Charltons - China News Alerts Newsletter - 25 January 2010

[online version](http://www.charltonslaw.com/china-news-alert-issue-323/)

# China News Alert Issue 323

## Capital Markets

### Index futures get regulatory approval

The Chinese government has given the green light for stock index futures, margin trading and short selling in a milestone move that ends the one-way trade in the capital market.

An official with the China Securities Regulatory Commission (CSRC) said that the State Council has approved stock index futures, short selling and margin trading "in principle". The regulator said it would take three months to complete preparations for index futures.

The new tools would protect investors against losses and also help them to profit from any declines. Until now, Chinese investors could only profit from gains in equities.

Analysts said the announcements are unlikely to cause any sharp volatility in the A-share market next week as the rumours have already been factored in. "The market is unlikely to see huge fluctuations next week as the introduction of new financial tools has been discussed for years," said Zhang Qi, an analyst with Haitong Securities.

Index futures are essentially agreements to buy or sell an index at a preset value on an agreed date. Investors can also borrow money to buy securities or borrow securities to sell under the business of margin trading and short selling.

Zhang said the move would be positive for blue-chips and heavyweight stocks as the contract would be initially based on China's CSI 300 Index that tracks the 300 biggest shares traded in Shanghai and Shenzhen. "Index futures are expected to bolster the market value of blue-chips," he said.

Large listed securities firms such as CITIC Securities and Haitong Securities will also directly benefit from the new business and could see a surge in their revenues, Zhang said.

Analysts expect the new tools to improve liquidity by attracting more capital into the equity market as the government plans to cut back bank lending to 7.5 trillion yuan (US$1.1 trillion) in 2010 from last year's 9.21 trillion yuan.

China's securities regulator has been considering the introduction of index futures since 2006 when Shanghai set up the China Financial Futures Exchange to prepare for the running of the new mechanism. The plan had been held up till now along with the proposals for margin trading and short selling.

In 2007, CSRC chairman Shang Fulin said that the infrastructure and regulations needed for index futures and margin trading were in place.

Institutional investors are expected to be the mainstay of the new business as the threshold is high for retail investors who are more vulnerable to potential risks, said analysts.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/09/content_9292203.htm) ([see archive](Index_futures_get_regulatory_approval.pdf))

### Margin requirements for index futures to be raiseds

Margin requirements for stock index futures may be raised to 12 percent from 10 percent to control trading risks, a source close to the China Securities Regulatory Commission (CSRC) said.

The regulator will also significantly reduce the single-day maximum holding of futures contracts to 100 from 600 previously set during the trial period.

The move intends to manage the potential trading risks in index futures, the newly approved financial tool with high leverage that allows investors to profit from declines in equity prices.

The margin requirement of a futures contract is the initial minimum amount of cash an investor must deposit in the broker's account and needs to maintain as collateral. If the balance of the account falls below the minimum level, the broker makes a margin call to the investors for the funds needed.

One major potential risk that index futures carry for investors is that they could lose their entire capital while also facing the risk of owing huge debts to the broker that makes the margin call.

The government had earlier lifted the margin requirement for index futures from 6 percent to 10 percent during the trial period.

Analysts said the 12 percent threshold for margin requirement is reasonable as it helps shield inexperienced investors against potential risks from the new financial instrument. "It is a good thing that the regulator keeps the threshold high to limit the initial number of traders," said Liao Qing, an analyst with Sealand Securities. "I think the regulator will lower the margin requirement in the future once the market is familiar with the risks of the new financial tool as the number of investors gradually expands," Liao said.

The CSRC has also stipulated that individual investors must have a minimum of 500,000 yuan to trade in stock index futures and also be experienced in futures trading and simulated trading of index futures.

Investors will also be required to complete a training course and pass a test before they are allowed to trade in index futures. But some analysts said the minimum capital requirement should be much higher than 500,000 yuan given the high risks in index futures that allow investors to bet on price declines.

"A short position is much more risky than a long position. You lose 100 percent if the stock price drops from 1 yuan to 0 yuan. But the rise could be infinite," said Li Daxiao, head of the research institute with Yingda Securities. He said investors would require high levels of risk tolerance and adequate capital to trade in the new instrument.

