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# China News Alert Issue 257

## Capital Markets

### China to allow issue of exchangeable bonds to ease stock oversupply

The China Securities Regulatory Commission (CSRC) will allow shareholders of listed companies to issue exchangeable bonds, a move to ease oversupply in the stock market that has helped to drive down share prices.

The CSRC published a draft regulation covering the newly-introduced financing tool on its website on 5th September, seeking public comments by 12th September.

Shareholders can issue bonds with an embedded option to exchange the bond for the stock of a company other than the issuer at least a year after the issuance, according to the regulation.

Such bonds could provide shareholders with a new funding channel rather than simply dumping their holdings. This would ease the impact of heavy selling, the CSRC said in its statement.

Heavy selling has been cited as a factor that has aggravated liquidity strains in the country's flagging stock market. "The move will ease market concerns about the release of previously locked-up shares and make it easier for shareholders raise funds," said Shui Pi, an independent financial commentator.

The regulators will continue to adopt innovative market tools to guide large-volume selling by shareholders rather than extending lock-up periods or imposing windfall profits taxes, said the CSRC.

The agency is also preparing to start a system of secondary offerings. The system will have securities dealers take up stocks from shareholders and hold them for some period, delaying the impact of the sales on the market.

However, such delays will only prolong the bear market without fully resolving the problem, according to independent stock analyst, Hou Ning. "To save the market, we need to help more private enterprises, which can really boost the economy, get listed," said Hou.

Cinda Securities analyst, Liu Jingde, said these moves were good news in the short term but wouldn't change the weak market fundamentals, because heavy selling was not the only factor behind price declines.

Last month, the industry regulator raised the refinancing threshold for listed companies. It said companies could only carry out refinancing plans if they had paid dividends to shareholders equal to at least 30 per cent of distributed profits over the most recent three years, up from the previous 20 per cent.

The slumping market reflected a correction from previous highs, rising global financial uncertainty and concerns about the domestic economy, the CSRC said in a statement in August 2008. It said China's unsound stock market had exacerbated the situation.

As weak sentiment has made it harder for Chinese companies to raise money on the stock market. As an alternative, the government has tried to boost the bond market.

The emergence of exchangeable bonds is part of the effort to improve the structure of the capital market and will help connect the equity and debt markets, according to the CSRC.

So far this year, about half the value of refinancing efforts by listed companies was represented by bonds, which was progress in reducing reliance on the stock market, said the CSRC. Previously, bonds accounted for only about 10 per cent of corporate refinancing.

CSRC figures show that as of the end of August 2008, bond issues by listed companies totaled 152.5 billion yuan (US$22.3 billion) since 2006, when the CSRC permitted such practice.

[Source: China Internet Information Center](http://www.china.org.cn/business/news/2008-09/06/content_16399169.htm) ([see archive](Exchangeable_bonds_allowed_to_ease_stock_oversupply.pdf))

### Central bank helps money-laundering crackdown

China's central bank said on 3rd September that it had helped police uncover 89 money-laundering cases involving 28.8 billion yuan (US$4.2 billion) in 2007.

Nearly half of the cases were related to underground private banks, with an aggregate value of 11.4 billion yuan, said the People's Bank of China (PBOC) in its China Anti-Money-Laundering Report 2007.

A third of the cases were in the southern economic powerhouse of Guangdong Province. About 10 per cent involved drug-related crimes, it said.

Altogether 328 cases involving 53.7 billion yuan were investigated with the help of the PBOC.

"China has established a relatively integrated system against money-laundering in the past five years," the report said, adding that the system's efficiency would be improved over the next five years.

The PBOC imposed fines totaling 26.5 million yuan on 350 institutions that failed to follow rules about identifying customers or suspicious transactions, or that had problems with internal controls.

China set up an anti-money-laundering bureau in the central bank in 2003 and passed its first anti-money-laundering law in 2006. It has signed and approved all the international treaties against money laundering and funding of terrorist activities adopted by the United Nations.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200809/t20080905_1576437.html) ([see archive](Central_Bank_Helps_Money-Laundering_Crackdown.pdf))

### Chinese regulators urge banks to lend for economic growth

The China Banking Regulatory Commission (CBRC) recently urged banks to "take effective measures to ensure loans for the country's economic growth and to prevent risks, in a bid to maintain sound and fast economic development."

The policy is "guaranteeing money supply to some sectors while controlling money supply to some other sectors", said a spokesman for the commission.

The spokesman said that commercial banks have increased lending since the end of June 2008, especially to small firms, energy-saving projects and projects concerning agriculture, farmers and rural areas.

