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# China News Alert Issue 278

## Capital Markets

### Taiwan firm listed on mainland

Chunghwa Picture Tubes (CPT) is set to be the first Taiwan company to tap the mainland capital market in a so-called "backdoor" listing of its assets valued at 2.76 billion yuan.

The fourth largest producer of liquid-crystal displays in Taiwan has swapped a 75 percent interest in four of its manufacturing plants on the mainland for an 82 percent stake in Mindong Electric Group, a Shenzhen-listed electric generator producer, whose shares have been suspended from trading for nearly 2 years.

The transaction, which must be ratified by the stock exchange and government regulators, values Mindong's shares at 4.35 yuan apiece. Trading in shares of Mindong, which has failed to produce profits in the past several years, was resumed on Feb 4 after the capital injection arrangement was disclosed. Since then, the price of the company's shares has surged a total of 33 percent to about 6.5 yuan each.

Mindong is expected to terminate its unprofitable electric generator manufacturing and concentrate on the production of LCD modules for supply to manufacturers of television sets and personal computers.

Stock analysts said if the transaction goes through it will serve as a model for other Taiwanese manufacturing companies, especially those that have established extensive production facilities in the Yangtze River Delta region and other industrial bases, to raise new capital on the Shanghai or Shenzhen stock exchanges. Gaining access to mainland capital is of particular significance as many manufacturers are feeling the pinch of the global credit squeeze.

"The deal will be a landmark breakthrough for enterprises in Taiwan," said Lin Xianbin, a Shanghai-based analyst with Taiwan International Securities Group. "I am very optimistic that both parties of the transaction will do well."

Lin said the timing is also good for backdoor listing in the mainland market: "There hasn't been any IPO since the second half of last year, and the prices of shell companies, like Mindong, are quite low now."

"The success of CPT will encourage more Taiwan companies to seek the backdoor listing as the least time-consuming and cheapest way to raise funds in the mainland's capital market," said Liu Fangrong, president of Friendly Business Group, a consultant firm.

Many enterprises from Taiwan are interested in gaining a listing on mainland stock exchanges, the analysts said. But it is difficult at this stage because offers of new shares to the public have been strictly limited since the market crashed in late 2007.

Among the 70,000 Taiwan enterprises with investment on the Chinese mainland, only seven have obtained a listing on a mainland stock exchange.

CPT, established in 1971, is traded at the Taiwan Stock Exchange Corporation. Drawn by falling demand, it reported a net profit loss of TWD11.65 billion, or $34 million, in 2008, a plunge of 232 percent year-on-year. It reported revenue of TWD118 billion, or $3.5 billion.

Liu said the backdoor listing is a good move for CPT since it opened another door for the company's future financing.

"It will be easier for the company to get loans from banks on the mainland, and it can also seek capital by issuing more shares."

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-02/12/content_7468274.htm) ([see archive](Taiwan_firm_listed_on_mainland.pdf))

### China to allow equity investment for banks in H1

China's banking regulator is drafting new rules that will allow the nation's commercial banks to make equity investment in the first half of 2009, the Security Times reported recently.

Trials of equity investment will begin with China's Big Four commercial banks, namely Industrial and Commercial Bank of China, Bank of China, China Construction Bank, and Agricultural Bank of China, the paper quoted an unnamed official as saying.

Current regulations prohibit commercial banks in China to involve themselves in equity investment directly. The banks have to establish a subsidiary for equity investment.

The government unveiled a 4-trillion-yuan ($586 billion) stimulus package in November 2008 to protect the country's investment and export-driven economy amid the global downturn. The new rules on equity investment are part of the government's efforts to boost investment.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-02/10/content_7462493.htm) ([see archive](China_to_allow_equity_investment_for_banks_in_H1.pdf))

## Corporate & Commercial

### Ship builders to get govt ballast

China's State Council, or the Cabinet, recently approved a stimulus package for the country's shipbuilding industry in a bid to help the emerging sector better weather the global economic downturn.

The government said it will encourage financial institutions to lend more to ship buyers and also offer incentives for purchasers of ocean-going ships until 2012. The country will also support the industry in technology upgrades, it said.

The government will limit new capacity in the industry and is working on a policy to scrap outdated ships. It will also encourage construction of advanced ships and promote mergers and acquisitions within the industry.

Guo Yalin, an analyst with CITIC Securities, said the stimulus package comes as a boost to a sector that has been struggling for new orders and in retaining old ones.

New orders for domestic shipbuilders are expected to fall to 20-30 million deadweight tons in 2009, compared to 58.18 million deadweight tons in 2008, according to the China Association of National Shipbuilding Industry.

Buyers' defaults and requests to delay deliveries are also on the rise, the association said. Cancellation of orders and payment delays will also increase this year if the market remains grim, the association predicted.

"The supportive financing measures will help cut cancellations by buyers," Guo said.

Wang Jinlian, secretary-general of the association, said that order cancellations and delayed deliveries will account for at least 10 million deadweight tons this year.

Shipbuilding output reached 28.81 million deadweight tons, an increase of 52.2 percent year-on-year, according to the latest data put out by the Ministry of Industry and Information Technology.