Meanwhile, the Shanghai-based China Financial Futures Exchange has won approval to launch the country's first stock index futures.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/13/content_9311551.htm) ([see archive](Margin_requirements_for_index_futures_to_be_hiked.pdf))

### Regulator ironing out fine details

China will soon clarify the rules and regulations on qualified foreign institutional investors (QFIIs) trading stock index futures in China, the country's top securities regulator said. "The regulator will work on the policies and regulations for securities companies, mutual funds and QFIIs in order to guarantee the smooth launch of index futures," said Shang Fulin, chairman of China Securities Regulatory Commission (CSRC) at a national conference on securities and futures supervision.

The CSRC will also enhance supervision on securities firms that provide brokerage services for index futures trading and improve the country's cross-market supervision regime, Shang said.

Foreign institutions may be allowed to trade index futures using a portion of their QFII quota, but details on trading requirements are still unknown.

Analysts say opening the stock derivative market to foreign institutional investors would allow them to hedge stock-index futures against falls in the stock market as a better way to protect their profits.

Some foreign investors have already started preparing for the new business sector in China. Ke Shifeng, director of UK-based Martin Currie's subsidiary in China, said US$1 billion or 10 percent of the total QFII quota would likely be granted to foreign investors to put into the index derivatives market.

China's securities regulator approved 94 foreign institutions, including Abu Dhabi Investment Authority, Deutsche Bank AG and Goldman Sachs Group Inc, as of the end of 2009, to invest in the country's bond and stock markets. The nation's currency regulator, the State Administration of Foreign Exchange, has granted a total quota of US$30 billion to QFIIs.

At the conference Shang also said that the regulator would introduce margin trading and short selling pilot programs at the appropriate time.

The regulator announced plans to allow trading of index futures, margin trading and short selling in an attempt to improve the country's capital markets with more investment options. The new financial tools will help ease the volatility in the equity market and allow Chinese investors to profit from price declines for the first time.

Shang pointed out that the government's economic stimulus plan has helped the market maintain safe and stable operations, but the international financial environment is still difficult and China needs to prepare for more complicated situations in the future.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/15/content_9324699.htm) ([see archive](Regulator_ironing_out_nitty-gritties.pdf))

## Finance and Insurance

### Central bank governor emphasises deposit reserve requirement ratio control

Due to the complex external situation and the fact that public expectations are hard to archive, China's central bank still needs various tools for monetary policy adjustment, said Zhou Xiaochuan, governor of People's Bank of China (PBOC), the central bank. "Adjust and control measures such as deposit reserve requirement ratio and interest margins should be emphasised."

Central banks generally look forward to the simplification of control measures for monetary policy adjustment. In recent decades, economists have believed that communication with the public was the most important factor in controlling inflation. "However, the real world is not that simple, and China still needs various tools in its monetary policy adjustment took kit," Zhou said.

Zhou noted that in case of economic crisis, a single tool may not work well, and people will face grave challenges in the security market and the real estate market.

China's capital market is not mature yet and investors' experiences are very limited. "Hence the central bank may need more tools, other than communication, to implement its monetary policy," he said.

"Some foreign countries believe that deposit reserve requirement should be abandoned. But facing an international payment imbalance and hedging against foreign exchange positions, China needs to emphasise deposit reserve requirement control," Zhou said, adding that interest margin control should also be stressed, due to the financial institutions' profitability during the period of system transformation and risk judgment.

China's monetary policy, as part of the country's macro control policies, has four major aims, namely low inflation rate, economic growth, relevantly high employment rates and a rough balance of international payments, Zhou explained.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/6867393.html) ([see archive](Central_bank_governor_emphasizes_deposit_reserve_requirement_ratio_control.pdf))

### Regulator cracks down on ChinaAMC

The China Securities Regulatory Commission (CSRC) has suspended the creation of new financial products by China Asset Management Company (ChinaAMC), after the firm's sole shareholder failed to meet a deadline to dilute its stake in the company.

The suspension went into effect on 1st January, ChinaAMC announced on its website, and came after CITIC Securities, China's largest listed brokerage firm, failed to reduce its stake in ChinaAMC following the companies' merger, approved by the regulator in July last year.

