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# China News Alert Issue 290

## Capital Markets

### Measures for GEM Sponsoring, Issuance and Examination to Be Implemented in June

On the afternoon of 14 May, the China Securities Regulatory Commission (CSRC), officially issued the ‘Measures for the Issuance Examination Committee of China Securities Regulatory Commission' and the ‘Administrative Measures for the Sponsoring Business for the Issuance and Listing of Securities', both of which have been revised for the launch of the Growth Enterprise Market (GEM), and will come into force from 14 June 2009.

The two Measures are almost consistent with the original draft versions. Clause 2 in the ‘Measures for the Issuance Examination Committee of China Securities Regulatory Commission', has been revised to state that the China Securities Regulatory Commission will set up the issuance examination committees for the main board market, GEM and for M & A activity.

The new measures also set out special regulations for the members of the issuance examination committees. The GEM Issuance Examination Committee will consist of 35 members, including 5 members from CSRC. The Main Board Issuance Examination Committee only has 25 members.

The newly-issued ‘Administrative Measures for the Sponsoring Business for the Issuance and Listing of Securities' mainly reinforces the responsibility of sponsors regarding issuance and listing on GEM, and changes some individual clauses which are not applicable to GEM. The supervision period for GEM has also been extended.

[Source: Zero2ipo](http://www.zero2ipo.com.cn/en/n/2009-5-20/2009520161842.shtml) (Link no longer active)

### Shanghai to be the center for insurance innovation

The China Insurance Regulatory Commission (CIRC) signed a memorandum with the Shanghai municipal government on 15 May to build the country's financial hub into a center for insurance innovation as well as technology research and development.

The CIRC, or China's top insurance regulator, will launch pilot programs in Shanghai concerning insurance fund usage, said commission chairman Wu Dingfu.

"We will initiate trial insurance policies in Shanghai in preparation for future application on a national scale," Wu said.

At present, the CIRC is considering a plan to introduce a new endowment insurance to Shanghai residents, who will be able to pay premiums before the deduction of income tax. This is compared with the current endowment insurance policy, which requires individuals to pay the premium after income tax has been paid. The new product will remove endowment insurance from income tax and thus help individuals save money.

Once put into action, the trial program will have an immeasurable influence on China's social security system, as it will encourage people to purchase endowment insurance for a more secure retirement, according to Wu.

The CIRC also pledged to support the development of shipping insurance, thus contributing to Shanghai's ambition to develop into an international shipping center.

The State Council unveiled a detailed plan at the end of April aimed at building Shanghai into a global financial center and shipping hub by 2020.

[Source: People.com](http://english.people.com.cn/90001/90776/90785/6659235.html) ([see archive](Official_Shanghai_to_be_the_center_for_insurance_innovation.pdf))

### HSS and investors settle disclosure suit

The Shanghai-listed company, Hangxiao Steel Structure (HSS), and individual investors in the firm have settled a lawsuit, ending a two-year tug-of-war. This marks a huge victory for the investors, who suffered losses due to information disclosed by the company that later turned out to be false.

According to Song Yixin, the plaintiff's attorney, 118 investors will receive a total of approximately 4 million yuan as cash compensation before the end of June 2009. The remaining nine investors will be dealt with on a case-by-case basis.

The Hangxiao case was the first after the China Securities Regulatory Commission (CSRC) implemented new regulations in January 2007 on the release of financial information by listed companies.

On 15 February 2007, HSS said in an announcement that it would join a foreign property project worth about 30 billion yuan. Two months later the firm announced it had signed a contract worth 34.4 billion yuan for a housing project in Angola with China International Fund Limited.

Spurred by the news, HSS shares surged from 4.14 yuan apiece to 10.75 yuan between 12 February and 16 March, an increase of 159 per cent.

The project proved to be non-existent. The firm's shares dropped shortly thereafter. Trading in HSS shares was suspended on 19 March 2007 and the firm was fined 1.1 million yuan by regulators.

Individual investors then launched the lawsuit and claimed a total of 5.9 million yuan for the false information disclosure.

In February 2008, a court in Zhejiang province, where HSS is based, gave jail sentences of between 18 to 30 months to three people, including an HSS securities representative, for insider trading of HSS shares. Two of the three were fined a total of 80.74 million yuan (US$11.2 million).

Company Chairman, Shan Yinmu, and President, Zhou Jinfa, were issued with warnings by stocks regulators and each fined 200,000 yuan.

