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# China News Alert Issue 299

## Capital Markets

### China to accept GEM application on 26th July

The China Securities Regulatory Commission (CSRC) said in Beijing recently that it would start to accept applications for listing on the Growth Enterprise Market from 26th July.

The Chinese Nasdaq-style stock market will focus on firms that specialise in fields like new energies, new materials, the bio-medical industry, electronic information, modern services and environmental protection, as well as companies with technological innovations and a higher market share, said the CSRC.

Companies that have applied to list on the main boards of the country's stock exchanges can apply to list on the GEM instead, it said.

The regulator also said companies that apply to list on the GEM should have two sponsors to recommend them to ensure the quality of listing companies and reduce risks in the initial phase of the GEM's operation.

The CSRC said 50 to 100 companies are expected to file applications on 26th July.

However, the CSRC didn't say when the GEM market will open. It said, on 14th July, that the first batch of smaller companies are expected to be listed on GEM at the Shenzhen Stock Exchange in late October or early November.

The CSRC said in March that GEM listing candidates must gain net profits for the preceding two years and have combined earnings of at least 10 million yuan (US$1.46 million). Alternatively the company must post a net profit of at least five million yuan and revenue of at least 50 million yuan for the latest fiscal year, with revenue growth of at least 30 per cent in the previous two years.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/21/content_8453904.htm) ([see archive](China_to_accept_GEM_application_on_July_26.pdf))

### Five ministries clarify anti-monopoly declaration threshold in financial sector

On 15 July 2009, five ministries; the Ministry of Commerce, the People's Bank of China, the China Securities Regulatory Commission, the China Banking Regulatory Commission and the China Insurance Regulatory Commission, jointly released ‘Measures for Calculating Business Volume for Declaration of Concentrations by Business Operators in the Financing Sector' (the Measures).

This is aimed at improving the management of the declaration of concentrations by business operators in the financing sector (including securities, banking and fund sector). The Measures will become effective 30 days after the issuance date.

According to Article 3 of the Measures, any operator reaching one of the following two thresholds must make a declaration:

* Global business turnover of all operators to participate in the concentration during the last accounting year surpasses RMB 10 billion, and business turnover of at least two operators in China during the last accounting year both surpass RMB 400 million; or
* Business turnover gained from China by all operators to participate in the concentration during the last accounting year surpasses RMB 2 billion, and business turnover of at least two operators during the last accounting year both surpass RMB 400 million.

[Source: 163.com](http://money.163.com/09/0721/19/5EP4KAU60025335L.html) ([see archive](Five_ministries_clarify_anti-monopoly_declaration_threshold_in_financial_sector.pdf))

### NDRC to strictly regulate fund raising activities by venture capital enterprises

On 16 July 2009, the National Development and Reform Commission (NDRC) released a Circular on ‘Strengthening Filing Management and Strictly Regulating the Fund-Raising Activities of Venture Capital Enterprises' (the Circular), which requires strict regulations to be imposed on fund-raising activities.

The Circular prescribes that the number of investors must not exceed the limit stipulated in the Company Law, the Partnership Enterprise Law and the 4th Term of Article 9 in the Tentative Measures on the Management of Venture Capital Enterprises (the Tentative Measures), which specify that there shall not be more than 200 investors.

In addition, there must not be more than 50 investors for venture capital enterprises which were established as a limited liability company.

Venture capital enterprises should abide by Article 12 of the Tentative Measures and focus on venture capital investment business and should not carry out any illegal fund raising activities.

The Circular also requires filing authorities to conduct irregular checks as well as an annual inspection of venture capital investment enterprises. The number of enterprises irregularly checked each quarter shall not be less than 10 per cent.

[Source: Hexun](http://stock.hexun.com/2009-07-17/119674088.htm) ([see archive](NDRC_to_strictly_regulate_fund_raising_activities_by_venture_capital_enterprises.pdf))

### CBRC to stick to rules on mortgages for second homes

China's banking regulator said recently that rules relating to mortgages for second-home buyers had not changed and it would "unswervingly" maintain its current rules.

Liao Min, spokesman of the China Banking Regulatory Commission (CBRC), made the remark in response to recent domestic media reports that the CBRC would tighten such rules due to worries that soaring bank loans would create a bubble in the country's property market.

Down payments on second homes are currently set at no less than 40 per cent of the property price.

Chinese lenders extended a record 7.37 trillion yuan (US$1.08 trillion) of new loans in the first half of this year, exceeding the whole-year target of five trillion yuan, after the government eased lending restrictions in November to boost the world's third largest economy.

