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# China News Alert Issue 303

## Capital Markets

### China sets up IPO review committee for Growth Enterprise Market

China's securities regulator recently set up an initial public offering (IPO) review committee for its Growth Enterprise Market (GEM), which is expected to accept IPOs in late October.

The committee, consisting of 35 members, could start reviewing IPO applications in September, said an official with the China Securities Regulatory Commission (CSRC), who declined to be named.

The committee has 23 full-time members and 12 part-time members. The experts are from the CSRC, Shanghai Stock Exchange, Shenzhen Stock Exchange, law offices, accountant offices and asset evaluation agencies.

The GEM IPO review committee is independent from the main board, meaning that committee members are not allowed to hold positions with the main board approval committees.

The CSRC started to accept GEM applications on 26th July and has accepted 115 applications for GEM IPOs. The commission is working hard to speed up the GEM IPO procedures, said the CSRC official.

The securities regulator said earlier that the GEM would focus on six sectors this year; new energy, new materials, bio-pharmaceuticals, pro-environmental, new service and information technology.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90884/6728828.html) ([see archive](China_sets_up_IPO_review_committee_for_Growth_Enterprise_Market.pdf))

### Blackstone sets up new private equity fund in Pudong

Private equity firm Blackstone Group LP is planning to raise 5 billion yuan for its first yuan-denominated fund that will invest in Shanghai and its neighbouring areas.

Blackstone, the world's largest buyout firm, plans to set up its wholly-owned China subsidiary, Blackstone Zhonghua Development Investment Fund, in the financial institution-concentrated Pudong New Area. The company made the announcement on their website recently, when it signed a memorandum of understanding with the local government on the fund's creation.

Eighty per cent of the fund's capital will be raised in China, while the balance would come from overseas limited partners, according to International Finance News reports.

"We suppose Blackstone, in line with its investment strategies globally, will bet on mergers and acquisitions in Shanghai's real estate market," said Liu Zhiteng, investment manager at Blue Ocean Capital, a Shanghai-based investment consultancy.

The nation's pension fund, banks and insurers are likely to become the major limited partners for Blackstone's local currency fund, Liu said. "Preferential policies, including more relaxed investment rules and lower taxes, introduced by the local government to target global investment firms, will entice more private equity and venture capital companies to the city," he said.

Fang Xinghai, director-general of the Shanghai Financial Services Office, said in early August that the municipal government has sent a petition to the State Administration of Foreign Exchange (SAFE) to waive restrictions for foreign private equity firms that register in the Pudong New Area in a bid to facilitate firms to raise and deploy capital in the city via yuan-denominated funds.

"Foreign private equity funds, which raise capital outside the country, may face restrictions in buying stakes in certain strategically sensitive industries. This will thwart their investment enthusiasm domestically," said Yu Maogeng, an analyst at ChinaVenture.

But analysts said funds that are backed by the local authorities may largely benefit from projects initiated by the government.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-08/18/content_8581500.htm) ([see archive](Blackstone_sets_up_new_private_equity_fund_in_Pudong.pdf))

## Corporate & Commercial

### China drafts regulation on monopoly pricing

China's top economic planner, the National Development and Reform Commission, recently unveiled a draft regulation on monopoly pricing.

The regulation applies to cases of monopoly pricing both inside and outside the country. The regulation will apply when monopoly pricing outside the country impacts the domestic market, according to the regulation posted on the commission's web site.

As well as deals reached among more than two parties for the purpose of monopolising prices, power abuse by government agencies to eliminate or limit competition is also regarded as a violation of the regulation.

Those who violate the regulation will be punished in line with stipulations in the country's anti-monopoly law, according to the commission.

Individual retailers or producers may face the confiscation of illegal earnings and a fine of up to 10 per cent of their previous year's sales, while industry associations are subject to a fine of no more than 500,000 yuan (US$73,529.4) or may be dismissed as an association.

Government agencies that violate the regulation would be ordered by their superiors to correct their actions, and officials held responsible would be disciplined according to relevant laws.

The commission said the regulation was aimed at preventing monopoly pricing and to endorse fair competition so as to safeguard the interests of consumers and the public.

The commission is soliciting public opinion on the regulation until 6th September.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-08/13/content_8563669.htm) ([see archive](China_drafts_regulation_on_monopoly_price.pdf))

### Tough road ahead for consumer finance firms

Consumer finance firms still have a long way to go before they catch up with banks, though they still remain an integral part of the financing chain, said experts.

The China Banking Regulatory Commission recently unveiled the final rules for setting up consumer finance firms in Beijing, Shanghai, Tianjin and Chengdu on a trial basis as part of its efforts to step up domestic spending.

Saving is still the most preferred option for obtaining money in China. But by setting up consumer finance firms, the regulator intends to provide funding avenues for the purchase of home appliances, electronic products and for other purposes like home decoration, travel and education.

Surprisingly the move comes at a time when there have been concerns over bank credit flowing into the stock market for a quick return and worries over whether consumer finance firms would end up fueling more speculation.

