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# China News Alert Issue 307

## Capital Markets

### China gives green light to first GEM applicants

The first seven companies applying for listing on the Growth Enterprise Market (GEM), China's Nasdaq-like market, have been given the green light from the country's securities regulator.

The successful companies are in the software, medical equipment and medicine sectors. They plan to raise 2.27 billion yuan (US$332.65 million), from the IPOs, according to the China Securities Regulatory Commission (CSRC).

"This means the seven enterprises are eligible to list on the market, but they still have some flaws in information issuance, which need to be improved," said Jiang Xinhong, a member of the review commission.

The flaws will not hinder the listings, but these enterprises must carry out some necessary procedures before becoming listed, said the CSRC.

The CSRC had received 155 applications for IPOs on the GEM as of 10th September. It began to accept applications on 26th July.

[Source: China Daily](http://www.chinadaily.com.cn/china/2009-09/17/content_8705458.htm) ([see archive](China_gives_green_light_to_first_GEM_applicants.pdf))

### Beijing Municipal Government to release opinions to encourage foreign private equity investment funds

Beijing Municipal Government will release opinions to encourage foreign private equity investment funds. This initiative aims to promote the development of private equity funds in Beijing and attract more foreign private equity.

An official from the Beijing Financial Bureau has disclosed that the opinions are under progress and will be released soon.

The initiative, especially designed for foreign private equity, comes after the 'Opinions Concerning Further Promotion of the Development of Private Equity Investment Funds' (the Opinions) released in January of this year. The Opinions prescribe preferential treatment for private equity. The Beijing company registration authority and the commerce authority, together with the Beijing Financial Bureau, have promised convenient and efficient registration procedures for private equity funds.

Private equity financing is an important corporate finance method complementary to financing on the stock market. According to incomplete statistics, China currently has nearly 5000 companies and organisations engaged in the private equity business.

[Source: Sohu](http://business.sohu.com/20090914/n266716114.shtml) ([see archive](Beijing_Municipal_Government_to_release_opinions_to_encourage_foreign_private_equity_investment_funds.pdf))

## Corporate & Commercial

### China files WTO complaint over U.S. tyre tariffs

The Chinese government recently filed a formal complaint to the World Trade Organisation (WTO) over steep U.S. tariffs imposed on Chinese-made tyres.

Under the WTO's dispute settlement system, the two countries will now have 60 days to try to resolve the dispute through consultations. If consultations fail, China can go further by requesting a WTO panel to investigate and rule on the case.

"China put forward a formal request for consultations with the U.S. under the WTO dispute settlement mechanism on the U.S. special safeguard measures against Chinese tyres," the Chinese mission to the Geneva-based body said in a statement.

"China believes that the above-mentioned measure by the U.S., which runs counter to relevant WTO rules, abuses trade remedies," the statement said.

"China's request for consultations with the U.S. is based on the normal practice of WTO members under the dispute settlement mechanism and is concrete action by China to protect its own interests," it added.

The Chinese mission also expressed hope that "all sides will understand its determination to fight against trade protectionism so as to commonly safeguard the multilateral trading system by respecting WTO rules."

U.S. President Barack Obama recently approved punitive tariffs up to 35 per cent on all car and light truck tyres from China in an attempt to "remedy the clear disruption to the U.S. tyre industry."

China quickly denounced the U.S. move as a serious act of trade protectionism which violates WTO regulations.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90857/90861/6757364.html) ([see archive](China_files_WTO_complaint_over_US_tyre_tariffs.pdf))

### SOE executives' salaries to be regulated

China has recently announced guidelines to regulate salaries for executives in the country's 135 centrally-administered state-owned enterprises (SOEs).

The document was jointly issued by six administrative departments of China's central government, including the Ministry of Human Resources and Social Security, the Ministry of Finance, the State-owned Assets Supervision and Administration Commission, and the National Audit Office (NAO).

The document sets guidelines for salary structure and payment, position-related consumption, and supervision and management, in a bid to establish and perfect incentive and governing mechanisms regulating SOE executives' salaries.

The annual salary structure for SOE executives is composed of basic salary, performance pay, and incentive earnings for the mid and long term, according to the guidelines.

It stipulates that executives' performance pay should be based on the enterprises' business performance.

The annual salaries of executives should be in line with those for employees in the previous year, in a bid to narrow disparity between executives and employees, the guidelines state.

