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# China News Alert Issue 358

## IPO

### China to maintain IPO dominance

Despite a recent slowdown, China is set to remain the dominant force in the global IPO market according to a recent report from accounting firm Ernst & Young.

At the end of the second quarter Chinese issuers had produced 108 Chinese IPOs and raised a total of US$20.4 billion which accounts for 31.6% of total funds raised worldwide. The Shenzhen Stock Exchange alone recorded 144 deals in the first half of 2011 making the top exchange in the world in terms of number of deals.

Further confirmation of China’s IPO dominance is expected near the end of year with the launch of the new Shanghai international board. The launch of the international board would put it in direct competition with Hong Kong’s IPO market as the latter is looking to attract more foreign companies. A drawback to the proposed Shanghai international board however is the fact that the yuan is not yet fully convertible.

Ernst & Young’s managing partner of industries and priority accounts, Paul Go, attributed the slowdown in the Chinese IPO market to investors becoming ‘concerned over inflation in commodity and housing prices’. However, he also commented that ‘the Chinese IPO pipeline is still very strong and China will continue to lead global IPO activity in 2011’.

[Source: China Daily](http://www.chinadaily.com.cn/business/2011-07/16/content_12915805.htm) ([see archive](China_to_maintain_IPO_trend_says_EY_report.pdf)), [Source: Ernst & Young](http://www.ey.com/GL/en/Services/Strategic-Growth-Markets/Global-IPO-trends-2010---Q-A--China-IPO-market) ([see archive](Chinas_IPO_market_QA_with_Eric_Landheer.pdf))

### IPO timetable rules clarified

Companies launching IPOs will now be able to use their discretion when selecting the launch date, the China Securities Regulatory Commission (CSRC) announced on Thursday (14 July).

Whereas currently companies would launch immediately after gaining CSRC approval, the new rules state that a company can choose to launch an IPO up to six months after approval. This would allow companies greater flexibility during the planning stages of an IPO.

The CSRC responded to a query from Shanghai Securities News, clarifying that a company planning an IPO would not break any rule or come under any pressure if they do not launch immediately after receiving CRSC approval. The change in rules confirms speculation caused by last month’s Shenzhen-based BYD Co Ltd successfully extending their IPO pre-marketing period to 6 days from 3.

[Source: Reuters](http://in.reuters.com/article/2011/07/14/china-ipo-idINL3E7IE04M20110714) ([see archive](Chinas_securities_watchdog_clarifies_rules_on_IPO_timetable.pdf))

## Investment

### New SAFE regulation for foreign invested holding companies making reinvestment in China

Foreign invested holding companies looking to reinvest must now increase their own registered capital by the same amount according to a circular from the State Administration of Foreign Exchange (SAFE).

The circular (titled Notice regarding Issues related to the Capital Verification Confirmation for Reinvestment Made by HoldCos or Circular No.7) was released and put into effect 29 March 2011. The ruling makes capital increase a pre-condition for reinvestment of a holding company’s legitimate income raised in China. This move has the effect of adding a 10% withholding tax for foreign investors of a holding company as converting earnings into registered capital is considered a dividend distribution followed by a reinvestment of the dividend from the holding company’s foreign shareholders.

Using earnings to increase the capital of a holding company is also subject to approval from the Authority of Commerce and here some confusion has arisen. The Ministry of Commerce has instructed the Shanghai Authority of Commerce to temporarily suspend issuing the approvals SAFE’s Circular No.7 detailed. SAFE and MOFCOM are currently working out a joint guidance to over come the conflicting opinions the two departments have on the issue. Although the regulations have come into effect, holding companies wishing to increase their registered capital by use of earning will have to wait until SAFE and MOFCOM have coordinated on the issue.