China's share in the global shipbuilding market has increased to 29.5 percent in 2008 from 22.9 percent in 2007.

The industry as a whole saw profits grow by 50.5 percent (to 28.34 billion yuan) in 2008. China Customs' statistics show that shipbuilding exports grew by 59.9 percent in 2008 to $19.57 billion. The latest stimulus plan comes after similar packages were announced for the auto, steel, textile and equipment manufacturing sectors.

[Source: People's Daily](http://english.people.com.cn/90001/6590811.html) ([see archive](Ship_builders_to_get_govt_ballast.pdf))

### Court declares bankruptcy of Sanlu Group

A Chinese local court declared recently the Sanlu Group at the heart of the country's milk contamination scandal goes bankrupt.

The Intermediate People's Court of Shijiazhuang, capital of the northern Hebei province, accepted the bankruptcy petition for Sanlu, who faced a 1.1 billion yuan ($161 million) debt, last December.

Sanlu stopped production on Sept 12, 2008, after its melamine-tainted baby milk powder was found to cause deaths and kidney stone for children.

It was fined last month 49.37 million yuan by the Shijiazhuang court, which also handed down life sentence to Sanlu's board chairwoman Tian Wenhua.

On Dec 19, the group borrowed 902 million yuan to pay the medical fees of children sickened by its melamine-tainted baby formula and to compensate the victims.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-02/12/content_7470003.htm) ([see archive](Court_declares_bankruptcy_of_Sanlu_Group.pdf))

### Gome may swap shares for capital

Troubled Gome Electrical Appliances, the largest consumer electrical goods retailer on the Chinese mainland by sales, is putting its own house together in preparation for a proposal to raise capital in Hong Kong in a private placement of new shares to institutional investors.

Several potential investors, including some of the top foreign fund managers, have indicated their interest in buying significant chunks of the company's shares, a spokeswoman for the company said. But she said the company has only begun preliminary talks with the potential investors.

Gome, one of the most widely followed H shares on the Hong Kong bourse, is seen to have been thrown into disarray by the nagging controversy surrounding alleged irregular share trading by its founder and former chairman Huang Guangyu. Huang, who owns a 34 percent stake in the company, and his wife, Du Juan, who was a board director, earlier resigned from the company.

Since then, the markets in Hong Kong and on the mainland have been rife with rumors that Gome was facing a credit squeeze by its bankers and suppliers. The company, under new Chairman Chen Xiao, said it would shift its focus to improving profitability from expanding market share.

The Hong Kong bourse was buzzing with talks that the company was seeking to raise capital. Gome has been playing its cards close to the vest.

"We are now busy improving the company internal control system and preparing its audit review with the hope to build up investors' confidence, and to clarify the relationship between Huang and the company," Gome's spokeswoman said.

Hong Kong and mainland media have been reporting that Gome was having talks with several potential foreign investors, including Morgan Stanley, Warburg Pincus LLC, Hopu Investment Management and Bain Capital. Warburg Pincus and Morgan Stanley already own stakes in Gome.

Analysts said Gome would need to convert its HK$4.6 billion convertible bonds into shares to increase its capital. These bonds were sold to 15 foreign investors in May 2007.

Sun Hung Kai Financial strategist Castor Pang said such a move would help to "polish" the company's balance sheet, making it easier to raise additional funds in the stock market.

"Gome's short-term funding needs can be satisfied if foreign investors are getting into the company," Pang said.

[Source: China Securities Journal](http://www.cs.com.cn/english/com/200902/t20090210_1748308.html) ([see archive](Gome_may_swap_shares_for_capital.pdf))

### MOFCOM to Establish Information Management Systems for Importing and Exporting Technologies

China's Ministry of Commerce (MOFCOM) released on February 1, 2009 the Administrative Measures for Registration of Contracts for Importing and Exporting Technologies (Measures), and will establish the information management systems for importing and exporting technologies.

Under the Measures, contracts for importing and exporting technologies include the contract for transferring the patent rights, contract for transferring the patent application rights, contract for patent licensing, contract for licensing technical secrets, contract for technical service and other contracts with imports and exports of technologies.

Besides, except the contracts where the payment is made by the commission, operators of imports and exports of technologies must process the contract registration within 60 days since the effectiveness of the contracts.

The Measures shall take effect after 30 days since the date of promulgation.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5342) ([see archive](MOFCOM_to_Establish_Information_Management_Systems_for_Importing_and_Exporting_Technologies.pdf))

## Other

### China says no to trade protectionism to fight crisis

As the "Buy America" provision raises alarms against trade protectionism among state leaders and economists, China recently said "no" to a similar plan that bans foreign products in domestic stimulus projects.

"We won't practice 'Buy China'," said Vice Commerce Minister Jiang Zengwei at a press conference. "We'll treat domestic and foreign products equally as long as they are needed."

The U.S. Senate last week voted to soften, not remove, a provision in its roughly 900 billion-U.S. dollar stimulus plan that requires all public works projects funded by stimulus dollars to use only U.S.-made iron and steel.