"Capital is by nature profit-driven, hence it is quite possible that some funds may end up being used for speculative purposes," said Zhao Xijun, deputy dean of the Financial and Securities Institute, Renmin University of China. "Improving risk management and loan tracking capabilities are common issues for banks and consumer finance firms," he told China Daily.

There were also reports that due to the lax lending procedures, many individual stock speculators in Shenzhen were using personal consumption loans for purposes other than the purchase of durable goods.

Stung by these reports, the regulator had subsequently asked banks to tighten lending and monitor how loans are actually used. It also warned the soon-to-be established consumer credit firms about the need to enforce strict credit checks and loan tracking processes.

Judging from the early market response, consumers are not too enthusiastic about the new funding channel. "I am loath to try such funding services as there are only two purposes for which I would seek a loan―a car or a house, which in any case I can get from a bank," Chen Yiqiao, an employee at a Shanghai-based financial institution, said.

Zhao said that the impact of consumer finance firms on domestic consumption would be initially limited due to subdued demand, but they still remain an important channel from a strategic perspective. "Consumer credit firms can offer more specialised and convenient services that complement the facilities provided by banks," he said.

During the first half of 2009 Chinese banks advanced 7.37 trillion yuan worth of new loans. However, the actual amount that ended up with consumers was quite limited. The 650.8-billion-yuan personal consumption loans only accounted for some 0.8 per cent of the total loans, even though this figure is a large increase from previous years.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-08/14/content_8570297.htm) ([see archive](Tough_road_ahead_for_consumer_finance_firms.pdf))

### China urges efforts to support development of small and medium-sized enterprises

China recently called for more policy assistance and financial support to encourage the development of small and medium-sized enterprises (SMEs).

Attendees at a State Council executive meeting, chaired by Premier Wen Jiabao, agreed that promoting the sound development of SMEs was of great importance to maintain economic growth and social stability.

The government would exert more effort in improving the policy and legal system to create an open and fair competition environment for SMEs.

Measures would be taken to help SMEs tackle financing difficulties, and the establishment of the Growth Enterprise Market (GEM), the country's first Nasdaq-style market, would help small companies raise funds.

The central government would also increase funding to support SMEs, especially in sectors such as technological innovation, industrial structure adjustment and employment.

The government would pick some SMEs to participate in the country's subsidised purchasing program of home appliances, agricultural machinery and automobiles in rural areas as well as the auto and home appliance replacement program.

Attendees at the meeting demanded better services for SMEs and increased support to promote technological progress and structure adjustment in SMEs.

They also reviewed and approved draft regulations on the national health bill and on the administration of the joint-venture establishment of foreign companies or individuals in China. Both regulations will be released to the public after further revisions.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-08/20/content_18367024.htm) ([see archive](China_urges_efforts_to_support_development_of_small_medium-firms.pdf))

### China wants Market Economic Status

China has more say than any other country on its own market economy status (MES) or economic system; however, the early granting of MES will help create an environment of fair competition for Chinese enterprises in the world market, said Yao Jian, spokesman of the Ministry of Commerce at the press conference in Beijing on 17th August.

The U.S. promised, at the first China-US Strategic and Economic Dialogue, that it would speed up its process of granting MES to China. The two sides will discuss the issue at the Joint Committee of Commerce and Trade in October in China.

"We hope to settle the issue as early as possible", said Yao. He stressed that it is China's own goal to adhere to its principle of opening up and building a socialist market economy. "That does not need recognition from any other country," he said.

The consequence of the financial crisis, he noted, has proved that there are many problems even in fully-fledged market economies.

Some believe the lack of MES leads to more possibilities of trade measures against Chinese products. China hopes for an early recognition of MES from its trading partners to avoid discriminatory actions against Chinese products by some countries.

None of China's top three trading partners, the E.U., the U.S. and Japan, have granted MES to China.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90857/90861/6730802.html) ([see archive](China_wants_MES_for_fair_market.pdf))

## Real Estate

### Corruption in construction business targeted

China will launch a two-year anti-corruption campaign in the construction business, in which money-for-power deals and commercial bribery cases are reportedly increasing.

According to a document jointly issued by the general offices of the Communist Party of China (CPC) Central Committee and the State Council, the authorities resolved to combat corrupt officials in charge of the country's booming construction projects.

"Corruption has been restricted to a certain extent with the maturing market economy and increased supervision," the document said.

However, corruption cases still occur in some sectors as some officials abuse their powers for personal gain, and some local governments waste taxpayer's money constructing lavish buildings. "Such slack behaviour severely harms public interests and damages the relations between officials and the public," the document said.

The document requires local governments to further regulate land management working procedures and make more effort to monitor land bids.

Government departments should carry out internal audits and those who refuse or attempt to cover up problems would be punished, it said.

The document called for the improved monitoring of key aspects in government construction projects, including the use and management of funds, the approval of land use, the evaluation of the project's energy saving and environmental protection as well as insurance for construction safety.

"All departments involved should be responsible for ensuring that public funds are used in an effective, safe and clean way," it said.

To prevent officials abusing their powers for personal profit, the document urged local governments to establish a transparent information system for construction projects and to listen to more opinions from experts and the public.

A team of officials from 19 government departments and headed by the discipline watchdog of the CPC Central Committee will be established to supervise local government's implementation of the document.

