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# China News Alert Issue 284

## Capital Markets

### Regulator rolls out norms for GEB

China's securities regulator has released guidelines for a NASDAQ-like second board, or growth enterprise board (GEB), which will be effective from May 1.

The China Securities Regulatory Commission (CSRC) said on its website recently that the steps to introduce the GEB would include regulations on listing applications, prospectus and sponsors.

"The CSRC will establish a special issuance examination committee for GEB and the Shenzhen Stock Exchange is to roll out the specific regulations on listing and trading. The securities regulators will accept the application material after all the preparatory work is ready," said a CSRC spokesman.

In a move to control the risks at the initial stage, the threshold for companies listed on the GEB would be higher than their counterparts in overseas markets, but much lower than the IPO rule on the main board.

The rule requires firms to have a minimum of 10 million yuan of accumulated net profits in the two years prior to listing, compared with at least 30 million yuan in the previous three years that is required for a listing on China's main boards.

According to the guidelines, companies that seek listing on the GEB should also report profits of at least 5 million yuan for the most recent year on revenues of at least 50 million yuan, with annual revenue growth of at least 30 percent in the recent two years.

"The CSRC solicited public opinion on the draft regulations of the GEB in March 2008 and got feedback from 688 respondents. After comprehensive analysis, we kept the requirements unchanged on the companies' profitability capacity and growth rate, while highlighting the risks for investors," the spokesman said.

China had started discussions on a listing avenue for growth-oriented companies a decade ago. In 2004, a mini second board for small- and medium-sized enterprises (SMEs) was set up at the Shenzhen Stock Exchange to test the waters.

Venture capital firms and SME entrepreneurs have welcomed the plan as a way to spur more investment into small companies that otherwise have trouble obtaining capital.

"It's really the right time to roll out the GEB this year. In an economic downturn, the participants can benefit from the lowered cost on transaction and investment with low PE (price-earnings) ratio," said Xiong Xiaoge, the founding partner of IDG Technology Venture Investment (IDGVC).

According to TX Investment Consulting Co, only 2 percent of the capital raised by SMEs was from direct financing, while the rest rely on banking loans.

"The SMEs in Wenzhou are quite excited to see the resumption of the IPO market. About 200 companies are in the pipeline to get listed and one-third prefer to go public on the GEB," said Zhou Dewen, head of the Small- and Medium-sized Business Association in Wenzhou

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-04/01/content_7636984.htm) ([see archive](Regulator_rolls_out_norms_for_GEB.pdf))

### CBRC may stiffen rules

China will ask foreign investors to commit to a lockup period of five years or more when they acquire stakes in Chinese banks, Liu Mingkang, chairman of China Banking Regulatory Commission (CBRC) said.

If Chinese commercial banks want to bring in foreign investors in future, the lockup period of shares held by those investors will have to be at least five years, Liu said at a meeting held at the Chinese Academy of Social Sciences recently. Liu didn't give details on when the new policy would be implemented.

Under current regulations, foreign investors are only required to make a three-year commitment on their holdings in Chinese commercial banks.

"Extending the lockup period of shares held by foreign investors can help ease the pressure Chinese banks will face in future," said Guohai Securities analyst Feng Wei.

Feng also pointed out that a longer lockup period will not become a burden for potential foreign investors.

"I believe US equity fund Newbridge Capital wouldn't mind a five-year lockup period as long as it remains the largest shareholder of Shenzhen Development Bank," Feng added.

But it won't be the same for foreign investors of China's State-controlled banks, who are unable to take control of those banks.

Agricultural Bank of China (ABC), the last unlisted member of the nation's big four State-controlled banks, declined to comment on what kind of impact the proposed new rule would have on its plans to go public.

Bringing a foreign strategic investor on board before a public listing was a model used by China's other three State-controlled banks as they underwent transformation. But it is not clear whether the same pattern will apply to ABC.

Chinese banks have been subject to persistent speculation about their foreign investors selling stake once the lockup period expires.

Shares of Industrial and Commercial Bank of China (ICBC), the country's largest bank by market value, surged after Goldman Sachs agreed not to sell at least 80 percent of the stake it holds in ICBC, until 2010.

In recent months, several foreign banks have sold stakes in Chinese banks to raise cash amid the global financial crisis. These include Bank of America, which sold part of its stake in China Construction Bank, and Royal Bank of Scotland and UBS AG, both of which sold their entire stakes in Bank of China.