Li Jian, another lawyer who appeared on behalf of the investors, said the settlement could have a positive effect on rulings for similar cases in the future.

[Source: China Daily](http://www.chinadaily.com.cn/cndy/2009-05/22/content_7927673.htm) ([see archive](HSS_investors_settle_disclosure_suit.pdf))

## Corporate & Commercial

### SAFE releases new draft rule for outbound investment

China's foreign financial assets rose 23 per cent in 2008 to reach a total of US$2.92 trillion, the State Administration of Foreign Exchange (SAFE) said recently. Of that amount, nearly US$2 trillion, or 67 per cent, was in foreign exchange and gold reserves, the foreign exchange regulator said.

Outbound direct investment, however, was just US$169.4 billion, accounting for 6 per cent of the total foreign financial assets.

The regulator also issued a draft rule recently to boost outbound direct investment and indicated that it would expand the sources of capital available for companies to invest abroad.

Domestic institutions will be able to buy foreign exchange or use foreign currency owned by themselves or borrowed from Chinese banks to invest abroad. The institutions can also reinvest the profit from overseas investments, according to the draft rule.

The easing of foreign exchange controls on domestic companies' outbound direct investment is likely to help the country manage its foreign exchange more prudently, experts said.

"Encouraging the use of foreign exchange at the enterprise level will help ease SAFE's pressure in managing the huge foreign exchange reserves," said Han Qi, a professor at the University of International Business and Economics.

Guo Tianyong, a professor at the Central University of Finance and Economics, said that companies could be more efficient in using foreign exchange than State-level entities. "Encouraging Chinese companies to directly invest overseas may also help shift the focus on dollar-denominated assets," Guo added.

"The country's foreign investment has so far focused on dollar-denominated financial assets, and the measure is expected to diversify the portfolio," said Li Zhikun, an economist with China Jianyin Investment Securities, said.

The foreign exchange administrative body also said that it plans to ease approval procedures as part of revised rules. It said companies would now be able to register the source of their foreign currency funding after investing abroad instead of the pre-investment vetting required now.

SAFE will also standardise the procedure for companies to seek approval for foreign investments, instead of the case-by-case system. But it added that any significant foreign investment would still require approval from other authorities. "This is aimed at implementing the 'going out' development strategy as well as for promoting and facilitating overseas direct investment by domestic institutions," SAFE said in the statement on its website.

Meanwhile, China's Ministry of Commerce has urged domestic companies to increase overseas investments. "The global financial crisis has made a profound adjustment to world economic geography," the ministry said in a statement on its website.

Fan Chunyong, deputy chairman of the China Industrial Overseas Development & Planning Association, pointed out that China's overseas investments are improving as the country has changed from being a "product manufacturer" to a "capital investor". "China's overseas investments may exceed foreign direct investment this year largely due to the stimulus plans," Fan said.

The country's outbound foreign direct investment nearly doubled to US$52.2 billion in 2008 from US$26.5 billion in 2007. If this has to exceed the inbound FDI this year, it would mean an outbound foreign direct investment of nearly US$80 billion, according to some experts.

The SAFE draft rule also, for the first time, mentioned that Chinese companies could directly invest overseas by using the renminbi as the settlement currency. "Chinese companies who plan to use renminbi to invest abroad should, however, follow the relevant rules," SAFE said.

Experts noted that this was the first time that the country has talked about renminbi-denominated overseas investments, thereby providing the foundation for the currency's internationalisation.

"There is no doubt that in the future, renminbi will be widely used in cross-border trade and investments," said Li from Jianyin Investment Securities.

[Source: China Daily](http://www.chinadaily.com.cn/cndy/2009-05/20/content_7793769.htm) ([see archive](Overseas_assets_in_2008_soar_to_2.92t.pdf))

### Chinese mainland urges businesses to go to Taiwan to discuss investment

The Chinese mainland will urge businesses to visit Taiwan to discuss investment plans amid efforts to help the island cope with the global economic downturn, the mainland's Taiwan affairs chief, Wang Yi, said recently.

The mainland will soon organise key businesses from different industries, including electronics, communications, biomedicine, marine transport, public construction, commercial distribution, textile, machinery and auto manufacturing, to visit Taiwan to discuss investment plans, he said.

Meanwhile, the mainland will encourage Taiwan businesses to expand their markets on the mainland and take part in the mainland's construction of infrastructure and key projects, said Wang, director of the State Council Taiwan Affairs Office. "We will soon put forth specific methods on how to determine qualified businesses."

