

Shenzhen legislation guide



By Jason Wang and Yanlin Liu
Han Kun Law Offices

Tel: +86 755 2681 3854 Fax: +86 755 8246 3069 Website: www.hankunlaw.com

Since the beginning of 2009, Shenzhen has introduced an array of local corporate rules and regulations. These include:

Growth Enterprise Market (GEM)

Since 2009, the Shenzhen Stock Exchange has promulgated a series of rules regarding the GEM. These include the *Shenzhen Stock Exchange GEM Listing Rules*, the *Implementation Rules of the Shenzhen Stock Exchange on the Administration of Appropriateness of Investors in the GEM*, the *Guidelines of the Shenzhen Stock Exchange on the Regulated Operation of Companies Listed on the GEM*, and the *Guidance for the Initial Public Offering of Stocks and Listing on the Shenzhen Stock Exchange*.

The Shenzhen Stock Exchange recently held the 11th sponsor institution joint meeting, which called for the establishment of a lifelong sponsorship system for the GEM. We anticipate that the Shenzhen Stock Exchange may issue further rules regarding improvement of the sponsorship system for the GEM going forward.

Transformation of 'Three Import and Compensation Trade' (Sanlaiyibu) Enterprises

According to the *Implementation Opinion of Shenzhen City Regarding the Transformation of Toll Processing Enterprises to Foreign Invested Enterprises Without Suspension of Production*, Shenzhen encourages and supports toll processing factories that are in line with its industry policies and guidelines, and environmental requirements to be directly transformed into foreign invested enterprises owned by the original investor. For enterprises that intend to transform into foreign invested enterprises at the original addresses, the pre-transformation enterprise and the post-transformation enterprise are allowed to co-exist at the same address within six months. The opinion also urges different governmental departments to coordinate to provide convenient services for enterprises undergoing transformation.

Fixed assets investments

The *Trial Measures of Shenzhen City for the Approval of Fixed Assets Investment Projects by Foreign Invested Enterprises* provides for detailed approving procedures for fixed asset investment projects by foreign invested enterprises. Pursuant to this, all fixed asset investment projects by foreign invested enterprises are subject to approvals by competent development and reform authorities.

Projects in industries encouraged and permitted for foreign investment with a total investment amount of US\$100 million or above and projects in industries restricted for foreign investment with a total investment amount of US\$50 million or above are subject to a preliminary examination by the municipal development and reform commission. This, in turn, would submit the same to the National Development and Reform Commission (NDRC) for final approval.

Among other projects, cross-city projects shall be approved by the

provincial development and reform commission, whereas non-cross-city projects are subject to approval by the municipal development and reform commission. For projects with a total investment amount of over US\$30 million, the municipal development and reform commission shall copy its approval documents to the NDRC within 20 business days following approval.

Recognition of high-tech enterprises and income tax preferences

According to the *Administrative Rules of Shenzhen City on the Recognition of High-Tech Enterprises*, high-tech enterprises that satisfy the applicable recognition standards may enjoy certain income tax preferences.

Besides the above, the relevant department of the Shenzhen Municipal Government (such as the Shenzhen Administration of Industry and Commerce) may issue detailed local operating rules or guidance for the *Administrative Rules on the Registration of Foreign Invested Partnership Enterprises* in 2010. Since early 2009, Shenzhen has also introduced a series of new local financial rules and regulations. These include:

Small amount loan companies

The *Working Guidance of Shenzhen City for the Examination and Approval of Pilot Projects of Small Amount Loan Companies (Trial)* and the *Temporary Measures of Shenzhen City on the Administration of Pilot Projects of Small Amount Loan Companies* set forth special provisions on small amount loan companies. These are in respect of their minimum registered capital, form and payment of capital contribution, requirements on the major promoter's qualification, shareholding ratio and profitability, ceiling for credit balance to a single borrower, and residence requirement for shareholders etc.

Additionally, the *Working Plan of Shenzhen City for the Construction of Small Enterprise Financial Service System* also actively promotes small amount loan companies to become the precursor of rural banks in urban areas.

Promoting finance industry development

The *Notice of Shenzhen Municipal Government Regarding the Issuance of the Implementation Rules for the Rules of the Shenzhen City Supporting the Development of Finance Industry (2008 Amendment)* encourages financial institutions to set up or move their headquarters or premier branches into Shenzhen. It also grants a one-time settlement bonus and subsidies for the purchase of land and buildings.

Margin trading pilot program

According to a series of rules, such as the *Operational Guidance of Shenzhen Stock Exchange on Members to the Pilot Program of Margin Trading (2010 Amendment)*, the Shenzhen Stock Exchange launched its margin trading system on March 31 2010. It has since begun to receive applications for margin trading transactions on a pilot basis.