Liao said the rules on mortgages for second homes are in line with the property market situation in China and are conducive to preventing speculative purchases.

He noted that the CBRC would be cautious about credit risks in the property market and ordered lenders to stick to rules and scrutinise approvals.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/24/content_8468223.htm) ([see archive](CBRC_to_stick_to_rules_on_mortgage_for_second_home.pdf))

### CIRC lifts ban on investment-linked insurance

The China Insurance Regulatory Commission (CIRC) recently gave the green light to four domestic insurers to open investment-linked insurance accounts. This follows a half-year suspension triggered by the mass cancellation of investment-linked insurance policies in the second half of 2008, according to a post on CIRC's website recently.

The four insurers - China Life, CITIC-Prudential, Great Wall Life and Pacific-Antai Life - were approved by the CIRC to open eight new accounts for their investment-linked insurance products.

As most insurers failed to benefit from the rising capital market in the first quarter of 2009, they significantly increased their investment in the stock market in the second quarter, especially in May and June, which contributed to lucrative returns in the first half of the year, Beijing Business said.

"The CIRC's move to lift the ban on investment-linked insurance accounts means regulators think there are more opportunities in the (stock) market, and insurance funds will continue to enter the market," a source with an unnamed brokerage told the newspaper.

The source said the move by authorities was more of a positive signal pointing to insurers' confidence in the stock market, as the investment-linked insurance market, unlike the fund market, is still small and will not bring in large sums of capital for the stock market.

Wang Xiaogang, an analyst with Orient Securities, said the CIRC also wanted to expand investment channels for insurers to boost the insurance market. "The mass cancellation of investment-linked insurance policies was a result of misleading marketing (of the product)," Wang told the newspaper. "The withdrawal risk can now be avoided, as selling procedures, personnel training and information disclosure are all regulated."

Statistics from Sinolink Securities showed yields from investing in equities under investment-linked insurance accounts have risen with the rebound of the capital market. More than 60 per cent of aggressive investment accounts for investment-linked insurance products have outperformed the market in the past year.

In the first five months of this year, the average return on stock accounts reached 5.03 per cent, compared with a loss of 45 per cent in the second half of last year, according to Sinolink.

China Life, for example, saw a steady rise in its equity assets under its investment-linked insurance account from December 2008 to May 2009, and as of the end of May, equity assets accounted for as high as 74.8 per cent of the account's net assets, the newspaper said.

A source from an insurance capital management company predicted a large flow of funds from investment-linked insurance accounts into the stock market in coming months.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/09/content_8402776.htm) ([see archive](CIRC_lifts_ban_on_investment-linked_insurance.pdf))

## Corporate & Commercial

### China adopts plan to promote cultural industry

The Chinese government has recently adopted a plan to promote the country's cultural industry, which will encourage private and foreign capital to enter the sector.

The plan was discussed and adopted in a meeting of the State Council presided over by Premier Wen Jiabao.

A statement from the meeting pointed out, "During the current financial meltdown, the cultural industry's development is significant in meeting with people's cultural needs, expanding domestic demand and consumption, and promoting economic restructuring."

"The market access threshold should be lowered to encourage private and foreign capital to enter the cultural fields that the government permits and let them take part in state enterprises' share-holding reform," it said.

More efforts were needed to develop key sectors such as cultural innovation, film production, publication, advertisement, entertainment, exhibition, digital content and animation, it said.

It added that multimedia broadcasting and Web and mobile TV should be actively promoted to upgrade the industry.

Cultural products and services should be improved to adapt to the needs of rural and urban residents, the meeting heard, adding that trans-regional integration of cable television network, cinema lines, digital cinemas and publications should be improved.

"Government investment in the industry should be increased. More talent should be trained. Taxation and financial policies as well as the legal and market environment should be improved to support its development," the statement said.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-07/23/content_18188214.htm) ([see archive](China_adopts_plan_to_promote_cultural_industry.pdf))

### Shanghai relaxes foreign investment approval rules

The Shanghai municipal government plans to give district-level authorities the power to clear foreign investment projects with an investment of up to US$100 million from 1st August, up from the previous threshold of US$30 million.

The move is expected to attract more foreign investment to Shanghai, which aims to position itself as a global financial centre, said China Daily.

Sha Hailin, director of Shanghai Municipal Commission of Commerce (SCOFCOM), said foreign investors have set up 16 regional headquarters, five investment companies, and 10 research and development centres this year, taking the total number of international companies in the city to 708.

As the biggest industrial and financial metropolis in the mainland, the city has felt a much heavier impact from the financial crisis as its economy is largely dependent on foreign firms, the newspaper said.

