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# China News Alert Issue 313

## Capital Markets

### SZSE promulgates “Rules for Corporate Bond Listing"

The Shenzhen Stock Exchange (SZSE) has recently released a revised series of documents, including the “Shenzhen Stock Exchange Rules for Corporate Bond Listing” (Rules), a bond listing agreement and a bond listing announcement.

The SZSE have also repealed the “Shenzhen Stock Exchange Interim Provisions on Corporate Bond Listing”, the “Notice on Relevant Matters Concerning Corporate Bond Issuance, Listing and Trading”, the “Shenzhen Stock Exchange Rules for Enterprise Bond Listing” and the “Enterprise Bond Listing Agreement”.

The SZSE has integrated rules relating to corporate bonds and enterprise bonds in order to make them more adaptable to the development of current and future bond markets.

The Rules have introduced new measures: to push ahead with the system for classification management of bond trading; to strengthen supervision over the bond market and implement a bond trading alert system; and to intensify bond information disclosure and improve the bond track rating system.

The person in charge of the SZSE believes that the promulgation of the Rules indicates that the SZSE bond market will take a further step towards fast-growing, steady and standardised development, building-up a multi-layer capital market system, and improve the market financing structure and the protection of investors' legitimate rights and interests.

[Source: Shenzhen Stock Exchange](http://www.szse.cn/main/en/AboutSSE/MarketNews/39740884.shtml) ([see archive](SZSE_promulgates_Rules_for_Corporate_Bond_Listing.pdf))

## Corporate

### Outbound M&A deals set to carry on in 2010

Government encouragement and the trend by Chinese companies to expand overseas fueled the increase in outbound merger and acquisition deals and it is expected that these would continue next year, an industry report has claimed.

The value of quarterly M&A deals grew from US$1.3 billion in the first quarter of this year to US$8.9 billion in the third quarter, Deloitte said in a report. The number of M&A deals rose to 26 cases in the third quarter from 10 cases in the first quarter, the accounting firm said.

"The Chinese economy has remained basically insulated from the fallout caused by the financial crisis. This has contributed to the relative robustness of outbound M&A activities from China," said Lawrence Chia, head of Deloitte China M&A services and global Chinese services group co-chairman.

"The desire of Chinese companies to expand through acquisitions and the support from the Chinese government are also driving outbound deals," Chia added.

There were 61 Chinese outbound acquisitions with an aggregate value of US$21.2 billion in the first three quarters of this year.

Transactions in the energy, mining and utilities sectors continued to dominate Chinese M&A purchases abroad.

Since 2003, acquisitions in these sectors have accounted for 29 per cent of the total outbound deal flow by volume and a massive 65 per cent of the total deal valuations. In the first nine months of this year, the proportion in the volume of deals jumped to 40 per cent while the proportion in value soared to 93 per cent.

"Looking forward, the dominance of these transactions is likely to continue into 2010," said Karl Baker, mining sector M&A partner for Deloitte China. "Chinese demand for raw commodities has continued to grow throughout the credit crisis."

Chinese companies may start bidding for assets in the financial services sector in Europe and North America, according to Deloitte.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=418618) ([see archive](Outbound_M_and_A_deals_set_to_carry_on_in_2010.pdf))

### Unilever faces Shanghai customs fraud trial

Unilever, a multinational manufacturer of food and personal care products, went to trial on 29th October in Shanghai, for suspected customs fraud.

When importing lanosterol as a raw material from October 2002 to February 2008, the purchasing department of Unilever in China deliberately declared it as sterol, to obtain tariff reductions totaling 3.17 million yuan, according to Shanghai's No. 1 Intermediate People's Court.

Aside from the purchasing department of Unilever (China) and its chemicals purchasing assistant manager, Fan Jun, defendants also included Unilever's import agent, Bronson and Jacobs (Shanghai) International Trading Company Limited and the commercial agent manager, Zhang Hao.

Early in 2008, Shanghai Customs found that Bronson and Jacobs had used the wrong HS code in the declaration of lanosterol since 2002. The HS code or Harmonised Commodity Description and Coding System, is an international classification system for traded products.

As Unilever's import agent, Bronson and Jacobs declared lanosterol in the name of sterol. While their chemical composition is similar, the tariff of lanosterol stands at 27 per cent while sterol is 5.5 per cent.

Unilever's chemicals purchasing assistant manager, Fan Jun, stated that under pressure to reduce costs, he replaced the code for lanosterol with sterol in 2002. The switch of codes was not entirely Fan's decision and was sanctioned by his superior, Yang Shuqing, director of the Unilever purchasing department. Fan said if he failed to cut purchasing costs, he would have been fired.

In response to the charge, Unilever briefly stated that the company continues to cooperate closely with the proceedings of the case.