The spokesman said the commission has urged commercial banks to increase lending for post-disaster reconstruction.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200809/t20080908_1580609.html) ([see archive](Chinese_regulators_urge_banks_to_lend_for_economic_growth.pdf))

## Corporate & Commercial

### China to offer more investment opportunities for foreign firms

China has announced that it will provide more opportunity for foreign investment, Vice Premier Wang Qishan said recently at the opening of the 12th Xiamen International Trade and Investment Fair in the southeast Fujian Province.

China will insist that its opening-up policy continue in order to improve policies relating to the utilisation of foreign capital and create more space for overseas enterprises.

As one of the main forces for the country's development, foreign investment has brought capital, technology and management experience, among other things. As China is the developing country that has attracted the largest amount of foreign investment over the past 16 years, more areas, covering agriculture, manufacturing and services, are being explored, Wang said. Many international companies view China as their first choice.

Wang announced five policies for future investment, including the promotion of the investment environment, better utilisation of foreign capital and the encouragement of Chinese enterprises to invest in foreign countries.

China will raise the service standards of local government and guarantee a fair investment environment with a transparent legal system.

The government is encouraging foreign capital to flow into high-tech, modern agriculture, energy conservation industries and modern services to enhance independent innovation and development. It will also encourage foreign companies to invest domestically through the establishment of local offices or participating in the reform of domestic enterprises.

In the post-Olympic Games period, China will insist on pursuing the opening-up policy and peaceful development, Commerce Minister Chen Deming said. "I believe every friend here at the fair will receive opportunities and benefits from the peaceful rise of China."

The Xiamen fair has become an influencial platform for mutual investment that is welcomed by governments, intermediate agencies and enterprises.

"The country is committed to meeting its World Trade Organisation obligations, which should boost FDI (foreign direct investment) even more," said Alessandro Teixeira, World Association of Investment Promotion Agencies president.

"Sectors such as domestic commerce, financial services, insurance and tourism are being gradually opened up. Geographic restrictions on where foreign companies are allowed to set up operations are expected to be relaxed in the coming years," he said.

"China's foreign investment policy has reached a turning point, and preferential treatment for foreign capital has been abolished in principle with the exception of certain sectors including high-technology," said Shoichiro Toyoda, the third chairman of the Japan-China Investment Promotion Organisation. Its 1990 establishment by Chinese and Japanese leaders aimed to improve the investment climate and promote investment in China. At almost the same time, the China-Japan Investment Promotion Committee was established as its Chinese counterpart. Currently, Minister Cheng serves as its chairman.

At the time, few Japanese companies had launched operations in China. During the 18 years since its establishment, the Japanese committee has provided support and information for Japanese firms intending to invest in China. It has helped companies deal with any problems they have encountered. Currently, its member companies number more than 370. In addition, it has provided advice on more than 20,000 cases.

According to Chinese statistics, Japan's investment in China is decreasing. Japanese statistics, however, indicated the amount of investment, including reinvestment by companies operating in China, had not decreased. It had remained relatively unchanged, Toyoda said.

"In my view, there are four key elements that we should focus on for promoting new investment in China. They are energy-saving and green technology, smaller companies, the development of Central, Western and Northeast China, and special preferential treatment," he said.

The four-day Xiamen fair features 2,500 exhibitors, 1,000 more than last year. It has attracted 74 nations, including America, Australia, Brazil, Italy and countries from Africa and the Pacific islands. In all, 445 organisations from 104 countries and regions attended. More than 50 countries and regions held seminars to introduce their investment environments.

New projects signed at the fair this year have been reported at more than 5,300, including 320 from overseas.

As China's only annual fair for promoting mutual investment, the Xiamen fair has become the world's largest expo of its kind.

More than 100,000 guests from 144 countries and regions and more than 3,000 international companies have attended the fair over the past 11 years. It has drawn US$7.7 billion in investment into China with more than 13,000 projects signed.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200809/t20080909_1581336.html) ([see archive](China_to_Offer_More_Investment_Chance_for_Foreign_Firms.pdf))

### MOFCOM regulated dissolution and liquidation of foreign-invested enterprises

China's Ministry of Commerce (MOFCOM) clarified that the dissolution and liquidation of foreign-invested enterprises must comply with the Company Law and related rules outlined under the laws and administrative regulations governing foreign investment.

According to MOFCOM's 'Guiding Opinion on the Dissolution and Liquidation of Foreign-invested Enterprises Pursuant to Law', foreign-invested enterprises must submit, in advance, dissolution applications, resolutions on the advance dissolution and approval certificates and business licenses to the examination and approval authorities if they terminate their business. This is in line with the implementation rules of the Sino-foreign Equity Joint Venture Enterprises Law, the Sino-foreign Cooperative Joint Venture Enterprises Law and the Foreign Enterprises Law, as relevant.