Wang was speaking at a centerpiece conference of the Straits Forum that opened in the southeastern city of Xiamen recently.

The mainland will expand the buying of Taiwan products, encourage more mainland tourists to visit Taiwan, and support the plan to set up a cross-Strait economic cooperation mechanism, he said.

The mainland will allow Taiwan law firms to open branches in the cities of Fuzhou and Xiamen, and increase agricultural cooperation across the Straits, the official said.

"The global financial crisis is affecting both sides of the Straits, and we are concerned about the Taiwan economy and our Taiwanese compatriots' difficulties," Wang said. "We are ready to give all we can to help them." The mainland was willing to sign an economic cooperation agreement and start consultations as soon as possible, Wang said.

In opening more professional qualification tests to Taiwanese, the mainland planned to add 11 new spheres to the list including statisticians, auditors, social workers, land registration agents, environment assessment engineers and company law consultants.

The Ministry of Commerce and the State Council Taiwan Affairs Office jointly issued a circular on the procedures, which mainland businesses should follow if they intend to invest in Taiwan. The circular said that mainland enterprises should be careful to fully understand and obey Taiwan's laws and regulations, respect local traditions and customs, and pay attention to environmental protection. It mandates that mainland businesses should not jeopardise national security and unification with their investment in Taiwan.

According to the document, the Commerce Ministry will be responsible for reviewing mainland enterprises' applications for investing in Taiwan and it will issue qualifying companies with special licenses, which are needed in order for them to go through other procedures on the island.

The Commerce Ministry and the State Council Taiwan Affairs Office will jointly oversee all the processes of mainland businesses' investment in Taiwan and have the right to penalise violators.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-05/17/content_11388394.htm) ([see archive](Chinese_mainland_urges_businesses_to_go_to_Taiwan_to_discuss_investment.pdf))

### China to subsidise car and home appliance replacements

China will subsidise consumers who sell and replace their cars and home appliances in an effort to spur domestic consumption and curb pollution, according to a recent executive meeting of the State Council.

The government will raise subsidies for car replacements from 1 billion yuan to 5 billion yuan this year, and allocate 2 billion yuan to encourage home appliance upgrades, according to an executive meeting of the State Council presided over by Premier Wen Jiabao.

The move will help further stimulate domestic spending after a rebate program for car and home appliance buyers in rural areas greatly boosted rural consumption, said a statement from the meeting.

Consumers who trade-in their used mid- and small-sized trucks and some types of mid-sized passenger cars for new ones will receive a subsidy.

Subsidies will also be given to consumers who sell automobiles that no longer meet the government's emission standards, but that are still within their life expectancy.

The subsidy will be no more than the purchase tax of the automobile.

A pilot program for home appliance replacement will start in Beijing, Shanghai, Tianjin, Fuzhou, Changsha and the provinces of Jiangsu, Zhejiang, Shandong and Guangdong, said the statement. No specific date was given.

Buyers will receive a subsidy worth 10 per cent of the price on five kinds of new appliances: TV sets, refrigerators, washing machines, air-conditioners and computers.

Retail sales maintained a solid growth in China as the world's third largest economy turned to domestic consumption for growth after exports tumbled.

Retail sales rose 14.8 per cent in April year on year to 934.32 billion yuan (US$136.8 billion), the National Bureau of Statistics (NBS) announced. The growth rate was 0.1 percentage point higher than in March.

From January to April, retail sales totaled 3.87 trillion yuan, up 15 per cent over the same period last year.

More than 1.15 million vehicles were sold in April in China, up 25 per cent year on year, according to the China Association of Automobile Manufacturers on 8 May.

Sales were boosted by government stimulus policies, Zhang Yunpeng, an analyst with Beijing-based Huarong securities, told Xinhua. In January, China halved the purchase tax on passenger cars to 5 per cent for models with engine displacements of less than 1.6 liters.

As part of the government effort to boost consumption, China Banking Regulatory Commission (CBRC) said on 12 May that consumers could receive loans without collateral for buying durable goods, including appliances and electronic products, and for other private consumption such as travel and education.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20090520/15489275.html) ([see archive](China_to_increase_subsidy_for_auto_home_appliance_replacements.pdf))

### Light industry sector plan may generate three million jobs

China will take a number of measures including an increase in export tax rebate and credit support to prop up its light industry, an industry stimulus and revival action plan said recently.