[Source: China Daily](http://www.chinadaily.com.cn/cndy/2009-04/02/content_7641092.htm) ([see archive](CBRC_may_stiffen_rules.pdf))

## Corporate & Commercial

### China to loosen government grip on investment project approval

China will give enterprises a bigger say in deciding investment projects, Peng Sen, deputy director with the National Development and Reform Commission (NDRC) said recently.

The NDRC will amend "interim measures for examining and approving enterprises' investment projects". It might also cut the number of enterprises which need government approval on investment projects by half, Peng said at a conference in Changsha.

No dates on when these changes would happen were provided.

He said the moves could give enterprises more power in deciding investment projects, as well as make them more confident when making investments.

Peng noted that any reform should be conducive to stimulating domestic demand and the government should transform its functions to spur more market vibrancy.

He said private capital would have wider access to enter into more sectors. The government would create better opportunities for private capital to invest in monopolistic areas such as railways and telecommunications.

"To stimulate domestic demand relies on the confidence of enterprises and people, as well as private and social power," Peng said.

The "interim measures for examining and approving enterprises' investment projects" was adopted in October 2004. The NDRC was responsible for examining and approving most of the important domestic industrial projects and some overseas projects with large investment.

[Source: Xinhua](http://www.chinadaily.com.cn/bizchina/2009-03/26/content_7621431.htm) ([see archive](China_to_loosen_grip_on_investment_project_approval.pdf))

### New rules imposed on Internet video content

The State Administration of Radio, Film, and TV is going after Internet videos.

In a notice issued on March 30, the Administration emphasized its concern over vulgarity and listed various types of content that online video hosts should filter from their sites.

Part (1) of the notice is the standard list of illegal content found in regulations on film, books, and other cultural material: no splittism, cults, or disruptions of social order.

Parts (2) and (3) are tailored for the type of content that currently appears, to varying degrees, on Chinese video hosts.

Internet audio-visual program service providers must improve their program content administration systems and emergency response mechanisms by hiring well-qualified service personnel to review and filter content, with particular attention paid to online music videos, variety shows, film shorts, and animation, as well as "self-shot", "hot dancing", "pretty girls", "funny", "original content", and "netizen reporters", to ensure that program content does not violate the rules mentioned in parts (1) and (2) of this notice. They must also promptly handle netizen complaints and related matters.

SARFT's obviously been paying close attention to the wealth of programming on China's video hosts. However, it's what follows in part (4) of the Notice that has caught the attention of the mainstream media.

The Administration has reiterated its control of online programming by applying its current television and film approval process to series shown online. Given the lead time involved in obtaining permission, this provision has the potential to shake up the industry. From The Beijing News:

Major video websites said in interviews that the biggest effect of the Notice would be to limit the broadcast of imported TV series. According to the "permit system" stipulated in the notice, even if websites obtain broadcast rights directly from rights agents in the future, they will have a hard time broadcasting programs that have not previously been show in theaters or on TV. A manager at Tudou said that they are still in the process of reviewing the document, so for the moment it would have no material effect on the website.

OpenV's chief editor Yang said that he had only just read the Notice. He also said that copyright rules were indeed necessary for the Internet, particularly in the area of imported TV series. "However, the Internet really requires an ocean of content, and the approval process for TV stations is relatively slow. If we have to obtain the same permit as a TV station, then the timeliness of the Internet will be lost," Yang said.

[Source: Danwei](http://www.danwei.org/media_regulation/new_rules_imposed_on_internet.php) ([see archive](New_rules_imposed_on_Internet_video_content.pdf))

### China shuts down 162 websites containing lewd videos

Chinese authorities have shut down 162 websites that had been found providing pornographic and "lewd" content in their audio or video segments, according to a statement released by the country's online watchdog recently.

The blocked websites had not acquired permits to broadcast audio and video programs issued by the State Administration of Radio, Film and Television (SARFT), said a statement issued by the Special Operation Office for Crackdown on Online Porn and Lewd Content.

The websites include www.baigujing.com, www.bt990.com and other sites mainly based in Beijing, Shanghai, Jiangsu, Zhejiang and Guangdong Provinces.

The websites added to a total of 341 audio and video sites that have been blocked by the SARFT and telecommunication authorities since Chinese government launched a nationwide campaign in January to sweep off pornographic and obscene contents on the Internet.

So far, more than 1,000 websites have been blocked by the authorities for distributing porn and other lewd materials in texts and pictures.