Departments, including the NAO and the Ministry of Supervision, will be required to monitor the implementation of the regulations, and to undertake punitive measures in the event of irregularity.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-09/16/content_18540080.htm) ([see archive](SOE_executives_salaries_to_be_regulated.pdf))

### China to simplify FDI procedures

China received US$7.5 billion of foreign direct investment in August 2009, up 7 per cent from a year earlier, the first growth since October 2008, said Yao Jian, a spokesman from the Ministry of Commerce. Yao said that China may optimise its policies to further boost FDI.

In August, China approved 1,687 foreign-funded enterprises, down 2 per cent year on year. Foreign investment in manufacturing totaled US$4.3 billion, contributing most to the growth. FDI in the service sector plunged by 27.7 per cent year on year and is expected to fall 35 per cent for the whole of 2009.

Yao said that although Augusts' FDI figure was better than expected, it did not necessarily indicate an all-around warm up.

"Currently, China's FDI policies have a complete framework, and are fair and impartial," said Yao Jian. "However, they need adjustment and optimisation to better support the country's economic restructuring and to create a resource-saving and environmentally-friendly society."

He noted that the adjustment and optimisation would focus on simplifying investment procedures. Foreign investment filing systems would replace the current examination and approval system.

Yao said that China's public bidding was "impartial". The winning rate of foreign-funded enterprises reached 80.5 per cent in China's public biddings of mechanic and electric products in 2008.

From January to August, China's FDI totaled US$55.86 billion, 17.5 per cent lower year on year. 14,130 foreign-funded enterprises were approved during the same time, down 24.8 per cent.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90857/90861/6758093.html) ([see archive](Ministry_China_to_simplify_FDI_procedures.pdf))

### China wooing private investment in cultural sector

Chinese Minister of Culture, Cai Wu, pledged recently to provide a favourable policy environment for private capital invested in the cultural sector.

"We will encourage and guide all kinds of private investors to enter the cultural sector," Cai said. "We will also support the development of private cultural enterprises."

Both private and state-run cultural enterprises, such as film and television program studios, entertainment agencies and record companies, would enjoy the same treatment, he said.

"Except for a few businesses, the cultural sector will be open to foreign investors as well," Cai said. He did not give details of "the few businesses".

In addition, China expected to restructure State-owned cultural enterprises so they would become market-oriented and economically efficient, Cai said.

Restructuring of 268 state-owned publishing houses is already taking place and is expected to be completed by the end of next year.

Animation, computer games and online entertainment services were the most promising businesses in the sector, Cai said.

The ministry was working to build a nationwide online booking system for performances, he said.

In response to a question about the censorship of foreign songs provided to domestic sites for Internet download, Cai said the move aimed to regulate the market and protect copyright. On 3rd September the ministry announced foreign songs and music videos must pass censorship before being placed for online downloading on domestic websites.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-09/14/content_18524097.htm) ([see archive](China_wooing_private_investment_in_cultural_sector.pdf))

## Taxation

### New policy may tighten taxpayers' belts

A new tax regulation will squeeze the wallets of many State-run enterprise employees, while foreign company employees may not be affected.

Considered an open secret for many organisations based in the nation's capital, an area referred to as "gray income" has been allowed because monthly allowances for expenses such as taxi fares have never been listed as person income items prior to new nationwide rules.

Gray income adds up to thousands of yuan per month but analysts have said that the new regulation on personal income tax issued this year by the State Administration of Taxation will eliminate this common practice.

The move will in turn direct more tax revenue into the nation's coffers as it slowly recovers from the recent financial recession.

The new regulation lists phone and transportation allowances as part of an employee's personal income for the first time. It also holds employees liable for tax payments once the regulation is in effect.

The original scope of personal income includes an employee's salary, annual bonus, overtime salary and some additional income sources, which are not specified.

However, employees from foreign corporations in Beijing said recently they will not be affected.

Lene Long, an accountant who has previously worked in two Beijing-based foreign companies, gave two reasons to explain the rule's ineffectiveness. "First, foreign ventures audit corporate spending carefully," Long said. "Second, they pay employees much more than State-run organisations, so there is no room for allowances for their employees."

"The new tax-imposing policy will mainly target State-owned enterprises who have been almost addicted to cashing everything through receipts to make more without paying taxes," said Liu Junsheng, a Beijing-based financial expert and advisor to the Ministry of Human Resources and Social Security.

Accountants in government-run agencies in the capital said they expected a significant cut in employees' incomes as a result of the regulation, but employees said they expected "little change."