"If the stake problem can't be solved before 1st April, the China Securities Regulatory Commission will take further administrative measures accordingly," the CSRC said in a statement released by CITIC Securities on the Shanghai Stock Exchange.

ChinaAMC's vice president Wu Zhijun said the limit on new products wouldn't affect the interests of current fund holders, the Beijing News reported.

According to the CSRC's rules, no shareholder is allowed more than a 49 percent stake in a fund management firm. Domestic shareholders are not subject to the 49 percent limit so long as a foreign investor also holds a stake of no less than 25 percent.

ChinaAMC, which has 25 funds and manages assets of 265.76 billion yuan (US$38.91 billion), is the largest fund management firm in China, said Wang Rui, a fund analyst working with Morning Star Research.

CITIC Securities took over ChinaAMC starting in 2006 at a total cost of 9.2 billion yuan (US$1.35 billion) and merged it with CITIC Funds, a subsidiary under CITIC Securities, last year.

The CSRC approved the merger in July and CITIC Securities promised that it would transfer shares within six months from the date of approval to comply with the rule. However, CITIC Securities failed to meet the deadline.

The company told the China Securities News that the transfer had been moving forward and it was not the time to make a disclosure.

Some industry speculation has named China International Capital or Morgan Stanley as potential buyers of shares in ChinaAMC. CITIC Securities and Morgan Stanley China were not available immediately for comment.

A foreign shareholder can hold a 25-49 percent stake in a fund company, according to the CSRC's rules. Market analysts believe that CITIC Securities might transfer as few shares as possible to meet the minimum requirement of the rules.

ChinaAMC's fund management income reached 1.25 billion yuan (US$183.02 million) in the first half of 2009, and contributed 1.23 billion yuan (US$180.09 million) to CITIC Securities in 2008. CITIC Securities' long-term profits are expected to drop in spite of short-term financial gains, the Shanghai Securities News reported.

The dilution of CITIC Securities holdings in ChinaAMC, however, is good for the individual investors buying shares of ChinaAMC, according to Liu Shengjun, deputy director of the CEIBS Lujiazui International Finance Research Center.

Having absolute control of the fund company, a holding company might ask the fund manager to buy at a higher price the stakes of another company it controls, and individual investors might suffer the loss of the wrong decision subsequently, Liu explained.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90778/90859/6872700.html) ([see archive](Regulator_cracks_down_on_ChinaAMC.pdf))

## Real Property

### China tightens rules for property market

The General Office of the State Council, China's cabinet, issued a notice that required central governmental departments and local governments to strengthen management, stabilise market expectations and facilitate stable and sound development of the real estate market. "With the recovery of the real estate market, problems such as excessively rising house prices have recently emerged in some cities, which call for great attention," said the notice.

It listed 11 specific measures which should be taken in five areas: increasing supply of low-cost houses for low-income families and common residential houses; encouraging reasonable house buying while restraining purchases for speculation and investment; strengthening real estate project loan risk management and market supervision; speeding up construction of housing projects for low-income households; and specifying responsibilities of local governments.

Concerning increasing the supply of low-cost houses for low-income families and increasing the supply of common residential houses, the notice said efforts should be made to construct more smaller-sized low- and medium-pricing apartments while increasing land supply for residential housing projects.

According to the notice, governments at all levels should act to push property developers to quicken project development and sales of finished projects.

The notice also said cities nationwide, especially those with high house prices and excessively rising house prices, should step up efforts to build more affordable or low-rent housing projects for low and medium income families.

To increase land supply for residential housing projects, the notice required city governments nationwide to lay out as soon as possible the residential housing construction plan for 2010-2012, which should be specific on each year's construction scale of smaller-sized low- and medium-pricing houses, low-rent houses and affordable houses for low and medium income families.

On encouraging reasonable house buying while restraining purchases for speculation and investment, the notice said financial institutions should continue encouraging first-time ordinary home buying while strictly carrying out mortgage loan policies on second-time home purchasing.

It said the down payment requirements for those families applying to buy a second or more houses backed with loans, should be no less than 40 percent, and the mortgage rates should be strictly settled on the basis of loan risks.