The provision has invited concerns from major trading partners of the United States, including Europe, Canada and Japan. Economists warned it could trigger trade wars.

#### china on alert

"Why should we turn to trade protectionism under the current situation (of global financial crisis)?" said Jiang, noting that it's impossible to meet a country's demand with only domestic products in the course of globalization.

China must be wary of a possible protectionism, said Zhang Xiaoji, a foreign economic relations researcher at the Development Research Center of the State Council, a think tank under the Cabinet.

The country, which relies heavily on its exports, will suffer a heavy blow if trade protectionism gains influence in the face of deepening global crisis, said Zhang.

Exports, which account for about a third of China's total economic output, saw consecutive year-on-year declines in November and December as foreign orders dwindled.

"We should not only oppose trade protectionism in other countries but also support global trade ourselves," said Zhang, suggesting opening up domestic market wider as China's trade surplus remains large.

He told China's own massive stimulus package will "certainly give a shot in the arm to the country's imports."

China unveiled a 4 trillion-yuan (586 U.S. dollars) stimulus plan in November to boost domestic demand and prop up growth.

Chinese Premier Wen Jiabao said earlier this month the government will send a purchasing group to Europe for importing advanced equipment and technology.

During the week-long trip to Europe, he called on nations to guard against trade protectionism, saying China will not purposely seek a trade surplus.

With that move, China sent a clear signal of opposing trade protectionism and call for other countries to join the battle, said Zhang Yansheng, director of the International Economic Research Institute under the National Development and Reform Commission.

Major economies like China and the United States should take on the responsibility of making themselves examples of resisting trade protectionism, said Zhang Hanlin, head of the China Institute for WTO Studies with the University of International Business and Economics (UIBE).

"We'll buy your goods if you buy products from us," he said. "The bigger you are, the heavier the duty you have."

#### protectionism a double-edged sword

Trade protectionism seems to protect domestic industries and jobs but actually hurts the interests of every country, said Zhang Xiaoji.

"It's a double-edged sword," he said. "While exporters suffer from restrictions, consumers in the importing country will be forced to buy more expensive domestically made goods."

Moreover, impeded international trade could risk prolonging the spreading economic woes, as proved by history, he said.

In the 1930s, sweeping trade wars sharply slashed international trade and contributed heavily to the decade-long Great Depression, as most economists have concluded.

The worldwide protectionist tide was triggered by the U.S. Smoot-Hawley act in 1930 that raised tariffs on foreign imports by an average of 20 percent.

"In logical thinking, such a huge mistake will not be repeated," said Zhang Xiaoji. "But today's world trade rules are not perfect ... Politicians can easily turn to protectionism in the wake of rising unemployment amid deepening crisis."

In Spain, authorities started in November to pay lump-sum unemployment benefits to immigrants who went home and stayed away for three years.

Late in January, thousands of people went on strike across Britain over the use of foreign labor.

Despite signs of protectionism in some countries, things are unlikely to lead to trade wars, said UIBE trade expert Zhang Junsheng.

He said the World Trade Organization rules out the possibility of tariff hikes and state leaders will be more careful to avoid trade wars.

When meeting in Davos last month, leaders from Britain, Mexico, the Republic of Korea and South Africa called for a resumption of stalled free trade talks to combat a dangerous turn to protectionism.

Mei Xinyu, an MOC trade expert, predicted a trend of protectionism will last for a certain period, advising the Chinese government to actively strive for fair treatment for its own industries.

That could be done by immediately reviewing whether China's trading partners have breached the WTO rules, said Mei. He also suggested applying anti-dumping and anti-subsidy duties appropriately.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90857/90862/6589192.html) ([see archive](China_says_no_to_trade_protectionism_to_fight_crisis.pdf))

### China to watch out for corruption in SOE stimulus projects

China's state assets watchdog will closely watch over projects implemented by state-owned enterprises(SOEs) in the country's massive stimulus package to prevent corruption, an official said recently

The State-owned Assets Supervision and Management Commission (SASAC) will strictly look into the progress and fund use of projects by SOEs directly under the central government, said the SASAC director Li Rongrong.

Many projects are estimated to see over tens of millions of yuan put in, making it a more important task to fend off corruption, he said at an SOE meeting on disciplinary inspection work.

China unveiled a stimulus package with a total investment of 4 trillion yuan (586 billion U.S. dollars) in November to boost domestic demand and offset the world economic slowdown.

Of the total, 100 billion yuan had been allocated by the central government by the end of last year.

Li said inspectors will particularly focus on projects in such sectors as power grids, telecommunications, transportation, equipment, construction and metallurgy.

The SASAC will also check whether the projects cause environmental hazards, consume too much energy and resources or result in excessive capacity, said Li.

A total of 4,960 Chinese officials above the county level were punished in a year ending November 2008, data show. They were involved in corruption and commercial bribes, hurting people's interests.

[Source: People's Daily](http://news.xinhuanet.com/english/2009-02/08/content_10784064.htm) ([see archive](China_to_watch_out_for_corruption_in_SOE_stimulus_projects.pdf))

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