Previously, the well-known multinational corporation Fuji-Xerox was involved in customs fraud of copier machines in 2003. The first Anti-Smuggling Seminar in Guangzhou was convened in 2004 to provide information on the growth of illegal activities and customs issues surrounding foreign-invested enterprises in China.

However, a source engaged in the multinational import and export business stated that the Shanghai Customs should also take responsibility for an opaque regulatory structure.

A verdict is pending, with the corporate defendants liable for fines and the individuals facing imprisonment. China prescribes sentences of up to three years, three to ten years and more than ten years in smuggling cases, depending on the degree of the offense.

[Source: Caijing](http://english.caijing.com.cn/2009-11-03/110302293.html) ([see archive](Unilever_Faces_Shanghai_Customs_Fraud_Trial.pdf))

## Culture and Publishing

### Battle breaks out over game approval

In a rare turf war between regulatory agencies, the Ministry of Culture (MOC) opened fire on the General Administration of Press and Publications (GAPP), saying its decision to pull the plug on a popular online game was "an act out of bounds".

The disagreement broke out after GAPP decided to suspend its approval of the World of WarCraft online game. The game has more than 1 million players on the Chinese mainland

In effect, the GAPP decision went against a State Council circular issued last July that declared the MOC was in charge of regulating the multi-billion dollar online gaming industry. GAPP had previously overseen the industry.

GAPP has ordered NetEase.com, China's second-largest Internet games operator and the company with the license to run World of WarCraft in China, not to charge users. GAPP has also told the company to power off its servers and refuse to accept new account registrations.

GAPP is responsible for reviewing and approving "publications" and the department contends that online games are a form of "online publication".

The MOC insists online games are within its portfolio. The MOC called an emergency press briefing in Beijing to respond to GAPP's decision to suspend approval on the popular online game.

Li Xiong, head of the MOC's department of cultural markets, insisted the ministry had the sole right to regulate online games. "As long as they're online, these games and publications are fully subject to administration by the MOC," Li said.

Nasdaq-listed NetEase is "complete in its paperwork and the content of its game is legitimate", Li said, insisting that GAPP should not have become involved and blocked the game.

GAPP had earlier threatened to cut NetEase's Internet service, something that Li said it was not authorised to do.

The MOC will report relevant matters to the State Council, added Liu Qiang, chief of its Internet culture division.

GAPP allowed NetEase to begin testing World of WarCraft on 30th July on the condition that it did not charge gamers and did not allow the registration of new accounts. But NetEase allegedly began to break those conditions on 19th September. GAPP responded by saying it had revoked its approval of the game.

In a written statement, NetEase said it had not been officially notified of GAPP's decision. The company said it was "currently seeking clarification" from the relevant authorities.

Officials from GAPP could not be reached for comment yesterday.

Experts have described China's online gaming industry as one of the nation's most promising sectors. The nation's online gaming industry took in around 2.7 billion yuan last year, according to official statistics. China had 217 million online gamers by June 2009.

The battle between the two regulatory agencies over who controls online gaming has left many players anxious.

Zhang Chao, 28, who has been a World of WarCraft player for five years, said the dispute was "a show of the intensity of conflict between government agencies whose roles have not been clearly defined". "Of course, players like us wouldn't want to see the game suspended. This looks as if they're just messing around with things over a conflict of interest," Zhang said.

A 29-year-old worker at an online advertising agency, who would only give her cyber name, Xiaoyun, said she plays for around four hours a day. She said many online gamers will play via servers in Taiwan, where they will have to spend about twice as much. "I don't care which government agency is overseeing online games. But whoever it is, they never come to us for our opinion," she said. "The players are the biggest victims."

[Source: China Daily](http://www.chinadaily.com.cn/china/2009-11/04/content_8908437.htm) ([see archive](Battle_breaks_out_over_game_approval.pdf))

## Real Estate

### China not expected to extend favourable measures in property sector

With a solid recovery in the real estate market, the Chinese government would probably not continue the measures unveiled last October to boost the property sector amid the global financial crisis, the China Business newspaper has reported on its website.

The newspaper quoted an unnamed source close to the Ministry of Housing and Urban-Rural Development (MHURD): "Those policies were effective for one year. The MHURD will not propose to extend them."

Late last October, Beijing rolled out a series of favourable measures to boost the falling property sector amid the global economic downturn.

These measures, which took effect on 1st November 2008, included cutting mortgage rates by as much as 30 per cent, lowering the stamp tax on house purchases from 3-5 per cent to 1 per cent for first-time home buyers acquiring an apartment of less than 90 square meters, and reducing the down payment requirement to 20 per cent from 30 per cent.

These measures, implemented by the Ministry of Finance, the central bank and the State Administration of Taxation, had been largely proposed by the MHURD, the newspaper quoted the source as saying.

Thanks to these policies and rising demand, China's property market has seen price and sale rises since February this year. Net profit of China Vanke, the country's largest property developer by market value, jumped nearly 30 per cent year on year to about 3 billion yuan (US$439 million) in the first three quarters of this year.