On strengthening property project loan risk management and market supervision, the notice said financial institutions should not grant loans to any developers failing to meet the minimum amount of capital needed to jumpstart a new commercial property.

It also asked the People's Bank of China and the China Banking Regulatory Commission to enhance supervision on property credit among commercial financial institutions.

Efforts should also be made to strengthen the monitoring of capital flow and trans-boundary investment and financing activities so as to prevent credit from entering the real estate sector illegally and stop overseas speculative funds from jeopardising China's property market, it said.

The notice also asked the Ministry of Housing and Urban-Rural Development and other departments to take more measures to crack down on property developers that hoarded land or houses for more profit, and on real estate brokerages which conducted price deception or spread rumours to increase house prices.

The taxation authority should thoroughly investigate tax fraud cases by property developers and severely punish those violators, while the State-owned Assets Supervision and Administration Commission should further regulate investment activities by major state-owned enterprises in the property market, according to the notice.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-01/11/content_9298078.htm) ([see archive](China_tightens_rules_on_property_market.pdf))

### Empty land to be registered

According to a statement released on the bureau's Website, developers who do not begin construction as scheduled or do not start construction one year after acquiring land should register with their local watchdog not later than 22nd March. Real estate firms that have already been given the go-ahead for construction but have not done so also need to register.

Developers should explain to the watchdog when they register why their land is idle, the bureau said.

"The government will be able to obtain more accurate statistics about the city's land stock through registration,'' said Shao Minghao, research head at Shanghai Hanyu Property Consulting Company Limited, an estate agency. "However, it remains unclear if the government will take a tougher stance to crack down on land hoarding after collecting the data."

Real estate companies which fail to register as required will face penalties, the bureau said. According to a notice issued by the State Council in January 2008, developers will be charged a fee equivalent to 20 percent of the land price if they leave it idle for more than one year but less than two years after acquisition, and land left idle for more than two years will be reclaimed by the government.

In Shanghai, more than 300 plots of land, registered for the construction of homes with a total floor area of more than 40 million square meters, have been idle for more than two years, according to the latest research by E-House (China) Holdings Company.

Across the country, about 10,000 hectares of land were idle by December 2009, the Ministry of Land and Resources said last month.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=426386) ([see archive](Empty_land_to_be_registered.pdf))

### Owners to get say in relocation

Property owners' rights will soon receive better protection under revisions to the controversial regulations for demolishing urban housing, a senior legislative official said. "We will soon publish the draft revision to solicit public opinions and will further explain the changes," Gao Fengtao, deputy director of the State Council Legislative Affairs Office, the agency that issued the existing regulation, told China Daily.

The office invited eight experts to give opinions on the draft version. According to Shen Kui, a law professor from Peking University and one of the eight experts, the revision emphasised that confiscation of houses and relocation of residents could only be done in the public interest.

"The new draft version will include a detailed regulation on confiscation for non-public interest, which is more complicated," said Shen. "When the developer and the property owners are involved in confiscation and compensation, the government is also involved as the change of land use needs permission from the government."

The new draft version stipulates that violence should not be used to force relocation of property owners, including means like cutting electricity and water to force residents to move out.

In addition, the draft revision contains more detailed procedures for confiscation and compensation to answer complaints that property owners have little say in either under the current regulation.

Confiscation should be announced to the public at least 30 days in advance, during which time public hearings should be held, said Jiang Ming'an, another scholar who attended the hearing. "And the government can only start confiscation if there's no major disagreement from the public."

Another change is that the draft revision says owners can sue if they do not agree with the confiscation, and the government cannot force demolition or ask residents to move while the lawsuit is ongoing. The current regulation allows the government, or estate developers with permission of the government, to force demolition even if a lawsuit is going on.

"Previously, a lot of people did not sue because even if they did, their houses would still be destroyed," said Jiang.

The new regulation stipulates that compensation should be decided by market price, not by the government, which means in practice the two parties should choose a third agent to determine the property value.

The current regulation allows the government to seize homes and land if they are needed for important projects. It also stipulates that residents must move out once the government issues a relocation permit, with a maximum period of a year and a half allowed for residents to relocate and negotiate compensation.

