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# China News Alert Issue 347

## Capital Markets

### Shanghai to launch OTC for tech firms

Shanghai is set to launch an over-the-counter equity exchange for high-tech companies in the second half of this year to lure private investors.

Shanghai Zhangjiang Hi-Tech Park Development Company plans to invest 16 million yuan to set up the equity exchange for non-listed companies, according to a statement to the Shanghai Stock Exchange.

The company will hold 20 percent in the exchange, Shanghai United Assets and Equity Exchange 50 percent, and Shanghai International Group Corporation the remaining 30 percent, according to the statement.

The Pudong New Area government said in a meeting on 12th July that the OTC exchange will be inaugurated in the second half of this year. Oriental Morning Post said the bourse is expected to be launched as early as this month, citing unnamed sources.

The exchange will be located in the Zhangjiang High-tech Park in Pudong and will initially help start-up firms in Shanghai and other cities in the Yangtze River Delta region raise money.

It will be gradually expanded to become a national bourse to promote high technology and industrial upgrading, the Pudong Development and Reform Commission said in an earlier document.

China launched its first OTC market in June 2001 in Beijing to accommodate stocks delisted from the Shanghai and Shenzhen main boards as well as stocks formerly listed on the Securities Trading Automated Quotations network and National Electronic Trading system.

STAQ and NET, set up in the 1990s for firms that could not meet main-board listing conditions, were closed in 1999 because of rampant irregularities. In 2006, the Beijing-based OTC board was turned into a market where technology firms in Beijing's Zhongguancun Technology Park could trade shares.

[Source: Shanghai Daily](http://mobile.shanghaidaily.com/article/?id=443017) ([see archive](Shanghai_to_launch_OTC_for_tech_firms.pdf))

## Company

### Listed companies required to issue annual environmental report

The Chinese Ministry of Environmental Protection released a circular on 13th July requiring listed companies to establish an environmental review system.

The ministry announced that it would publicise the list of enterprises that have passed ministerial and provincial-level environmental protection reviews on a quarterly basis and it will annually disclose the results of environmental protection inspections.

In May 2009, the ministry found after inspecting listed companies that passed environmental protection reviews in 2007 and 2008 that 11 of the 58 listed companies had not rectified serious environmental issues in the given period as required. On 6th July, the ministry exposed the illegal environmental practices of nine additional paper-making enterprises located in the country's four regions.

According to the newly-released circular, the disclosure of environmental protection information will become the routine work of listed companies and each provincial-level environmental protection department should urge listed companies under their administration to carefully follow related ministry environmental information disclosure regulations and release environmental information and annual environmental reports in a timely, comprehensive and correct manner.

The circular requires that environmental protection departments at all levels focus their environmental reviews on whether the reviewed companies have reduced total emissions of major pollutants on schedule, eliminated backwards production capacity and legally completed environmental impact assessment procedures.

Also departments must determine whether or not companies have passed environmental protection assessments, legally completed clean production examinations, controlled heavy metal pollution and met emissions standards.

According to the provisions of the ministry and the China Securities Regulatory Commission, if manufacturing companies in heavy pollution industries apply for initial public offerings (IPO), they should provide environmental-protection review and approval documents from environmental-protection bodies in their application documents.

The enterprises that fail to provide environmental protection review and approval documents will not be entitled to apply for IPOs and those that pass environmental protection reviews should also accept environmental protection reviews after the IPOs.

"Although the Ministry of Environmental Protection has provided basic content for environmental information disclosure, the issues such as how to disclose the information, what channels will be used for information disclosure and the time range for the disclosure all need to be further specified," said Jia Yong, secretary of the Board of Directors at listed company Santai Electronics, "The Ministry of Environmental Protection is expected to consult with exchanges to specify requirements for the annual environmental report before issuing implementation methods."

