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# China News Alert Issue 308

## Capital Markets

### SIPO launches new round of IPR pledge financing trials

The State Intellectual Property Office (SIPO) recently launched a new round of trials for intellectual property rights (IPR) pledge financing. It approved six authorities, including the Chengdu IP Bureau, to carry out IPR pledge financing on a trial basis in their respective jurisdictions.

The six newly approved authorities will explore different ways of IPR financing, establish reasonable risk sharing systems and solve financing problems met by small and medium enterprises.

This is a new initiative by the SIPO to push forward IPR pledge financing throughout the country, building on the first batch of trials in 2008. This new round of trials will commence in September 2009 for a period of three years.

Since the launch of IPR pledge financing programmes, various authorities have released relevant support measures, improved the market environment for the programme and effectively helped many small and medium enterprises out of financial crisis.

[Source: ce.cn](http://finance.ce.cn/rolling/200909/18/t20090918_14968441.shtml) ([see archive](SIPO_launches_new_round_of_IPR_pledge_financing_trials.pdf))

### Wuliangye comes under regulator's glare

The China Securities Regulatory Commission (CSRC) recently announced that it was conducting a full investigation into liquor maker Wuliangye Yibin Company for incomplete and inaccurate information disclosure.

According to the CSRC, Wuliangye reported that the revenue of one of its subsidiaries was 1 billion yuan (US$146 million) higher than the actual figure in 2007 and did not correct the mistake in its financial statement.

The company had about 55 million yuan of investment losses in 2007 and failed to report this. In addition, in 2000, the company borrowed 20 million yuan from a subsidiary for securities investment and lost about 5.2 million yuan. None of these details were incorporated in to the financial statements, the CSRC said.

In 2000, the company used about 130 million yuan for securities investment. By the end of 2005, it had lost about 42 million yuan. The securities firm went bankrupt in 2007 and Wuliangye received about 4.58 million yuan as compensation.

Yet the company did not accrue the impairment provision in its financial reports between 2006 and 2008, the CSRC said.

The CSRC said it began to probe the company on 28th July after receiving complaints. The regulator said it has discovered that the company had undisclosed material investment losses and also inaccurately disclosed revenue for 2007.

"Wuliangye violated the Security Law on accurate and complete information disclosure. The regulator will try to learn all the relevant facts and decide on the administrative penalty," an official with the CSRC said.

On 9th September, the company said the CSRC was investigating it for suspected violations of the Security Law. On that day, its shares dived 6.22 per cent to 22.60 yuan.

The company's shares have since declined steadily. Its shares dropped another 4 per cent recently to close at 21.60 yuan.

"Publicity, fairness and equality are the cornerstone of the securities market. Information disclosure is important for increasing market transparency and protecting shareholders' rights," the official said.

The securities watchdog has been paying increasing attention to information disclosure by listed companies. Since 2007 it has investigated about 49 cases of suspected violations of information disclosure and 16 cases have been handed over to the police, the CSRC said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-09/24/content_8729307.htm) ([see archive](Wuliangye_comes_under_regulators_glare.pdf))

### CBRC denies regulating bankers' pay

China's banking regulator has said recently that it does not place limits on the pay of top executives of the country's commercial banks.

The China Banking Regulatory Commission (CBRC) said it noted that some of the country's media reported the CBRC was drafting a document to regulate the pay of bankers from commercial banks.

Every country is trying to correct improper incentive systems to curb excessive risk-taking which sparked the current financial crisis, said the CBRC.

"The CBRC has been working with other departments on improving the wage incentive mechanism for the country's banking industry since last year," an official from the CBRC, who declined to be named, said in response to the media reports.

"The aim was to introduce scientific guidelines on incentive systems by integrating executives' pay and operation risks," said the spokesman, adding the CBRC is not directly responsible for regulating bankers' remuneration.

Detailed pay setting should be determined by individual financial institutions, according to the official.

[Source: People's Daily](http://english.people.com.cn/90001/6767456.html) ([see archive](CBRC_denies_regulating_bankers_pay.pdf))

## Corporate & Commercial

### New policy to support SMEs

China's State Council issued a document recently to strengthen support for the development of the country's small- and medium-sized enterprises (SMEs).

The government will deepen reforms in the country's monopolised industries, lower the market access threshold for SMEs and create a more open and fair competition environment for SMEs, said the document.

According to the document, the government will optimise its procurement system, increasing the proportion of its purchases of commodities, engineering and services from SMEs.

The government will grant a one-year reprieve on the social security fund to SMEs experiencing operational difficulties amid the global financial crisis, in a bid to reduce financial burdens and protect the interests of SMEs.

It will expand channels for SMEs to raise capital by encouraging banks to lend more money to SMEs and increasing policy making efforts to encourage private capital to tap into the country's financial system.

The government will increase tax breaks to small firms with an annual taxable income below 30,000 yuan (US$4392.40) from 1st January to 31st December 2010.

According to the document, the government will also encourage SMEs to improve their technological innovation capabilities, improve their product quality, and promote development in energy conservation and clean production.

In China, SMEs refer to enterprises where the number of staff is fewer than 2,000 and whose annual revenues are under 300 million yuan, or total assets are under 400 million yuan.

The move follows a framework announced by the government in August to support SMEs which have been hit hard by the global economic downturn.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90884/6764976.html) ([see archive](China_New_policy_to_shore_up_SMEs.pdf))

### China to strengthen regulations on foreign investment in agriculture

China's Ministry of Agriculture will strengthen regulations on foreign investment in China's agriculture sector, said Minister of Agriculture, Sun Zhengcai, on 21st September.