But what happens in most cases, experts said, is local governments give developers permission to begin work and leave the companies to negotiate with residents. If residents refuse to move, they are usually forced out.

Experts believe the current regulation has caused a lot of conflict and tragedy, especially the death of Tang Fuzhen, from Chengdu, the capital city of Sichuan province, who shocked the nation by setting herself on fire on 13th November to protest the forced demolition of her former husband's garment processing business and living compound. Tang died from her injuries 16 days later at a local hospital. The building she wanted to save has been torn down.

Five law professors claimed in an open letter on 26th December that the current regulation should be abolished or revised because "it is against the Constitution and property law which protects people's property." The letter caused heated discussion across the country and pushed forward the legislation.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-01/22/content_9359779.htm) ([see archive](Owners_to_get_say_in_relocation.pdf))

## Corporate

### Google apologises to Chinese writers

Google said its communication with Chinese authors was "not good enough" after it published sections of their work in its online library Google Books without their permission.

Chinese writers accused Google of copyright infringement last October when the search engine used sections of their work online, and without their permission. They asked Google to apologise and have also demanded compensation.

Google's Book Search, for which the world's largest Internet search engine scans hundreds of thousands of books and places part of their content online, has also been met with legal challenges in the US and Europe.

Erik Hartmann, Asia-Pacific manager of Google Books, said in a CCTV report broadcast yesterday that the company was sorry for any unhappiness. "Google has made Chinese writers feel dissatisfied in terms of their copyright protection. We are apologetic for the unhappiness brought about by this issue," Hartmann said.

"Through the discussions and communications of recent months, it is our understanding that our communications with Chinese writers have not been good enough," AFP quoted Hartmann's written statement as saying. "Google is willing to apologise to Chinese authors."

The China Written Works Copyright Society, a non-government organisation representing writers on copyright issues, said it would meet with Google about the copyright issue for the fourth time. "Google's apology is made mainly because the company values the Chinese market a lot, as well as due to the domestic media's close attention to the issue," Zhang Hongbo, deputy director of the society, told China Daily. "They're prepared to issue an official apology to the society," he said. "We expressed appreciation for the act."

Besides an apology, Google also will provide an expanded list of Chinese books it used, and a timetable for resolution of the copyright issue, Zhang said.

Yang Chengzhi, secretary of the Chinese Writers Association (CWA), told CCTV: "We will have a serious study of the apology and hear the authors' opinions before we decide whether or not to accept Google's apology." "We hope the apology is sincere, honest and courageous, and the commitment is serious and executable."

Last December, Chinese writer Mian Mian accused Google of copyright infringement and filed a lawsuit against the company in Beijing.

Google said it had scanned more than 20,000 books under current Chinese copyright protection for its library.

In a letter to CWA and published on China National Radio's website, Google said the Chinese books were from US libraries and some were available for public use.

"Chinese writers' dissatisfaction about the issue is due to the different legal systems and understandings between China and the US in terms of copyright protection," the letter read.

Wang Ziqiang, director of the department of copyright management under China's National Copyright Administration, told qq.com in a recent interview, that although Google claims that scanning books and allowing readers to browse them on the Internet is legal, it has never provided the relevant laws that support its argument.

In China, copyright protection lasts 50 years beyond the author's death. In the case of a work by two or more writers, the copyright expires 50 years after the last surviving author's death.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/11/content_9296405.htm) ([see archive](Google_apologizes_to_Chinese_writers.pdf))

### State-owned restructuring pace quickens

The local government is seeking to speed up restructuring of Shanghai's State-owned enterprises by pushing them to go public, Shanghai Vice-Mayor Ai Baojun said.

The city is targeting a securitisation ratio of up to 90 percent for State-owned companies, Ai said on local radio. Ai didn't elaborate on when the target would be reached.

Securitisation is the process by which a company packages its financial assets and then markets them to investors.

The purpose of the securitisation effort is to diversify the shareholders of State-operated assets, said Ai. "We encourage capital investment from some funds, including private equities, in our State-owned enterprises," he said.

With the city's exports down, Shanghai officials believe the timing is right to further restructure State-owned enterprises.