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/7067769.html) ([see archive](Listed_companies_required_to_issue_annual_environmental_report.pdf))

### ICBC to buy 70% of AXA-Minmetals

The Industrial and Commercial Bank of China (ICBC) aims to acquire a controlling stake in French insurer AXA's Chinese insurance unit, the Securities News reported on 14th July.

ICBC, the world's most valuable bank by market capitalisation, plans to acquire a 70 percent stake in AXA-Minmetals as part of plans to tap the country's fast-growing insurance industry, the newspaper said, citing unidentified sources.

AXA currently owns 51 percent of AXA-Minmetals. State-owned base metals trading firm China Minmetals Group controls the remaining 49 percent.

ICBC has submitted the acquisition proposal, which will eventually turn AXA-Minmetals into a Chinese-controlled entity, for regulatory approval, the Securities News said.

AXA's ownership in AXA-Minmetals could be reduced to about 25 percent following the proposal, it added.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-07/14/content_10104054.htm) ([see archive](ICBC_to_buy_70_of_AXA-Minmetals.pdf))

## Others

### Price fixers to pay heavy fines

China may impose fines of up to 2 million yuan (US$295,300) for price manipulation and hoarding of agricultural products, the National Development and Reform Commission has said.

Prices of agriculture products such as mung beans and garlic hit the roof in recent months. Some electronic trading markets have supplied a platform for speculation and affected the normal prices on the spot market.

The government's new rules may help private investors like Yu Kaiyu avoid more tragedies. Yu suffered losses due to what he thinks were irregularities on the electronic market.

Yu, a laid-off worker in Anshan, Liaoning province, started trading black tea on the Shanghai Staple Agricultural Products Market, an e-commerce platform for products that includes Pu'er tea, six months ago.

The e-commerce platform adopts a mixed business model between forward and spot trading. Investors usually sign a four- or six-month contract with the market, but they can either settle their trade immediately like spot trading or complete the trading when the contract is due.

Prices of Pu'er tea soared after a once-in-a-century drought hit Yunnan, the only area where it is grown, earlier this year. What surprised Yu was that the price of Pu'er's went in the opposite direction on the Shanghai electronic market.

In mid-June, the average market price of Pu'er was about 43 yuan per cake, but has since dropped to 31 yuan per cake. In line with the market's rules, Yu asked to get the tea when his contract expired, but he was informed that private investors with "small" trading volume were not allowed to do so.

Including transaction fees and commission, Yu said he lost all his savings, about 40,000 yuan. "It's actually like an electronic casino," Yu said. "Many big speculative transactions pulled have down prices since March." "We suspect that the market got involved in transactions by using virtual money to depress prices and deliberately trap investors," said Yu and another investor Wang Xianfeng.

Fei Jian, president of the market, was not available for comment.

A local government source said the electronic market used the same account to manage its investors' money and the company's money, part of which is used for purchasing bank-financing products.

China has dozens of agricultural product trading platforms, owned by local governments or private concerns.

Due to a lack of supervision, these electronic platforms may now be used in ways counter to their initial purpose of helping farmers share national demand and supply information in a timely manner, Wang said.

Some electronic markets have failed to act as independent third parties and have become involved in the transactions or even used investors' money for other purposes.

"Owners of the electronic markets can't act like referees and players as the same time, said Wang Yuanhong, an economist of the State Information Center. Markets will be more cautious about intervening thanks to the government's new rules, he said.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-07/15/content_10109241.htm) ([see archive](Price_fixers_to_pay_heavy_fines.pdf))

### Regulators deny change to housing policies

The central government's policies to contain rocketing housing prices will continue, said the Ministry of Housing and Urban-Rural Development on 12th July, responding to recent reports that the tightening policies will be cancelled.

The Ministry urged local governments to strictly implement the State Council's policies, and to dampen speculation in the housing market while supporting residents' reasonable purchase of houses.

"In general, China's housing market is witnessing a positive change. The rapidly soaring housing prices in some cities are under control," said a statement on the Ministry's web site.

