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# China News Alert Issue 294

## Capital Markets

### IPOs back after long suspension

China's securities regulator appears to have lifted a nine-month ban on initial public offerings, or IPOs, by reportedly approving the listing of a medium-sized drug firm.

The official China Securities Journal reported on its website that Guilin Sanjin Pharmaceutical Company had received a regulatory notice from the China Securities Regulatory Commission (CSRC) allowing it to seek a stock exchange listing.

Earlier reports said that Guilin Sanjin, along with Zhejiang Wanma Group Cable and Shenzhen Salubris Pharmaceutical, had applied to be listed on the small- to medium-sized enterprises board on the Shenzhen Stock Exchange.

The share offer by Guilin Sanjin, a traditional Chinese medicine maker, is likely to mark the resumption of IPOs, which have been suspended since September 2008 after the Shanghai Composite Index fell by almost 60 per cent in the first nine months of the year.

The stock market collapse was attributed, at least partly, to the drain on liquidity by the large number of IPOs by enterprises keen on tapping the market to prepare for leaner economic times ahead.

The suspension also created an opportunity for the CSRC to revise the IPO rules and the subscription mechanism, seen to have been abused by some financial intermediaries, resulting in an unfair distribution of new shares and price volatility after the start of trading.

Initial drafts of the new IPO rules were circulated among financial intermediaries for comments and the final draft, incorporating some of their feedback, was published earlier this month.

Stockbrokers and investors generally welcomed the IPO resumption, saying it would allow the stock exchange to regain its basic function of providing capital to fund the growth of the corporate sector. But they also warned that the expected stampede by many cash-starved private companies to tap new capital could put a strain on liquidity and short-circuit the market recovery.

The lifting of the IPO ban is not surprising, said Zhao Xijun, a professor of finance at Renmin University of China. "Facilitating the raising of capital by enterprises is the primary function of the stock market," he said, adding that it is a positive move in line with the government policy of stimulating domestic demand.

Li Daxiao, a director of Yingda Securities, said it is important for the CSRC to regulate the pace of new listings. Sources said the CSRC's listing panel has reviewed the IPO applications of 33 companies of varying businesses and sizes. They include corporate heavyweights such as China State Construction Engineering Corporation, Everbright Securities and Sichuan Expressway. The companies are expected to raise at least 1 billion yuan each.

Market worries about a liquidity drain were clearly demonstrated in the fall of nearly 2 per cent of the benchmark index last Friday after rumours of an impending large IPO from China State Construction. "I believe the CSRC will exercise great care in minimising the potential impact of a rush of capital after the IPO ban is lifted," Li said.

[Source: China Securities Journal](http://www.cs.com.cn/english/markets/200906/t20090619_2121559.html) ([see archive](IPOs_Back_after_Long_Suspension.pdf))

### Listed companies to transfer State-owned shares to Social Security Fund

Some listed Chinese companies will have to transfer part of their State-owned shares to the National Social Security Fund (NSSF) as the country prepares for an aging society, the government said recently.

The measure applies to 131 state-controlled companies that have listed on domestic stock exchanges. Their current market capitalisation is 63.93 billion yuan (US$9.35 billion), according to the Ministry of Finance. No list of companies was released, however, nor was any date provided for the transfer.

The policy also applies to companies that will list in the future.

Shares transferred to the NSSF must amount to 10 per cent of the total in the initial public offering, under a State Council decision.

If the amount of State-owned shares is not sufficient to meet the 10 per cent requirement, the company must transfer all State-owned shares that it holds, according to the Ministry of Finance (MOF) and China Securities Regulatory Commission.

The move was part of an effort to finance the social security system and the retirement of an aging population, the government said.

"The new rule is of great significance to our society and will help bolster our social security system," said Zhao Xijun, a finance professor at China Renmin University. "The combination of runaway investment but weak consumption reflects our inadequate social security system. It is good news for the fund, which desperately needs capital and support," he said.

