previous provisions, the Measures continue to require shareholders of insurance companies to make capital contributions in cash and with its own funds from legitimate sources. Capital contribution with non-proprietary funds, such as bank loans, is prohibited. In addition, shareholders are prohibited from entrusting any third party to hold equity interest in insurance companies, or accepting such entrustment from third party.

(c) Shareholders qualifications elaborated. Except in the case of share purchase of listed insurance companies via stock exchange, the investment into insurance companies should be only made by (i) qualified Chinese companies or foreign financial institutions; or (ii) investors specifically approved by CIRC.

(d) Supervision over equity transfer intensified. Investors shall submit to CIRC for approval within 5 days since the date it holds more than 5% of the total shares of a listed insurance company via stock exchange.

(e) Supervision over equity/share pledge added. With respect to a pledge over equity/share of an insurance company: (i) such pledge should be reported to CIRC prior to its establishment; (ii) a written equity/share pledge contract is a requisite, and (iii) any entity becoming a new shareholder after enforcement of the equity/share pledge should meet the qualifications specified in the Measures.

The Measures are only applicable to insurance companies with its foreign shareholding less than 25%.

Supervision on Information Disclosure by Insurance Companies Strengthened

Recently, CIRC issued the *Administrative Measures for Information Disclosure of Insurance Companies* (the "Disclosure Measures"), exerting more stringent control over information disclosure of insurance companies. The Disclosure Measures will come into effect on June 12, 2010.

According to the Disclosure Measures, an insurance company should disclose its basic information, financial and accounting information, risk management information, information on operation of insurance products, information on solvency, information on significant related party transactions and other information on material matters.

According to the Disclosure Measures: (i) basic information should be disclosed on the website of the insurance company within 10 days since changes occur; (ii) annual information disclosure reports should be released on the company's website and in the newspaper designated by CIRC before April 30 of each year; and (iii) material matters should be published on the company's website or in the newspaper designated by CIRC within 10 days since the occurrence of such matters.

It is worth noting that the Disclosure Measures are not applicable to insurance group companies (except for those operating direct insurance business), non-commercial insurance companies and reinsurance companies, and branches of foreign insurance companies operating direct insurance business may refer to the Disclosure Measures.

For further information, please write us at inquiry@hanyilaw.com.