Latest data from the National Bureau of Statistics (NBS) showed that housing prices in China's 70 major cities rose 11.4 percent year on year in June, one percentage point lower than the increase in May.

This was the second consecutive month that China's property prices grew at a slower pace. Property prices in the 70 large- and medium-sized cities grew 12.4 percent year on year in May, 0.4 percentage points lower than in April.

The Ministry added it would adopt "positive" measures to increase the supply of commercial homes in the market, speed up construction of housing for low-income residents and renovation of shantytowns, and strengthen supervision of the real estate market conditions.

On the same day, China's banking regulator also dismissed rumours of loosening second-home mortgage standards.

The China Banking Regulatory Commission (CBRC) has made no adjustment to the requirements for the commercial banks to implementing the State Council's policies to rein in rapidly soaring housing prices, nor to the second-home mortgage standards jointly established by the CBRC, the People's Bank of China and the Ministry of Housing and Urban-Rural Development, said a spokesman of the CBRC.

On 14th April, the State Council announced that the down payment required for second homes will be no less than 50 percent and the minimum area for mortgage lending was also fixed at 1.1 times the benchmark lending rate. Also, banks are now forbidden from offering loans to homebuyers interested in purchasing a third home or more.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/7063361.html) ([see archive](Regulators_deny_change_of_housing_policies.pdf))

### China issues new rules to curb corruption in government drug purchases

The Chinese government has released a set of rules to control drug prices and prevent commercial bribery during government drug purchasing.

According to the new rules on the management and supervision of centralised drug procurements, medical institutions and pharmaceutical companies must now purchase drugs using a "centralised procurement system," which is supervised by provincial-level governments.

The system, aiming to uniform drug buying procedures and control drug prices, first began in 1999 and had been adopted in most regions of the country by the end of 2009, according to the Ministry of Health.

Using this system, hospitals should report to the provincial-level government the type, quantity and other requirements of medicines they want to purchase, and then the government will invite bids from pharmaceutical companies and sellers, select the most suitable bid and handle the purchasing on behalf of the hospitals.

However, in recent years some drug makers and sellers bribed government officials and hospital staff in order to have their products listed in the purchase. In other instances, the price of drugs was raised once they were listed for purchase.

According to the regulations, pharmaceutical companies and drug sellers must not raise the prices of their products listed in the buying program prior to the purchase being made.

The rules specify that drug manufacturers and sellers must not bribe government officials and hospital staff or provide false information on their products during the bidding process.

Those violating these regulations will be punished, and their cases could be transferred to judicial agencies if the violations are deemed serious, according to the new rules.

The new regulations were jointly released by the Ministry of Health, the National Development and Reform Commission, the Ministry of Supervision and several other government departments.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90882/7068200.html) ([see archive](China_issues_new_rules_to_curb_corruption_in_government_drug_purchases.pdf))

### China makes revised offer for WTO pact

The United States said China had submitted an improved offer to join a WTO pact that allows members better access to lucrative government contracts.

"China submitted its revised offer last week. We are still analysing it but we recognise that it includes significant improvements over its initial offer that was submitted at the end of 2007," said deputy US trade representative Demetrios Marantis.

Marantis said the new offer could be "a solid step toward ensuring China's huge government procurement market is open to US companies."

Last month US lawmakers proposed a ban on the US government buying Chinese-made goods or services until Beijing signs the WTO's agreement on government procurement, or GPA.

The lawmakers, three Democrats and Republican Senator Lindsey Graham, complained that US firms cannot compete in China's government procurement market, estimated at US$500 billion, while the US government buys Chinese tires, ammunition, office equipment, and other items.

"After we complete our analysis, including consulting with domestic stakeholders, we will work with China and other GPA members to ensure China terms of accession are comprehensive and comparable to that of other GPA parties," said Marantis.

The pact demands that countries do not discriminate against foreign bidders in non-defense contracts.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90883/7068258.html) ([see archive](China_makes_revised_offer_for_WTO_pact.pdf))

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