[Source: Law Now](http://www.law-now.com/ealerts/2011/07/new-safe-regulation-for-foreign-invested-holding-companies-making-reinvestment-in-china?cc_lang=en) ([see archive](New-SAFE-regulation-foreign-invested-holding-companies-making-reinvestment-China.pdf))

### SAFE underscores stance on 'hot money'

The State Administration of Foreign Exchange (SAFE) reiterated its standpoint on the importance of ‘hot money’ inflows and the negative impact on China’s economy. A statement on the SAFE website stated that the ‘high-pressure’ clampdown was still in full effect.

To emphasise how seriously the Exchange is taking the issue, it announced penalties for a list of 10 companies who have engaged in illegal foreign exchange transactions. This is the third such group of companies to be fined in less than a year.

Hot money inflows of US$35.5 billion made their way into China in 2010, accounting for a 7.6% increase in foreign exchange reserves throughout the year. That number is expected to fall with the end of the US’s program of quantitative easing as fewer funds will be able to get into emerging markets. Still, SAFE does not intend to ease up on their stance and still considers hot money inflows an increasing danger to economic stability.

June’s inflation figures reached a three-year high of 6.4% and curbing hot money is designed to combat this. Wang Jianhui, chief economist with Southwest Securities said “increasing speculative capital inflows will definitely make it harder for the government to curb inflation.”

Foreign exchange reserves grew by US$138 billion during the first quarter, according to figures posted on SAFE’s website. How much of this increase is down to hot money though, was not revealed.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2011-07/12/content_12882764.htm) ([see archive](SAFE_underscores_stance_on_hot_money.pdf))

## Taxation

### Rise in tax threshold for China Individual Income Tax

On 30th June the National People’s Congress announced that the Individual Income Tax (IIT) rate should be raised as of 1 September 2011.

The Standing Committee of the 11th National People’s Congress in the 21st meeting per Order of the President of the People’s Republic of China No. 48 made a number of updates to the way IIT is calculated. The chief aspects are as follow.

1. The tax exemption threshold for mainland persons has been increased from RMB 2,000 to 3,500 a month whilst the allowance for expatriates remains the same as before at RMB 4,800.
2. Tax filing deadlines have been extended from ‘within the first 7 days of the following month’ to ‘within the first 15 days of the following month’.
3. The IIT rates for wages and salaries are to be amended. The current rate table as compared to the new rate table are provided below for reference.

New IIT Rate Table – Effective from 1 September 2011

**Monthly Taxable Income**

**Tax Rate (%)**

1,500 yuan or less

3

Over 1,500 yuan to 4,500 yuan

10

Over 4,500 yuan to 9,000 yuan

20

Over 9,000 yuan to 35,000 yuan

25

Over 35,000 yuan to 55,000 yuan

30

Over 55,000 yuan to 80,000 yuan

35

Over 80,000 yuan

45

Current IIT Rate Table – **Effective to 31 August 2011**

**Monthly Taxable Income**

**Tax Rate (%)**

500 yuan or less

5

Over 500 yuan to 2,000 yuan

10

Over 2,000 yuan to 5,000 yuan

15

Over 5,000 yuan to 20,000 yuan

20

Over 20,000 yuan to 40,000 yuan

25

Over 40,000 yuan to 60,000 yuan

30

Over 60,000 yuan to 80,000 yuan

35

Over 80,000 yuan to 100,000 yuan

40

Over 100,000 yuan

45

Under the new rates as of 1 September, two brackets have been removed. Most will expect to see a 5% increase on the tax they pay.

[Source: PKU Law](http://en.pkulaw.cn/display.aspx?id=8790&lib=law) ([see archive](Decision_of_the_Standing_Committee_of_the_National_Peoples_Congress_on_Amending_the_Individual_Income_Tax_Law_of_the_Peoples_Republic_of_China.pdf))

## Real Estate

### Property investment still hot despite curb policies

Property investment in China continued at its pattern of rapid growth despite numerous policies designed to curb speculation in real estate. Investment rose by 32.9% year-on-year to 2.63 trillion yuan in the first six months of this year. 1.86 trillion of the amount spent went into housing, a 36.1% increase on the same period last year.