"Tax authorities seem pretty serious this time about the receipt practice after a difficult financial year so far," said an accountant of a government-run agency, who declined to be named. "If [authorities] investigate us, we can do nothing but cut off allowances," she told.

But Jiang Yang, an employee with a State-run enterprise in Beijing, said even if tax authorities begin looking into a company's tax practices, there will be no major changes in salaries.

"Senior officials have many ways of earning money, so they won't care about losing some taxi allowances," he told. "We may not be allowed to claim our receipts in the future, but I bet we will receive more shopping cards instead."

Taxation authorities also pointed out difficulties when implementing the new policy: Companies and government agencies may come up with new items for allowances that are out of reach of taxation watchdogs.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-09/17/content_18545869.htm) ([see archive](New_policy_may_tighten_taxers_belts.pdf))

## Other

### China to have charity law within two years

China is expected to have its first charity law within two years as the Ministry of Civil Affairs reported the draft law to the State Council last month, an official said.

"In no more than one or two years, the law will hopefully be passed after the State Council and the National People's Congress, the top legislature, complete all legislative procedures," Wang Zhenyao, director of the social welfare and charity promotion department under the Ministry of Civil Affairs, said recently.

"The mechanisms, systems and ideas of China's charity sector have lagged far behind citizens' demands," he said.

At an appropriate time, authorities will make public the draft law to solicit opinions, he said, without elaborating.

Wang made the remarks recently at a seminar when the Chinese Academy of Social Sciences (CASS) released the annual report on China's philanthropy development, which is also the country's first blue book of philanthropy.

Experts and practitioners suggested at the seminar that the future charity law should clearly define the nature of charitable organisations, as well as standardise the preferential tax policy, registration and internal governance of charitable organisations.

China has only about 54,000 registered charitable organisations. According to relevant regulations and administrative laws, the country has only two kinds of charitable organisation - those providing social services and those protecting the environment, said Yang Tuan, a researcher with the social policy research center under CASS.

"I hope the definition of charitable organisations can be broader in the charity law - with goals of serving the public interest or common good, all kinds of social organisations alleviating poverty or taking part in educational, medical or cultural activities should be included," said Yang, who is also the blue book's chief editor.

Based on this broader definition, the country has about 1 million charitable organisations, among which 410,000 are registered, she said.

"The law also should formulate that charitable organisations can be registered as non-profit organisations. Presently they can only be registered as profit-seeking organisations, which is ridiculous and maybe one reason for the large number of unregistered organisations," she said.

Deng Guosheng, professor with the NGO research center with Tsinghua University, said authorities should standardise the preferential tax policy in the law. "The law should clearly formulate tax relief or exemption policies for philanthropic organisations or activities like charitable donations, which could encourage individuals and enterprises to donate more money," he said.

"Laws or regulations should require these organisations not be affiliated to any government department and should run independently," said Fan Baojun, president of China's largest philanthropic organisation, the China Charity Federation.

A large amount of donated money which organisations received had been handed in to local finance offices. In the end, few citizens have any idea about how local governments spend the money they donate, he said.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-09/17/content_18542263.htm) ([see archive](China_to_have_charity_law_within_2_years.pdf))

### SARFT tightens regulation of television shopping and advertising

China's State Administration of Radio, Film and Television (SARFT) has officially released regulations for broadcast television advertising to take effect on 1st January 2010, as well as a notice tightening the regulations over paid programming and home shopping channels.

Paid programming will be subject to broadcast television advertising regulations on broadcast length and times, and will not be allowed on news or international channels. Paid programming not suited for minors will be prohibited on educational and children's channels.

The new regulations prohibit advertising and programming for pharmaceuticals and sex-related products as well as breast enlargement, weight loss and height increasing products. Advertisements will also be prohibited from including exaggerated or misleading claims regarding advance orders, limited supplies or clearance sales.

The new regulations also require companies to have at least RMB 10 million in registered capital, a fixed office location and a call center with no less than 100 lines in order to air paid programming on broadcast television.

Television broadcasters are also required to thoroughly examine submitted paid programming according to relevant laws, and will be held legally responsible in any cases of harm to consumers caused by lax control of advertising content.

[Source: Marbridge Consulting](http://www.marbridgeconsulting.com/marbridgedaily/2009-09-11/article/29528/sarft_tightens_regulation_of_tv_shopping_and_advertising) ([see archive](SARFT_Tightens_Regulation_of_TV_Shopping_and_Advertising.pdf))

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