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Foreign Firms Get Securities Licences

China has taken its historic first step to practically open up its securities market to foreign companies. Yesterday in Beijing, UBS Warburg and Nomura Securities became the first two financial service firms to get qualified foreign institutional investor (QFII) licences.

The China Securities Regulatory Commission (CSRC) - the nation's securities watchdog - announced the move on its website. A commission spokeswoman said more QFII applications from overseas institutions were being reviewed. They should be approved if they meet the required criteria.

Deutsche Bank and Goldman Sachs, two global banking giants, are among those waiting in the wings for a QFII licence. It is an entry ticket to China's US\$500 billion A-share market as well as the bond market, which used to be only available to domestic traders. Global investment bank UBS Warburg led all others in the pursuit of a licence, as it was the first to lodge a QFII application to the CSRC in mid-March.

The bank is delighted and very excited to be among the first to gain approval, according to Rodney Ward, chairman of UBS Warburg Asia. He said UBS had chosen US-based Citibank as its custodian and authorized the Bank of China to handle its RMB clearing.

Over the past few months, a number of domestic and foreign banks have been approved as QFII custodian banks, where special RMB accounts are opened to enable domestic trading. With CSRC approval, a licensed foreign institution still has to apply for a foreign exchange quota used for securities investment, which ranges from US\$50 million to US\$800 million.

The next step for UBS Warburg is to apply to the State Administration of Foreign Exchange for a foreign exchange investment quota, which should take another 15 working days, and would allow investment and trading to commence. The operation of the QFII scheme is expected to bring more fresh funds and expertise to China's securities market.

AOL to reduce China TV holding

AOL Time Warner is in talks to sell a controlling stake in its mainland Chinese television station, a surprise turnaround in the US media group's China strategy.

If realised, the sale to Tom.com, a media group controlled by Li Ka-shing, Hong Kong's richest tycoon, would mean AOL in effect surrenders its foothold in the Chinese language mainland market before it even has time to get off the ground.

AOL's Chinese Entertainment Television Broadcasting (CETV) and Star TV, Rupert Murdoch's Asian satellite station, won landing rights in China's southern province of Guangdong in late 2001, becoming the first foreign companies to gain access to mass mainland audiences.

Officials at AOL and Tom.com said yesterday they were in advanced talks over the sale of the CETV stake, but declined to give details. Grace Wong, vice-president for corporate communications at Turner Broadcasting System Asia Pacific, said the size of the stake was still under discussion and that AOL would consider further sales of shares in CETV.

RMB Withdrawals Allowed on Forex Cards

Bank cards issued outside China are now can entitled to make RMB withdrawals, not in foreign currencies, either from automatic teller machines or over the counter.

Holders of domestically issued Forex cards can either withdraw RMB or foreign currencies at bank outlets, but cannot withdraw foreign currency from ATMs. When travelling abroad, such cardholders are

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Professional Services

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Taxation Terms

增值稅

"Zeng Zhi Shui"

(Value Added Tax)

增值稅

"Ying Ye Shui"

subject to a US\$1,000 daily withdrawal limit and a US\$5,000 monthly ceiling.

(Business Tax)

PepsiCo to Expand in China

PepsiCo Inc. is planning to raise its bottling capacity in China by a third in a bid to close the gap with its larger rival Coca-Cola Co.

PepsiCo, the world's second-biggest soft-drinks maker, will spend at least \$150 million over 18 months to build six bottling plants. That will increase its annual bottling capacity in China to about 400 million cases from 300 million and help sales there maintain strong growth.

Pepsi has 17 percent of China's soft-drinks market against 33 percent for Coca-Cola, according to Beverage Digest, an industry publication. That is partly because Pepsi does not have as many bottling plants. Pepsi started investing in China in 1981, two years after Coca-Cola re-entered the market. Pepsi will soon complete a new bottling plant in Tianjin and has begun constructing another in Jinan.

消费税

"Xiao Fei Shui"

(Consumption Tax)

Thirsting for a Beer?

The Chinese drink an awful lot of beer—about twice as much as the Germans. Interbrew, a big Belgian brewer, wants to share the fun. It is buying 70% of K.K. Brewery, the leading beer maker in Zhejiang Province, in China's Yangtze delta.

Interbrew already controls the biggest-selling brewery in the Pearl River delta. Other western brewers are getting in too. Anheuser-Busch, the world's largest, makes Budweiser in its own brewery in Wuhan, an inland city, and last year took a stake in Tsingtao, China's largest brewer. SABMiller, the world's second-largest brewer, has a joint venture with a Chinese firm.

All are thirsting for the second-largest market in the world (after America's) by volume. Because the average bottle of beer retails for about 1 RMB the market is now worth only about \$6 billion. But it is growing by a striking 6% a year.

However, it has problems. Some 400 domestic breweries are slugging it out in vicious price wars, and many are losing money. This is a legacy of the mid-1990s, when it became a matter of prestige for local party officials to have their own, local, brewery. At one point China had over 800 of them. The government is now encouraging consolidation, but even so, the top ten brands control less than 40% of the market. Mostly, local brands dominate in their area.

For foreigners, the current push is a second attempt. During the 1990s "beer bubble", several of them, including Bass (now part of Interbrew), Fosters and Carlsberg, failed to break into the market. The chairman of the Swire Group, a conglomerate with roots in Hong Kong that knows China well, describes its venture into the Chinese beer market as its biggest recent embarrassment.

During that first investment binge, some westerners tried to go it alone and found that they could not compete against the locals' distribution networks. Others tried prematurely to push their premium brands into a market still dominated by cheap swill for poor folk. Interbrew, which calls itself "the world's local brewer", is trying to do it differently this time. It will first push the successful Chinese brands it has just bought and then gradually introduce its luxury brands, such as Stella Artois and Beck's.

Adapted from: *The Economist* (May 15th 2003)

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"Suo De Shui"

(Income Tax)

"Providing an alternative in China"

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