According to the MOF, the NSSF would not only inherit the lock-up period of the transferred shares but extend the period by another three years. The extended lock-up period will boost investor confidence and aid the long-term stable and healthy development of the securities market, said the government. "The lock-up period extension will mitigate the impact of mounting liquidity," Zhao said.

The MOF also said the NSSF would be entitled to trade the equities and retain any gains after the shares were transferred. However, it would not have the right to interfere in the companies' operations. The MOF also said it would arrange for audits of the fund's use of the shares.

Last year, the NSSF reported its first annual loss since its founding eight years ago, losing 6.79 per cent on its investments. Chinese shares had plunged nearly 70 per cent in a year.

Realised gains in 2008 stood at 23.36 billion yuan, against a nominal loss of 102.1 billion yuan.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/19/content_8304690.htm) ([see archive](Listed_companies_to_transfer_State-owned_shares_to_Social_Security_Fund.pdf))

### Shanghai & Hong Kong bourses to list each other's ETFs

Reciprocal listing of Exchange Traded Funds (ETF) on the Shanghai and Hong Kong stock exchanges are likely to materialise soon, according to a city official in Shanghai.

An appointed fund management firm with a Qualified Domestic Institutional Investor (QDII) license would manage the ETF, Fang Xinghai, director of the Shanghai Financial Services Office, said recently.

The ETF amount will depend on the firm's quota, he said, hinting that it would be capped initially at 3 billion yuan, the maximum for any QDII-licensed fund firm. The value would be increased over time, he said.

"The launch of the ETF as an innovative product is one of the three key measures we are taking to transform Shanghai into a global financial hub," he said. In addition, Fang said the local government has rolled out an 89-point plan focusing on reform, opening up and innovation as the latest move to strengthen Shanghai's financial industry.

"In terms of reform, we will set Shanghai as a pilot for hybrid business with various sectors in the financial industry," he said.

Fang said Shanghai would also allow joint venture brokers and fund firms to extend their business scope within the city. "For example, joint venture brokers will also be permitted to conduct brokerage business apart from just investment banking," he said.

Meanwhile, on the heels of the return of initial public offerings, Fang, the former chief executive officer of the Shanghai Stock Exchange, also indicated his support for red-chip listings on the mainland. "Domestic companies need yuan and foreign currencies to develop their businesses," Fang said.

Shanghai would in the future focus on yuan-related business as the central government has already accelerated the process of developing the yuan as an international currency, he said. Hong Kong's strength will continue to be in its foreign currency market, Fang said.

The comments closely follow the central government's announcement that Shanghai and four cities in Guangdong province would soon start yuan-settlement trials.

Yu Zhengsheng, Shanghai's Party secretary, said Shanghai and Hong Kong share a special bond. "Shanghai can learn a lot from Hong Kong, especially in financial and legal services," he said. "Shanghai will by no means replace Hong Kong as the financial and shipping center, and it still has a long way to go before it catches up with Hong Kong."

The central government announced a plan in March to develop Shanghai as an international financial and shipping center by 2020.

In order to achieve this growth, Fang said Shanghai needs more judges with financial knowledge.

[Source: China Daily](http://chinadaily.com.cn/bizchina/2009-06/20/content_8304894.htm) ([see archive](Shanghai_HK_bourses_to_list_each_others_ETFs.pdf))

## Corporate & Commercial

### Forex regulator encourages China's 'capital export'

The State Administration of Foreign Exchange (SAFE), China's foreign exchange regulator, has issued a series of new rules aimed at further facilitating Chinese companies' overseas investments, and will further ease controls on foreign exchange in coming months, China Securities Journal reported recently.

Analysts said the move reflects the regulator's efforts to balance the country's international payments.

The regulator has partially eased the control over the use of foreign exchange and has cut red tape to speed up the approval process on its use. It has also solicited opinion on overseas investments with the aim of attracting more Chinese companies to invest abroad.