Just last week, Yang Guoxiong, director of the Shanghai Municipal State-owned Assets Supervision and Administration Commission, said over 30 percent of State-owned assets in the city―valued between 20.3 billion and 23.7 billion yuan (US$2.97 billion and US$3.47 billion)―will realise securitisation this year, up some 7 percentage points from 2009.

"The main goal in 2010 is to push assets held by the State-owned conglomerates to go public, making their listed units the major platform for them," said Yang.

Official figures show Shanghai's State-run firms contributed 352.8 billion yuan to the nation's gross domestic product in 2009.

According to Ai, 50 percent of Shanghai's economic output was generated by State-owned firms, for a combined profit of 40.9 billion yuan in 2009, up 53.3 percent from a year earlier.

According to reports from the Securities Times, one-quarter of Shanghai's 72 State-owned firms have undergone restructuring during the past year. These include Shanghai Airlines and financial services provider Aijian Corporation.

Debt-laden electronics giant SVS Group Company completed its restructuring last December by selling its entire stake in its two listed units to another government-owned assets management company, Shanghai Yidian Holdings, to alleviate cash flow problems. The two listed firms both reported huge losses in 2008.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/21/content_9353944.htm) ([see archive](State-owned_restructuring_pace_quickens.pdf))

### China says Google 'no exception' to law

A Chinese government official said that Google was "no exception" in observing China's laws and shouldering its social responsibilities.

"Foreign companies in China should respect the laws and regulations, respect the public interest of Chinese people and China's culture and customs, and shoulder due social responsibilities," said Foreign Ministry spokesman Ma Zhaoxu at a regular press briefing. "There is no exception for Google," said Ma.

Ma's remarks came just a week after Google said it might quit China, citing disagreements with government policies and unidentified attacks targeting Google's services in China.

Ma said China's Internet was open and managed in accordance with the law. China has the most Internet users in the world, and it "encourages the use and development of the Internet," said Ma.

He said China would continue to create a favourable investment environment for foreign companies, including Internet firms, and to protect their legitimate rights. "China welcomes international investors conducting business within the country according to the law," said Ma.

In response to a question on hacker attacks, Ma said China itself was the victim country of cyber attacks. "China's Internet is seriously threatened by cyber attacks like other countries," he said.

According to the Internet Society of China, the number of cyber attacks from abroad saw a year-on-year increase of 148 percent in 2008. The website of China's largest search engine, Baidu.com, had been temporarily paralyzed on 12th January in the worst attack since it was established. China firmly opposed and prohibited hacker attacks, Ma said.

Ma also refuted the report that the computer system of the Indian government was attacked by a Chinese hacker, saying the report was "groundless."

Google China posted an entry on its own Chinese-language blog, www.googlechinablog.com, saying that Google China employees were currently working "as usual" in their Beijing offices.

" We have heard quite a number of rumours in the past few days saying that Google has already closed its China office. Some other rumours had it that Google China employees had been notified to leave their jobs in the near future," read the entry, "These rumours are not true."

Although the Internet giant had recently announced that it would negotiate certain issues with the Chinese government in the coming weeks, Google China's employees were still trying to provide the best products and services for their clients as usual, it said.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-01/19/content_9345285.htm) ([see archive](China_says_Google_no_exception_to_law.pdf))

## Culture and Publishing

### Foreign publications may be available for Expo

Organisers of the Shanghai World Expo are willing to appeal for a temporary lifting of bans on foreign publications for the convenience of overseas participants and visitors to the 2010 mega event, a senior official said.

Zhu Yonglei, deputy chief of the Bureau of Shanghai World Expo Coordination, told a press conference that "we will send proposals at a proper time to meet the demands of Expo participants and visitors, especially from other countries".

The potential suspension of the ban follows the short-term relaxation of curbs on foreign newspapers and magazines around the time of the Olympics in 2008, when about 100 overseas publications hit news kiosks located in areas catering to athletes and international media covering the Games in Beijing.

"The policies adopted during the 2008 Olympics would be a guideline for the Shanghai Expo," a senior official with the State General Administration of Press and Publication, who declined to be named, told China Daily. "But there is no final decision yet. We hope to work something out as the Shanghai Expo approaches," he said.