However, the National Development and Reform Commission has granted financial institutions and enterprises approval to launch bonds to finance the development of low-cost housing. The central government has already confirmed that 10 million low cost housing projects would be built this year, intending to help some 30 million people find affordable living. This, coupled with more, tighter regulations for the commercial residential sector, will cause house prices to fall in the third quarter.

Although the third quarter drop will most likely only be minor, a further hike in interest rates will compound the problems that an overabundance of property and tighter controls will inflict on property developers.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2011-07/14/content_12902316.htm) ([see archive](Property_investment_still_hot.pdf))

## Other

### 'Discriminatory' government procurement rules scrapped

Foreign companies have welcomed the scrapping of three rules concerning access to governent contracts. With these rules gone, foreign companies could gain more opprtunities to work on projects for the Chinese government.

The rules detailed the provision of financial aid to domestic companies that focus on 'indigenous innovation'. Originally introduced in 2006, the policies were designed to offer better access to government contracts to certified Chinese companies. The rules have been deemed discriminatory by a collection of 30 businesses representing major technology firms from around the world, who wrote to the Chinese government to complain in December 2009. Foreign companies now expect to have easier access to government purchasing orders.

The decision to scrap the three rules comes after President Hu Jintao’s comments during his recent visit to Washington DC that government procurement contracts would not operate in discrimination against products made using foreign technology.

[Source: China Daily](http://www.chinadaily.com.cn/business/2011-07/01/content_12816108.htm) ([see archive](Discriminatory_govt_procurement_rules_scrapped.pdf))

### Wind power companies breaking into foreign markets

China’s wind power companies are branching out into international markets with Longyuan Power Group Corp (CLGP) acquiring the rights to develop a 100 megawatt project in Ontario, Canada.

In the past, Chinese wind power companies have found it difficult to enter foreign markets due to the intense nature of the competition. With this deal, CLGP, the third largest wind power operator by installed capacity, has secured a 20-year contract to supply power to the local grid. The deal has also opened doors for United Power Technology Company, a wind turbine manufacturer affiliated with State-owned China Guodian Corporation who will supply the turbines for the 24-month project. With CLGP itself an arm of China Guodian, the PRC has further cemented itself as the world’s largest wind power market.

Now foreign companies are coming to China to expand further into the wind power market. Spanish turbine maker Gamesa has secured agreements with major wind power farm developers in the PRC. This is good news for Longyuan who are aiming to garner 20% to 30% of the offshore market during the twelfth five-year plan (2010-2015).

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2011-07/14/content_12899035.htm) ([see archive](Wind_power_companies_breaking_into_foreign_markets.pdf))

### Courts to do more for Intellectual Property Rights (IPR) protection

The way Intellectual Property Rights (IPR) cases are handled in China are set to be altered in an effort to create a much more streamlined, efficient and affordable process.

Jiang Zengwei, Vice-Minister of Commerce said that China needed to “draw lessons from Western countries and place more emphasis on dealing with these cases in court.” Currently, the IPR protection case process involves a reliance on administrative measures which Jiang says can be improved upon. Streamlining the process and strengthening the courts’ power to deal with these case is, according to Jiang, “what must be done by every country that wants to develop technology and become a stronger competitor.”

The plans are expected to save taxpayers money as courts can cover their costs with payments from litigants whereas, if IPR protection were left up to administrative agencies, the taxpayer would end up contributing.

In a nine-month campaign aimed at cracking down on copyright infringement, piracy and other instances of IPR, police have arrested over 9000 suspects, closed 12,854 underground factories and broke up 4,904 gangs according to Jiang.

Ted Dean, chairman of the American Chamber of Commerce in China welcomed the plan. “IPR is fundamental to fair treatment of our IPR-intensive industries and services, as well as the innovation and the future growth of China’ economy.”

[Source: China IPR](http://www.chinaipr.gov.cn/newsarticle/news/government/201104/1217689_1.html) ([see archive](Courts_beef_up_protection_of_intellectual_property_rights.pdf))

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