Last week, the regulator allowed companies in China to render loans abroad and buy foreign currency with their own funds as part of the government's efforts to bolster the troubled export sector.

SAFE will release revised rules on the use of foreign exchange in foreign trade, which are expected to facilitate exports, the newspaper said.

Guo Tianyong, a professor with China's Central University of Finance and Economics, said the policy of encouraging domestic companies to invest overseas will help absorb China's colossal foreign exchange reserves and is also conducive to making better investment with the reserves.

China's non-financial overseas investment reached US$40.65 billion in 2008, up 63.6 per cent year-on-year, according to the Ministry of Commerce.

China has been a large exporter of manufactured goods in past years and it should "export capital" in the future, said Jing Ulrich, JP Morgan's chairwoman of China equities.

Lu Zhengwei, chief economist with the Fujian-based Industrial Bank, said Chinese companies should consider making long-term strategic investments now, as the price of financial assets and resource-based products remain low despite the stabilising global financial market.

He added that relaxing rules on capital outflow will help China avoid potential turbulence in its financial market as world financial institutions could start reducing their holdings of US dollar-denominated assets by investing them in emerging markets, including China, when world financial markets become stable.

SAFE has turned its policy focus from attracting foreign investment to encouraging domestic enterprises to invest abroad in a bid to prevent the comeback of "hot money", or speculative investments by overseas institutional investors, according to the newspaper.

[Source: China.org](http://www.china.org.cn/business/news/2009-06/17/content_17963808.htm) ([see archive](Forex_regulator_encourages_Chinas_capital_export.pdf))

### China's commerce ministry urges caution in overseas deals

China's Ministry of Commerce (MOC) said recently that the tentative deal for a Chinese company to buy the Hummer vehicle brand was a "normal business operation," but it also noted that Chinese enterprises should invest cautiously.

"Chinese enterprises have growing international scope despite the global financial crisis. Sichuan Tengzhong Heavy Industrial Machinery Company's plan to buy Hummer is a normal business operation," said Yao Jian, spokesman of the ministry at a news briefing.

He said enterprises should enjoy all the benefits of their investment while assuming the losses, if any.

On 2 June, the Chinese company reached a tentative agreement with U.S. automaker General Motors Corporation, a day after it filed for Chapter 11 bankruptcy, to buy Hummer.

GM did not reveal the sale price, although in its bankruptcy filing, GM said the brand was worth some US$500 million.

Yao noted that under Chinese law, local companies should get government approval before making investments of more than US$100 million overseas. So far, the ministry had not received an application, he said.

The deal has drawn questions in China. "The purchase of the gas-guzzling Hummer brand goes against China's economic situation and the country's development," Lu Zhongyuan, vice director of the Development Research Center of the State Council, said at an industry forum on 9 June.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-06/15/content_11547754.htm) ([see archive](Chinas_commerce_ministry_urges_caution_in_overseas_deals.pdf))

### Private Equity firms set sights on China again

US venture capital groups appear to have again put China in their sights, said a report from UK-based Mergermarket Group, an intelligence provider on mergers, acquisitions and private equity.

According to the report, the most high-profile deal this month was US private equity giant Bain Capital's move to acquire a minority stake in Gome, the Chinese electrical appliance retailer, for about US$400 million.

Gome will reportedly sell a 12 per cent share to Bain through convertible bonds and a rights issue of new shares equivalent to 18 per cent that will be taken up by Bain and other existing shareholders including JP Morgan, Morgan Stanley and Warburg Pincus. If consummated, it will be Bain's largest buyout in China to date.

"A number of private equity houses have looked to play their hands, perhaps suggesting international buyout firms are now ditching their wait-and-see approach to the Chinese market," said Douglas Robinson, editorial research analyst with Mergermarket Group.

The US private equity firm Warburg Pincus announced the expiration of an option it held to swap convertible bonds in Huiyuan Juice this month.

