



April 2014

China's National People's Congress 2014

This year's National People's Congress took place from the 3rd of March 2014 to the 14th of March 2014. Further emphasis was placed on structural changes and the key role of the market in the economic reforms. The reform steps being pursued by the Economic Congress and the third plenum of Chinese CP last year are becoming increasingly concrete. According to a government report the target growth rate will be ca. 7.5% in 2014 compared with 7.7% in 2013.

Financial Reform

These reforms will make the financial sector more market oriented and internationalised. In 2013 People's Bank of China signed the bilateral Monetary Convention with 18 Countries and since July 2013 the lending rate has been liberalized. The lending floor was also removed, which was seen as the first crucial step along the path toward rate liberalization. The financial reforms will be further pursued in 2014.

Presently the financial sector is dominated by the state-owned banks, which primarily serve large state owned companies. The government has announced (11th March) the establishment of the first five private banks as a pilot project in Shanghai, Guangdong, Tianjin and Zhejiang.

The prospect of the liberalization of deposit rates is also provided. For the first time a vague timetable (in one or two years) was referred to by the Governor of central bank Mr. Zhou Xiaochuan. The security mechanisms for savings deposit should be established in future.

The control on exchange rate is to be relaxed. As usual a daily fixing rate will be set by People's Bank of China. From the 17th of March 2014 the band in which the currency can move each day will be doubled to 2 per cent above and below a fixing rate.

Full convertibility will be pursued despite no concrete timetable being provided.

However, it must be noted that the full liberalization of RMB will be an extremely long process. For example, since July 2010 the undervalued RMB has been further abruptly devalued until January 2014. Therefore, the companies must still establish a risk management strategy against the volatility of RMB.

Development in Shanghai Free Trade Zone

On 29th September 2013 China (Shanghai) Pilot Free Trade Zone was established. As a pilot program new provisions were promulgated and tested there. Compared to the Foreign Investment Catalogue 2012 there are no significant changes for foreign investors in the first negative list of 2013. A new list is expected in the first half of 2014. It means that access for foreign investment in any area falling outside the negative list is allowed. In the financial sector a series of implementing regulations were released. On 18th February 2014 the beginning of cross-border RMB payments in the zone was announced. According to "Notice Concerning Support to Further Expand the Cross-Border Usage of RMB in the China (Shanghai) Pilot Free Trade Zone", released on 21st of February 2014, off-shore RMB loans, a two-way RMB cash pool within the corporate group and a central collection and cross-border RMB payments for current account items are to be allowed in the future. Individuals employed or practicing within the FTZ are allowed to conduct cross-border RMB settlement for current account items. Furthermore, since 1st March 2014 the interest rate ceilings on smaller foreign-currency deposit have been removed. The reform in the zone, announced by People's Bank of China last December is to be implemented on a piecemeal basis.



Recent Amendment to PRC Company Law

On the 28th of December 2013, the Standing Committee of the National People's Congress of China announced an amendment to PRC Company Law ("Company Law") which came into effect on the 1st of March 2014. Under the amended Company Law, investors will have more freedom to agree on the amount, form and timeline of their capital contribution to a company, making it more convenient to incorporate a company. Highlights of the amended Company Law include the following:

Paid-in capital to subscribed capital. Companies are no longer required to register their paid-in capital with the company registration authority. Instead, registration of shareholders' subscription of capital shall be sufficient. Such change, together with the changes detailed below, means that the articles of association or shareholders' agreement of a company will become very important documents in determining matters with respect to capital contribution among shareholders.

No minimum capital requirement. The minimum capital requirement for limited liability companies are to be removed. However, it shall also be noted that in certain industries (such as commercial banks, insurance companies, securities companies and labour dispatch enterprises) registration of paid-in capital and minimum registered capital are still required.

Capital contribution less restrictive. In addition to the two changes specified above, the amended Company Law no longer requires the ratio of the first instalment of capital contribution at establishment of a company and the capital contribution timeline. In addition, the restriction on the ratio of in-kind capital contribution (such as intellectual property) is removed.

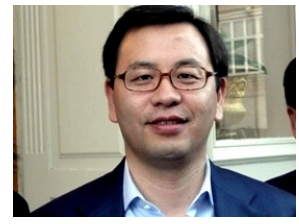
Simplified registration procedures. Capital verification reports issued by accounting firms are no longer required when investors submit application for establishment of companies.

In furtherance of the amended Company Law, the State Council of China announced the Decision on Abolishing and Amending Certain Administrative Regulations ("Decision") (February 2014), which came into effect on March 1, 2014. Pursuant to the Decision, several administrative regulations governing foreign-invested enterprises ("FIEs") are abolished or amended to reflect the changes made to the Company Law, under which FIEs have the discretion to agree on

the total investment amount, subscribed capital contribution and timeline for such contribution in their joint venture contracts and articles of associations, unless otherwise required by law. In addition, the limit on the ratio of capital contribution by foreign investors in the form of industrial rights or proprietary technology is no longer required. In other words, except as required by law, in terms of capital contribution (subscription and form and timeline of capital contribution), FIEs will also enjoy the benefits from the simplified and less restrictive requirements set forth in the amended Company Law.



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