Figures from the National Bureau of Statistics indicated that housing price in 70 of China's large and medium-sized cities rose 2.8 per cent in September compared with the same month last year. On a month-to-month comparison, it was 0.7 per cent higher than in August, and it was the seventh straight month of housing price increases.

Real estate investment is one of the largest contributors to China's urban fixed-asset investment, which has been an important driver of China's double-digit economic growth of recent years.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-11/01/content_12368695.htm) ([see archive](China_probably_not_to_extend_favorable_measures_in_property_sector.pdf))

### Mortgages for second homes hard to get

Homebuyers seeking a loan to buy a second home may face a harder time securing a mortgage in Shanghai because banks are reportedly tightening up their mortgage policies.

Most banks declined to comment on the issue, saying it was sensitive or quoting regulator's rules. But sources said yesterday that the Bank of Communications will tighten the approval requirements for a second home mortgage amid the current property boom.

The Industrial and Commercial Bank of China, China Merchants Bank (CMB) and China Construction Bank said that they have not changed their policies.

A CMB source said the bank takes into account all family members' mortgage records to determine second home status. However, the mortgage applicant can still qualify as a first-time buyer as long as the family has paid back the mortgage owed.

The Agricultural Bank of China declined to comment on its mortgage policy, citing the issue as a sensitive one.

Under the tightening of the rules, as long as one member of a family had a mortgage, a new mortgage application by another family member will be considered as a loan for a second home. It doesn't matter whether the previous mortgage is still being paid off or has been paid.

Previously, a family member with no mortgage record was viewed as a first-time home buyer even if other family members have borrowed to finance a property purchase.

"Under the new move, the biggest change for home buyers is a higher down payment," said the source. "Interest is not a big concern as second home buyers with a good track record can still enjoy interest discounts."

A buyer of a first home needs to put down a 20 per cent to 30 per cent deposit, and he is eligible for a 30 per cent discount on interest rates. A buyer of a second home faces at least a 40 per cent deposit and higher interest rates.

In September 2007, authorities asked banks to insist on at least a 40 per cent down payment with an interest rate at least 10 per cent higher than the benchmark rates on second homes. In December 2007, they issued a follow-up notice that banks should use family as the criteria to determine second homes.

The market has rebounded since March 2009 with rising prices and transactions showing no signs of cooling off.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=418525) ([see archive](Mortgages_for_second_homes_hard_to_get.pdf))

## Others

### Senior judge proposes raising threshold for corruption cases in China

A Supreme People's Court (SPC) official said that the threshold for laying charges of corruption and bribery should be raised to bring it more in line with today's conditions, China Daily reported.

"The 5,000 yuan (threshold) in 1997 and 2009 is so different considering the social changes and economic development over the last 12 years, yet the law has not changed at all," Zhang Jun, vice-president of the SPC, said during a seminar at Renmin University of China.

According to current criminal law, those who embezzle or accept bribes of more than 5,000 yuan (US$730) can be found guilty of corruption, a standard set in 1997.

Zhang said today's reality is that a lot of cases involving more than 5,000 yuan are not sent to court, as local prosecutors, especially those in economically developed areas, have raised the threshold.

Experts, while agreeing changes are necessary, differ on how they should be made.

Fan Chongyi, a law professor from China University of Political Science and Law, said it is more appropriate to let provinces or cities make their own thresholds, as economic levels vary from place to place.

"For example, two officials, one from Shanghai or Beijing, the other from the mountainous area of Yunnan province, both embezzle 1 million yuan. In most cases the one from Yunnan should receive a harsher punishment, as his incentive and the result of his crime are more severe compared to the other," Fan said.

Zhu Wenqi, a law professor from Renmin University of China, also thinks the threshold should be raised.

"Laws usually lag behind social development, so the change is appropriate. Besides, it is also about the dignity of the law. I think making 5,000 yuan a crime is not proper today," Zhu said.

Yet measuring the penalty according to the amount of money involved is not practical either, Zhu said.

"Each case in court is different, with its own conditions, and it is impractical to only take the amount of money into consideration," Zhu said. "Factors like the results and modes of corruption should also be considered in the penalty."

Currently, amounts between 5,000 and 50,000 yuan carry sentences of one to 10 years in prison, 50,000 to 100,000 yuan carry five years to life, and more than 100,000 yuan carries penalties of 10 years in jail to the death sentence.

Zhang also said that as there is a range of penalties, the public has been questioning some rulings. "It happens, and not seldom, that one who accepts 10 times the bribes of another receives a lighter sentence, and the public has doubted the justice of such cases."

[Source: Xinhua](http://news.xinhuanet.com/english/2009-11/04/content_12383641.htm) ([see archive](Senior_judge_proposes_raising_threshold_for_corruption_cases_in_China.pdf))

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