The examination and approval authorities, upon receipt of the dissolution applications and related materials, will issue a response within 10 working days.

The enterprises must then organise a liquidation team to begin the legal liquidation within 15 days of the dissolution approval. The liquidation team must clear all the enterprise's taxes within the liquidation terms.

If certain shareholders of foreign-invested enterprises request to dissolve the enterprise in line with the Company Law, they must file the application directly with the jurisdictional people's courts.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4650) ([see archive](MOFCOM_Regulated_Dissolution_and_Liquidation_of_Foreign-invested_Enterprises.pdf))

### Capital verification of foreign-invested enterprises required for Forex capital settlements

China's State Administration of Foreign Exchange (SAFE) has stipulated that if foreign-invested enterprises apply to banks for foreign exchange (forex) capital settlements, they must first complete capital verification with an accounting firm.

Banks may not handle forex capital settlements without the completed capital verification procedure.

SAFE also require that forex capital settlement funds for a foreign-invested enterprise may not exceed the verified capital of the enterprise. This is according to the 'Circular on Issues Concerning the Promotion of the Operation of Foreign Exchange Capital Payment and Settlement of Foreign-invested Enterprises' released on 29th August 29 by SAFE.

Foreign-invested enterprises are supposed to use RMB capital generated from forex capital settlements within the business scope that has been approved by government authorities, and not for domestic equity investment.

With the exception of foreign-invested real estate enterprises, foreign-invested enterprises are not allowed to purchase non-self-use domestic real estate with the RMB capital generated from forex capital settlements.

If investment-based foreign-invested enterprises, approved by the competent commercial authorities, are engaged in domestic equity investment, the domestic transfer of their capital must be only handled with the verification and approval of SAFE.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4669) ([see archive](Forex_Capital_Settlement_of_Foreign-invested_Enterprises_Required_of_Capital_Verification.pdf))

## Other

### Authorities make new move to protect farmland

Developers who obtain arable land will have to reclaim an area of equal size to gain approval for building on their acquisitions, land authorities said recently.

The move is the latest in a series of measures introduced to protect the country's fast-depleting land reserves.

The new requirement will be put into effect in September and targets all projects in the country except "key projects of national significance", said Huang Hetu, a deputy division director in charge of arable land protection with the Ministry of Land and Resources (MLR).

Key projects excluded from the new rule include the South to North Water Diversion Project and the high-speed railway linking Beijing and Shanghai.

Since 1998, the ministry has required developers using land already planned for use by local governments to provide compensation in the form of land reclamation. Developers working on projects that were not considered in land planning by local authorities, or those that were deemed "important projects", such as the hydraulic, military and power sectors, could first acquire the land before providing compensation.

Such exceptions have caused many problems, resulting in an imbalance in the local land market and reducing the quantity of land in reserve, Huang said.

Illegal arable land acquisition has also been rampant in recent years, due to expanding urbanisation and cheap rural land prices, said Li Xiaoyun from the Chinese Agriculture University. This has resulted in a consistent decline in the country's arable land in recent years, dropping to 121.73 million hectares by the end of 2007 from 127.6 million hectares in 2001, MLR figures have showed.

The number is just 1.73 million hectares above the government's "critical" mark of 120 million hectares set for 2020.

The country currently has about 13.3 million hectares of reserve land, with about 40 per cent of the area possessing good sunlight and irrigation conditions.

Under the new regulation, all developers can reclaim land from the local arable land reserve, or pay the local land authorities for the amount of land they should reclaim. The land being reclaimed is reserved for farmers first, Huang said.

The move also stipulates that local governments must expand their land reserves by reclaiming more land or re-adjusting the existing land market.

Those regions that fail to meet their land reclamation quota will be subject to a cut in the construction land quota given by the central authorities in the following year.

"The new regulation comes at a crucial time, amid the country's fast urbanisation, to ensure a stable arable land bank," Li said.

To further ensure sustainable development in the sector, the country has added more than 2.7 million hectares of arable land through required land reclamation in the past nine years. The measures have essentially compensated for land lost to construction or natural disasters, MLR figures showed.

However, regional disparities remain, Li said. More developed regions in the east have tended to trade for quotas of reserve land from less developed western regions. Even within the same province or city, some land compensated by developers is of inferior quality compared with the quality land they acquire.

To tackle these problems, the ministry has banned the trading of land quotas among provinces. "The ministry should make it clear in these policies and ensure land being reclaimed is of equal quality," Li said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-09/10/content_7013541.htm) ([see archive](Authorities_take_new_move_to_protect_farmland.pdf))

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