[Source: China Daily](http://www.chinadaily.com.cn/china/2009-03/31/content_7634223.htm) ([see archive](China_shuts_down_162_websites_containing_lewd_videos.pdf))

### MOFCOM Delegated Authorities of Examination and Approval of Foreign-invested Venture Capital Enterprises

China's Ministry of Commerce (MOFCOM) announced, in a circular, to delegate the authorities for examining and approving the establishment and changes of certain foreign-invested venture capital enterprises and foreign-invested venture capital management enterprises.

Under the Circular on the Examination and Approval of Foreign-invested Venture Capital Enterprises and Foreign-invested Venture Capital Management Enterprises (Circular), establishment and change of the aforementioned enterprises whose total capital is lower than 100 million dollars (inclusive) shall be examined, approved and managed in line with law by the competent commercial authorities of various provinces, autonomous regions, municipalities directly under the Central Government and etc., as well as the national economic and technological development zones.

Besides, the aforementioned competent provincial commercial authorities and the national economic and technological development zones must not delegate any authority for the examination and approval to other local departments.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5555) ([see archive](MOFCOM_Delegated_Authorities_of_Examination_and_Approval_of_Foreign-invested_Venture_Capital_Enterprises.pdf))

### Investment in Chinese firms sags

Private equity and venture capital firms have substantially slowed their investment in China according a recent report from Chinese market research company Zero2IPO Group.

Private equity and venture capital firms have invested about $419 million in 11 companies in China over January and February, said the report. They invested $3.62 billion in 152 companies in China in the first quarter last year.

"Of course investment from venture capital firms will decrease this year. But while foreign venture capital firms will likely invest less, domestic yuan-based venture capital funds will probably develop rapidly, maybe to as much a combined total of 600 million yuan this year," said Zero2IPO CEO Ni Zhengdong.

Domestic venture capital firms have been involved in an increasing number of deals over the last few years. They made 270 deals in 2008, not far behind the 296 made by foreign venture capital companies.

The report also revealed that venture capital and private equity firms favored companies in the traditional sector and IT industry, with 64 percent and 23 percent of investment, respectively, flowing to those industries.

Venture capital and private equity firms are taking a break from raising capital in the current economic downturn, the report said. Only 10 investment institutions set up new funds in January and February.

"It's not easy to raise capital these days but China could still be an attractive market for venture capital firms. Favorable policies for the venture capital industry are likely to come out in the next two years," said Ni.

Venture capital firms have played an active role in China's capital market. The market value of venture capital-backed Chinese listed companies has exceeded $80 billion over the last 10 years, according to Zero2IPO.

There are 89 venture capital-backed companies listed on the overseas market with a combined market value of $52.3 billion. There are 84 on the domestic market with a total market value of $29.9 billion.

The report also noted that merger and acquisition activity flourished in the first two months of the year.

There were 51 such transactions worth about $6 billion in January and February, the report said.

"The government has been focused on upgrading the country's industrial structure which obviously boosts acquisitions," said Zheng Xingguo, vice-president with Zero2IPO Group.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-03/23/content_7604550.htm) ([see archive](Investment_in_Chinese_firms_sags.pdf))

## Other

### China's supreme court publishes IP rights protection guidelines

China's Supreme People's Court has urged lower courts to deprive intellectual property rights (IPR) violators of their ability to continue infringements.

In its new guidelines published recently on the implementation of China's strategy for IPR protection, the court urges protection of the legal rights of victims.

"Comments of the Supreme People's Court on Implementing the National Intellectual Rights Protection Strategy" urges lower courts to strengthen cooperation with other judicial or administrative departments.

The guidelines gives direction on dealing with 16 varieties of IPR infringement cases relating to patents, trademarks, copyrights and new species of plants.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-03/30/content_11102403.htm) ([see archive](Chinas_supreme_court_publishes_IP_rights_protection_guidelines.pdf))

### China continues to defer applications for coal prospecting rights

China will continue suspending new applications for coal prospecting rights for another two years, the Ministry of Land and Resources said recently.

The suspension, which will last until March 31, 2011, aimed to prevent an oversupply of coal and keep coal production stable in the country, the ministry said.

However, major coal exploration projects approved by the State Council, as well as surveys of coal resources with the support of special geological funds from the central and provincial governments, can continue.

China suspended applications for coal prospecting rights for the exact same reasons in February 2007 to last until the end of 2008.

The country's coal output reached 2.72 billion tonnes, up 7.5 percent year on year, according to the State Administration of Work Safety (SAWS).

[Source: Xinhua](http://news.xinhuanet.com/english/2009-03/26/content_11078879.htm) ([see archive](China_continues_to_defer_applications_for_coal_prospecting_rights.pdf))

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