Sun noted that China welcomes foreign investment in the agriculture sector, but that foreign investment should be in line with fundamental requirements for the effective supply of agricultural products, the country's agricultural industry security as well as farmers' interests.

In recent years, massive amounts of foreign capital has rushed into China's arable farming, livestock breeding and processing, and marketing of agricultural products. The impact of foreign investment has always been a very hot issue.

Li Guoxiang, a researcher with the Rural Development Institute at the Chinese Academy of Social Sciences, said that foreign investment was “neither devil nor angel”. "Even the same foreign enterprise can bring different outcomes to different industries or different regions."

"The opening up of China's soybean market was too rapid," Li said. China buys a lot of soybeans from the international market, therefore the price fluctuations and changes in the global economic situation have a strong impact on China's domestic soybean market, hurting Chinese farmers' interests.

Li urged the government to improve foreign investment policies and regulations. "For example, contract agriculture has been widely accepted in China. Cooperation between foreign enterprises and Chinese farmers is increasing. However, regulations over cooperation models and contract standards are still lacking."

[Source: People's Daily](http://english.people.com.cn/90001/90778/90857/90861/6764579.html) ([see archive](Ministry_China_to_strengthen_regulations_on_foreign_investment_in_agriculture.pdf))

### Guiding catalogue for investment in cultural sector released

The Ministry of Culture recently released the ‘Guiding Catalogue for Investment in the Cultural Industries' (the Catalogue) to list encouraged and restricted areas. Six industries including Internet culture, cartoon and comic services are included in the encouraged catalogue.

This initiative is to help domestic state-owned and non-state-owned investment entities understand the development of cultural industries.

Under the Catalogue, cultural investment is divided into encouraged, permitted, restricted and prohibited areas. Although most investment is encouraged, the establishment and operation of internet cafés, major cartoon, comic and game exhibitions, the construction of large cultural theme parks and major cultural activities are restricted.

The Catalogue only applies to domestic investors. Foreign investment entities investing in cultural industries will be under the administration of the ‘Industrial Catalogue for Foreign Investment'.

[Source: jrj.com](http://finance.jrj.com.cn/biz/2009/09/2204396108902.shtml) ([see archive](Guiding_catalogue_for_investment_in_cultural_sector_released.pdf))

### China appeals WTO ruling on books and audio-visual products

China has recently lodged an appeal over a World Trade Organisation (WTO) panel ruling which said its regulations on the importing and distribution of books and audio-visual products are not in compliance with world trade rules.

The WTO's seven-member Appellate Body will now have two to three months to reinvestigate the US-China dispute, and it can uphold, modify or reverse the panel ruling, which was issued last month, the Chinese mission to the world trade body said.

The United States brought the case to the global trade watchdog in April, 2007, saying that China was not providing enough access for the import of publications and audio-visual products. The case involves publications such as books and newspapers, audio and video products including CDs, DVDs and games, and music downloading services.

A WTO expert panel issued its ruling on 12th August, largely upholding the US allegations, and it called on China to revise its import regulations so as to bring them in line with WTO rules and China's obligations in the organisation.

The Chinese Commerce Ministry had expressed regret over the panel ruling, saying that "China has always fulfilled its obligations on market access for publications and the channels for foreign publications, films and audio-visual products entering the Chinese market are extremely open."

China has imported approximately 500,000 publication titles of all kinds each year since joining the WTO in 2001, as promised in its entry agreement, the ministry said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-09/23/content_8726286.htm) ([see archive](China_appeals_WTO_ruling_on_books_audio-visual_products.pdf))

## Other

### China solves 80,000 cases every year through administrative appeals

The Chinese government has solved about 80,000 cases of conflict between government organisations and public citizens every year since the administrative appeal system was introduced in 1999.

The figure was revealed by Yuan Shuhong, vice director of the Legislative Affairs Office of the State Council, at a recent press conference.

According to Yuan, governing officials have been ordered to revoke their improper or illegal acts and decisions in 14.67 per cent of the total cases and in 18.92 per cent of these cases the acts and decisions were rectified.

The changes were brought about by appeals, or "lawsuits filed by people against government officials", which allow people to petition higher authorities to correct the mistakes of lower organisations.

"The administrative appeal system plays a very important role in protecting the legal rights of the people and keeping administrative organisations' power under control," said Yuan.

The government has also set up a series of regulations to ensure the implementation of the Administrative Reconsideration Law. Under these regulations, the appeal authorities can recommend to personnel departments administrative penalties for responsible officials.

However, Yuan noted that the country should continue to improve the appeal system and law enforcement as some cases were not reasonably solved and some administrative organisations did not put much effort into dealing with appeals.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-09/22/content_18579697.htm) ([see archive](China_solves_80000_cases_every_year_through_administrative_appeals.pdf))

### State Council passes plan to boost central region development

Central Chinese provinces should achieve remarkable economic progress by 2015, according to a plan passed by the State Council recently.

The central areas involve Shanxi, Anhui, Jiangxi, Henan, Hubei and Hunan provinces, according to the State Council's executive meeting chaired by Premier Wen Jiabao.

These are the country's major grain output bases, raw energy material production areas, equipment manufacturing centers and transport hubs, according to the meeting.

The layout stresses efforts to promote modern agriculture, raw energy materials, equipment manufacturing and high technology in central areas.

Traffic resources will be optimised and economic zones will be formed along the Yangtze River and major railway routes running through central China.

The plan also stresses green economy, farmland protection and water-use efficiency.

More effort will be spent on education, cultural and sports undertakings, public health services, social security and other reforms in the provinces, according to the plan.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-09/24/content_8730799.htm) ([see archive](State_Council_passes_plan_to_boost_central_region_development.pdf))

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