The city posted a year-on-year growth of 5.6 per cent in gross domestic product in the first half of the year, which was lower than the national average increase of 7.1 per cent during the same period, according to the newspaper.

Latest data from SCOFCOM show that Shanghai attracted foreign investment of US$5.15 billion during the first six months of this year, up 2.5 per cent from the same period last year.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-07/23/content_11758086.htm) ([see archive](Shanghai_relaxes_foreign_investment_approval_rules.pdf))

### Watchdog warns of illegal release of imported online games

China's General Administration of Press and Publication (GAPP) issued a notice recently warning of the illegal release of Web games and declaring stricter control on the games' approval.

Some illegal companies release pornographic and violent games on the Internet, and some legitimate companies publish imported games without approval, the notice said.

It also reiterated GAPP is the only administration authorised by the State Council to approve imported games.

Enterprises importing online games should pass the GAPP examination before obtaining a service licence.

Games created by an overseas copyright holder should obtain the approval of GAPP before being released.

Imported Web games should not be shown at any commodity exhibition without approval.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-07/22/content_18180671.htm) ([see archive](Watchdog_warns_of_illegal_release_of_imported_online_games.pdf))

## Other

### Licensing street vending good for social harmony

China's legal experts say licensing street vendors is conducive to social harmony.

The Legislative Affairs Office of the State Council issued a draft regulation on individual businesses and said that vendors without a fixed location for business operation can now apply for licenses as individual businessmen.

Qiu Baochang is a lawyer and a consultant at the China Consumers' Association. "I think the regulation is pretty down to earth. On the one hand, urban development needs standard regulation; on the other hand, low-income families and migrants can improve their living conditions through legitimate business operations."

The state council is soliciting public opinions on the draft regulation.

Professor Liu Junhai from the China Renmin University says lawmakers will have to take into consideration the interests of all parties, including vendors and consumers. "Regulating is not our ultimate goal, but only a way to promote the development of individual businesses, and better safeguard the interests of businesses, consumers and others in society."

[Source: wcetv.com](http://eng.wcetv.com/1/2009/07/23/126s16626.htm) (Link no longer active)

### Chinese auditors find nearly US$2 billion illegally unpaid taxes

Chinese auditors have discovered billions of yuan in unpaid taxes and illegal tax cuts, the National Audit Office (NAO) said recently in a report.

The report details the results of audits on the taxation departments in 16 provinces, autonomous regions, or municipalities, including Guangdong, Hubei and Inner Mongolia, over the past two years.

The NAO found 13.1 billion yuan (US$1.9 billion) of taxes, which should have been paid by 71 enterprises to the central government, went uncollected. The amount accounted for 54 per cent of the total due from the enterprises.

Meanwhile, 62 county-level taxation departments in 13 provinces wrongly collected 2.34 billion yuan in taxes from 169 enterprises, either paid in advance or in excess of what they owed.

A random check of 116 advanced technology enterprises in 11 provinces found 85 companies enjoyed tax cuts totaling 3.63 billion yuan to which they were not entitled.

The NAO also discovered that almost 60 per cent of 176 audited enterprises underpaid their taxes by 360 million yuan, as they paid a fixed amount instead of an amount based on profits. Only enterprises that fail to establish proper account books are allowed to pay a fixed amount of taxes in China, the report said.

The office also said 44 of 52 producers of wine, alcohol and cosmetics checked by auditors underpaid consumption taxes by 11.6 billion yuan during 2007 and 2008, by undervaluing their factory prices.

More than half of 287 high-polluting, high energy-consuming firms examined by auditors either failed environmental standards, or should have been shut down or ordered to reduce capacity, but they falsely claimed tax cuts totaling 1.9 billion yuan in 2007, said the report.

In a separate auditing of fiscal and budget management of 18 provinces, autonomous regions and municipalities, the NAO found many local governments failed to put proceeds from land under the framework of government budgets.

The NAO said about 84.8 billion yuan non-tax profits failed to be put under the management of government budgets at 10 provincial-level, 23 prefecture-level, and 41 county-level governments in 2007. Of the total, 62.6 billion yuan, or more than 70 per cent, was government proceeds from land transactions.

The office also discovered that 28.3 billion yuan, which had been classified as government spending for 2010, failed to match any projects at 11 provincial-level, 11 prefecture-level, and eight county-level governments in 2007.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-07/17/content_11725848.htm) ([see archive](Chinese_auditors_find_nearly_2_bln_taxes_illegally_postponed_for_collection.pdf))

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