In conjunction with two other private equity houses and Danone, the French food retailer, Warburg Pincus purchased a 35 per cent stake in Huiyuan for US$200 million in the second half of 2006―an investment that would have proved lucrative if Coca-Cola's US$2.4 billion bid for Huiyuan had been successful.

The buyout group continues to hold investments worth over US$400 million in eleven Chinese businesses.

Elsewhere, the private equity group TPG Capital is reportedly set to sell the 11 per cent stake it holds in Shenzhen Development Bank to Ping An Insurance, the Chinese financial services group. It has been rumoured that if the deal goes ahead, TPG will see a significant return on its investment―the group spent US$145 million buying an 18 per cent stake in the bank in late 2004, with Ping An reportedly now offering around US$992 million for a portion of that.

TPG has already put some of the profit to work through a purchase of US$80 million in convertible bonds in Daphne International, the Chinese shoe retailer, which equates to about 14.5 per cent of the company.

But not all of TPG's forays into the Asian market have been successful. Newbridge Capital, TPG's Asian arm, will almost certainly take a hit on its US$615 million 2006 investment in Taishin Financial, Taiwan's third-largest financial services firm, which announced last month that it will cut its capital by 6.8 per cent following losses of T$5.4 billion (US$164.16 million) last year.

The Warburg Pincus-Huiyuan transaction shows political considerations play a very important role in such deals, said the report. Indeed, TPG is looking to exit from Shenzhen Development Bank in order to allay government sensitivities that it sold the State assets too cheaply, the report said.

"It is perhaps unsurprising that US buyout firms are now beginning to actively eye plays in China. After all, the country has a population of more than three times the size of the US, a rapidly burgeoning middle class and an economy which has arguably avoided the worst effects of the global financial crisis," said Robinson.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/22/content_8308043.htm) ([see archive](PE_firms_set_sights_on_China_again.pdf))

## Other

### China to review draft laws on islands and state secrets

China's top legislature will discuss two draft laws on island protection and diplomatic agents for the first time at the ninth session of the Standing Committee of the 11th National People's Congress (NPC) scheduled for 22 to 27 June, according to an agenda released recently.

The NPC session will also deliberate the amendment to the Law on Guarding State Secrets, the draft law on the Arbitration of Rural Land Contract Disputes, the amendment to the Law on Statistics and the draft amendment to the Law on State Compensation, according to the agenda from a meeting recently participated in by the NPC Standing Committee chairman and vice chairpersons.

Lawmakers are also expected to review and approve the central government's final accounts for 2008 and an audit report on the execution of the 2008 central budget and other financial revenue and expenditure details.

Also, a report on reconstruction from the 12 May 2008 earthquake and a report on top legislator, Wu Bangguo's, visits to Russia, Austria and Italy will be reviewed.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-06/15/content_17953381.htm) ([see archive](China_to_review_draft_laws_on_islands_state_secrets.pdf))

### China releases a draft of the first law on animal protection

China has released a draft of the country's first law on animal protection, which proposes a fine of up to 6,000 yuan (around US$878) and two weeks detention for those found guilty of animal abuse.

The draft also proposes the prohibition of pet owners breeding their animals and the compulsory implantation of data chips in pets to track down their owners in case the animals are found abandoned.

Chang Jiwen, author of the draft and director of the social law research department of the Chinese Academy of Social Sciences, was quoted as saying that the proposal would be submitted to the State Council by the end of the year.

A law on animal protection seems imperative in China as cases of animal abuse arise regularly. In the latest case at least 30,000 dogs were culled in Hanzhong, Shaanxi province, following a rabies outbreak. About 6,200 people were reportedly bitten by dogs and 12 people died.

The draft must go through the State Council and receive three readings at the National People's Congress Standing Committee before being adopted as law.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-06/19/content_11566797.htm) ([see archive](China_comes_out_with_draft_of_1st_law_on_animal_protection.pdf))

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