Participants applauded the organisers' position while experts are looking at the Expo, which has attracted 242 countries and international organisations, as an opportunity to lift the ban forever. "Participants at the Expo are coming to China to present their countries as comprehensively as possible," said Pavel Stehlik, commissioner general of the Czech pavilion.

"Publications in English and in Chinese are one of the ways to do that. Although we are not seeking any special arrangements for distributing Czech publications, we would appreciate any opportunity to distribute special fact sheets and documents about the Czech pavilion, the art installations, cultural programs and our country," Stehlik said.

Hanada Mika, an official with the Japan pavilion, said: "It is a good thing because it will help enhance the awareness of Shanghai Expo and attract more visitors."

Guo Ke, a professor in communications at Shanghai International Studies University, said there could be a major reform of the media industry if the ban is lifted for the Expo.

"The Shanghai Expo lasts six months, much longer than the Beijing Olympics," he said. "It could be a breakthrough for the international media in China."

It's the first time a developing country is hosting a World Expo and there were no bans on foreign publications by previous host countries.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-01/21/content_9352579.htm) ([see archive](Foreign_publications_may_be_available_for_Expo.pdf))

### Rating system for online games ready to go

Authorities will introduce a rating system for online games this year to crack down on vulgar content amid a soaring number of young gamers.

"We will issue practical rules for online games to protect young people," Liu Qiang, head of the Internet culture department with the Ministry of Culture, told China Daily.

Academics recently carried out studies for such a rating system, Liu said.

The rating system released by Peking University and Huazhong Normal University at the 7th International Forum on Cultural Industries on 10th January uses three different ratings for the suitability of online games, Xiang Yong, vice-dean of the institute for cultural industries at Peking University, said.

"What we are concerned with is not only content involving violence, sex and obscenity, but also the cultural values and knowledge attainable from the games," Xiang said.

Those involved in the studies divided online games into categories suitable for people aged above 12 and those aged above 18.

For example, games involving virtual maps are deemed unsuitable for children below 12 because these users have not developed appropriate geographical concepts and the games will negatively affect their growth, Xiang said.

Content providers could also be required to describe their products in five different categories, Xiang said.

The five types of games are: Games with cultural content, games covering social issues, games containing fighting and combat, games that have a negative visual and mental impact, as well as games that require long periods of time.

Online games that have content inappropriate for children should also be described and labeled accordingly.

"Online game rating is the trend and we are waiting for the final decision over the issue from the ministry," Chen Yanjun, head of the animation and Internet culture development office with the Beijing municipal bureau of culture, told China Daily.

Similarly, 15 online game companies and a Beijing animation and online games industry association will propose an initiative to urge all game developers in the capital to mark the age suitability for games within this month, Chen said.

Still, many in the industry said the recent moves are just first steps.

"A comprehensive system including policies and penalties must be established," Xiang said.

Gao Dongbin, a public relations official with Shanda Interactive Entertainment Limited, a major Chinese online gaming company, said his company has already marked age suitability in their home pages.

Experts estimate that the online game market last year hit 27 billion yuan (US$4 billion), about one-third of the global market.

Latest figures from the China Youth Internet Association showed that China had more than 384 million Internet users as of late last year, including 11 million teenagers said to be addicted to online activities.

Authorities also banned children from Internet cafes and last year ordered cafe owners to enforce time restrictions, following several cases that involved obsessive online gamers who died from fatigue after marathon game sessions.

Last year, nearly 3 million inspectors were sent to more than 2.5 million Internet cafes, latest figures from the ministry showed.

Police in Shenzhen of Guangdong province also uncovered 563 illegal Internet cafes, arresting at least seven people and closing 5,000 Internet accounts last year, Xinhua News Agency reported.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-01/19/content_9339558.htm) ([see archive](Rating_system_for_online_games_ready_to_go.pdf))

## Others

### China amends rules over domestic inventions for foreign patents

An amendment to the implementation rules of the Patent Law, detailed government scrutiny procedures over domestic inventions before they are submitted for foreign patent application.

The rules were amended to be in line with the latest amendment to the Patent Law, said a statement from the State Council Legislative Affairs Office.

The law amendment, adopted in December 2008 and taking effect in last October, allows inventors to apply for foreign patents before obtaining a domestic one but asks them to go through government scrutiny to find out if such innovations should be made national secrets.