Premier Wen Jiabao has called for clean governance amid the economic downturn and urged tougher scrutiny over projects that are closely related to people's livelihoods, such as urban construction.

China has unveiled a 4-trillion-yuan (US$ 585 billion) package of investment, mainly in infrastructure, as a proactive fiscal stimulus amid the global economic downturn.

In recent years, Chinese prosecutors have found a high incidence of commercial bribery in infrastructure and real estate projects, in which government officials were often involved. Last year, China found 2,687 government officials had been guilty of corruption, malfeasance and infringement of people's rights. Prosecutors investigated 10,315 cases of commercial bribery committed by government officials.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-08/20/content_18367152.htm) ([see archive](Corruption_in_construction_business_targeted.pdf))

## Taxation

### SAT Requires Prior Evaluation before VAT Drawback

The State Administration of Taxation (SAT) released, on 19th August, a circular to regulate VAT drawback for certain industries in order to prevent violations including falsification of VAT invoices and tax fraud.

‘The Circular on the Issues Regarding the Implementation of Evaluation before VAT Drawback' (the Circular) comes into force as of 1st September 2009.

SAT points out that tax authorities need to make an evaluation of the VAT rate and changes in sales volume by the taxpayer after receiving an application for VAT drawback.

Tax authorities at provincial level are authorised to set acceptable standards of VAT rates and changes in sales volume, and submit the same to SAT for filing.

Tax authorities are required to refund tax already paid under circumstances where the VAT rate or the change in sales volume is justified.

However, if there are abnormalities, tax authorities should suspend their drawback approval and check the reasons for these abnormalities through research, interviews and, onsite investigation within 20 working days.

The tax drawback may continue if all doubts are ruled out after the evaluation. If this does not prove satisfactory, the case should be submitted to the tax investigation department.

[Source: jrj.com](http://finance.jrj.com.cn/2009/08/1921215830494.shtml) ([see archive](SAT_Requires_Prior_Evaluation_before_VAT_Drawback.pdf))

## Other

### Enterprises causing employees' occupational injuries to be fined

The "Tentative Provisions for the Supervision and Administration of Occupational Health at Working Locations" issued by the State Administration of Work Safety, which will be implemented from September 1 2009, is applicable to the workplaces of all manufacturing, mining and commercial and trade enterprises, with the exception of coal mining enterprises.

Under the Provisions, "occupational injuries" are defined as various physical injuries suffered by employees when they are working as a result of exposure to harmful substances such as dust and toxic materials.

The Provisions clearly prescribe that safety supervision departments take responsibility for carrying out occupational health supervision and law enforcement, and enterprises take responsibility for preventing and controlling occupational hazards.

Safety supervision departments should order enterprises that have caused severe injuries to their employees' lives and health to stop occupational hazardous operations, or apply to the relevant people's governmental department to have them shut down according to provisions prescribed by the State Council and impose a fine of between 100,000 yuan and 300,000 yuan.

Enterprises should send their documents about the facilities' "design, construction and acceptance" for preventing occupational hazards to the local safety supervision administration for record.

They should also report the results of periodic occupational hazard investigation and assessment to the local safety supervision administration. Occupational hazard factor investigations should be carried out at least once a year, and occupational hazard assessments should be carried out at least once every three years.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90857/90860/6727526.html) ([see archive](Enterprises_causing_employees_occupational_injuries_to_be_fined.pdf))

### Government passes regulation on environmental evaluation

China's State Council recently passed a draft regulation on the environmental evaluation of new projects to prevent pollution or ecological destruction from their outset.

Under the regulation, environmental evaluations are required before the planning stage of development projects can be approved, according to an executive meeting of the State Council, presided over by Premier Wen Jiabao.

The regulation covers all development activities, from land use and the development of rivers or oceans, to development projects relating to industrial, agricultural, husbandry, and forestry sectors as well as energy, water conservation, transportation, urban construction, tourism, and the exploration of natural resources.

In a recent case, the Ministry of Environmental Protection suspended two hydropower station projects over the Jinshajiang River, upstream of the Yangtze River, which had begun without environmental approval.

China Huaneng Group and China Huadian Corporation, which own the two plants, were ordered to conduct environmentally-friendly improvements to their high energy-consuming and highly polluting projects.

The regulation will be revised and published by the State Council for enforcement, the meeting concluded.

The government also reiterated its commitment to the principle of "common but differentiated responsibilities" established by the UN Framework Convention on Climate Change, according to a statement issued after the meeting.

The government would continue to work with other countries and play a constructive role in ensuring the success of the Copenhagen conference, the statement said.

China would also include its strategy against climate change in its economic and social development planning, it said.

The country would work hard to fulfil its target of reducing energy consumption for every 10,000 yuan (US$1,470.6) of GDP by 20 per cent by 2010, raising the ratio of renewable energy to 10 per cent, and achieving forestry coverage of 20 per cent, in its effort to fight climate change.

[Source: China.org](http://www.china.org.cn/environment/policies_announcements/2009-08/13/content_18326145.htm) ([see archive](Govt_passes_regulation_on_environmental_evaluation.pdf))

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