The authorities will increase export tax rebates for some light industry products that do not fall under "high pollution, high energy consumption and capital intensive industries", said the detailed action plan released on 18 May by the State Council.

The three-year plan said that the government will extend financial support, such as issuing credit to companies which have a good track record but are temporarily short of liquidity, to help them weather the economic downturn.

In particular, the plan said, the government would offer a proactive credit and guarantee policy to support well-performing small- and medium-sized enterprises (SME) to create jobs.

The government aims to form another ten large companies in the sector through industry consolidation, each with annual sales revenue exceeding 15 billion yuan. Analysts said the move is expected to benefit leading industry players.

The light industry, which covers sectors such as food, home appliances and paper making, accounted for 8.7 per cent of the country's GDP in 2008, the State Council said in the action plan. But the industry, whose export volume of US$309.2 billion accounted for 22 per cent of the country's total last year, has been hit hard since the second half of 2008 as a result of the global financial crisis.

The government aims to create three million jobs in light industry, which currently employs 35 million people, through the stimulus and revival move.

The action plan also calls for the elimination of some products, including two million tons of outdated paper making equipment, 30 million units of energy-intensive refrigerators and 600 million incandescent lamps. The plan also aims to cut pollution in the industry.

By 2011, the discharge of COD (Chemical Oxygen Demand) in light industry should be reduced by 10 per cent, or 255,000 tons, from the 2007 level, the plan detailed.

Sewage discharge should be cut by 1.95 billion tons, or 29 per cent, from the 2007 level, of which 1 billion tons will come from the food sector and 900 million tons from the paper making industry, it said.

The government will expand its white sugar reserve and will encourage local governments to support companies to reserve paper and pulp, condensed apple juice and other agricultural products by offering them interest rate subsidies, the action plan said, without giving specific numbers.

The government said it would raise the industry entry barrier for the food sector, which has been hit by a series of scandals over the past two years. The government, the action plan said, will establish and improve the recall and market exit system in the food industry.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-05/19/content_7789607.htm) ([see archive](Light_sector_plan_may_generate_3m_jobs.pdf))

## Taxation

### Foreign-registered companies face China tax scrutiny

Companies operating in China using foreign-registered structures to minimise onshore tax should be braced for more aggressive scrutiny from mainland authorities, tax advisers have warned.

Thousands of companies, from state-owned industrial giants to small foreign investment vehicles, which conduct most of their business in China, are registered overseas for tax reasons.

However, tax advisers who have tracked a series of rulings and guidelines issued by central and provincial authorities said foreign-registered vehicles were coming under unprecedented scrutiny as governments adopt international standards to help boost revenue.

As a result, scores of foreign private equity and hedge funds could face larger Chinese tax bills. China typically levies a 10 per cent capital gains tax on restructurings.

PwC said a trio of recent rulings by provincial tax bureaus in Chongqing, Xinjiang and Jiangxi had implications for overseas special purpose vehicles used by foreign investors. In the Xinjiang case, the tax authority ruled that a company registered in Barbados should be liable for capital gains tax for an onshore disposal because it could not prove it and its directors were based in the Caribbean country and thus could not utilise a China-Barbados double taxation exemption.

“These rulings show that even provincial tax authorities have become alert to potential abuses of the tax system,” said Danny Po, greater China tax partner for PwC. “As a general theme, China's tax practice is drawing closer to the international practice.”

Overseas shareholders in some of China's biggest companies also face paying a new dividend withholding tax. China's State Administration of Taxation last month ruled that a 10 per cent dividend withholding tax would apply to all overseas-listed companies that have their major business operations concentrated in China and whose senior management is primarily based on the mainland.

The new rules retrospectively took effect on 1 January 2008 and tax experts said the country's biggest companies would be affected.

CNOOC, China Netcom and Lenovo are among dozens of “red chip” companies based in China but incorporated and listed overseas and institutional investors who will have to make special arrangements to try and avoid the tax. The withholding tax will not apply to individual investors.

The Hong Kong-listed shares of China Mobile were suspended last week for technical reasons relating to the new tax.

Analysts believe some foreign investors, such as pension funds reliant on dividend payouts, would become more cautious about investing in red chips.

[Source: FT China](http://www.ft.com/intl/cms/s/0/4be93d94-42fe-11de-b793-00144feabdc0.html#axzz2ZNfpTYHV) ([see archive](Foreign-registered_companies_face_China_tax_scrutiny.pdf))

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