The amendment was considered a move to encourage innovation and improve international competitiveness, as previously the Patent Law stipulated that people whose inventions were completed in China must apply for domestic patents first before applying for a foreign one.

According to the newly amended rules, the inventions, produced in the Chinese mainland, are considered domestic inventions. Inventors should submit them to the Chinese patent authorities for scrutiny before applying for a foreign patent.

The authorities are required to inform inventors, within four months after they apply for scrutiny, if the inventions are related to state security and should be put in a special scrutiny procedure.

The special procedure should finish within another two months and the authorities must inform the inventors whether their inventions will be kept secret for national interest or not. The inventions, related to the defense sector, will be handed over by the government patent authorities to the military patent authorities, the rules said.

However, the rules did not include definitions of state security or national interests.

The new rules also added an item to regulate the patent application of inventions that are based on the genetic resources of humans, animals, plants or microbes. Inventors are asked to elaborate on the genetic resources in the application papers.

China's Patent Law, enacted in 1985, has been revised for three times.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/19/content_9342902.htm) ([see archive](China_amends_rules_over_domestic_inventions_for_foreign_patents.pdf))

### Government purchasing laws to tighten

Procurers for government projects must avoid transactions linked to potential suppliers from up to three generations of the procurer's family members, a newly released draft on regulations under the government procurement law has stated.

The latest draft is aimed at specifying the law, including details over domestic goods in government procurement, to further fight any corruption in the purchasing process.

"The new draft addresses fairness within the government purchasing procedure, even as the implementation of the regulation can be quite complicated during any investigation of three generations of related staff," Zheng Bin, a senior officer of the department in charge of the procurement center in Wenzhou, Zhejiang province, said in an interview. "It still depends on the self-awareness of those who are involved in the purchasing."

The Procurement Law of 2003 stipulates that buyers for the government should avoid any transactions if they are linked to suppliers, without specifying the details.

The government purchasing system involves three parties including the purchaser (the government), the buying center (a State-owned purchasing agent) and the supplier. The purchaser sets up the budget and detailed plans for the required goods for the buying center, which then opens the public bidding among suppliers.

A few random specialists from a group of procurement specialists selected by the government have to make the final decision on the suppliers used.

Every city has a buying center that has a database of procurement specialists and a list of authorised suppliers in all areas related to goods requested by all departments of the municipal government.

The buying center is currently a State-owned sector in charge of regulating a group of procurement specialists and a list of authorised suppliers for the government. In the near future, the center is expected to become a private enterprise.

Those in the sector welcomed the latest move by the authorities toward transparency in transactions.

"We're in favour of a draft that avoids any benefit-based relationship between the purchaser and supplier as it will help set up a fair and transparent platform among suppliers," said Zhang Zhijie, the manager of Zhejiang Young Forever Information Industry Company, which is an authorised IT supplier to the Zhejiang government. "We don't have to worry about other suppliers taking shortcuts when we don't have any such contacts," Zhang said.

"Any corruption in the purchasing process can be avoided if the overall purchasing procedure is ensured as open and public with detailed lists of required products, budgets and specifications," said Liu Xiaochuan, a professor specialising in purchasing policy from the Shanghai University of Finance and Economics. "The actual solution to the problem is to design an appropriate policy to restrict the government purchasing system. For example, suppliers shouldn't have access to information on randomly selected specialists before final purchasing results are out," Liu said.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-01/20/content_9345505.htm) ([see archive](Govt_purchasing_laws_to_tighten.pdf))

**This newsletter is for information purposes only.**

Its contents do not constitute legal advice and it should not be regarded as a substitute for detailed advice in individual cases.

Transmission of this information is not intended to create and receipt does not constitute a lawyer-client relationship between Charltons and the user or browser.

Charltons is not responsible for any third party content which can be accessed through the website.

If you do not wish to receive this newsletter please let us know by emailing us at [unsubscribe@charltonslaw.com](mailto:unsubscribe@charltonslaw.com?subject=unsubscribe%20-China%20News%20Alerts-)

**Charltons - China News Alerts Newsletter - Issue 323 - 25 January 2010**