Table of Contents

List	of Char	ts and Tables	xxiii
50			
	pter 1		
Intro	oduction	: Regulatory Framework of Foreign Investment	1
1.1	Overvi		1
1.2	Key A	uthorities Regulating Foreign Investment	1 2 2 3
	1.2.1		2
	1.2.2		
		State Administration for Industry and Commerce (SAIC)	4
		State Administration of Foreign Exchange (SAFE)	4
		Other Authorities that May Be Concerned	4
		rial Guidance	5
1.4	Specia	l Contributions to the Framework in Each Chapter	7
Part	T		
	stment \	Vehicles	
21110	Stillelle	tinites	
Intro	oduction	I	
		Vehicles under the New Company Law (2005)	11
		P	
Cha	pter 2		
		hicles of Foreign Investment	13
2.1		action and Latest Developments	13
2.2		es Shared by the Common Vehicles	14
	2.2.1	MOFCOM Approval	14

	2.2.2	Legal Pe	ersonality	15
	2.2.3	Chinese	Individual Shareholders	15
	2.2.4	Profit-Sh	naring Not in Proportion	16
2.3	Feature	s Peculian	to Each of the Common Vehicles	17
	2.3.1	Features	Peculiar to the WFOE	17
		2.3.1.1	Not All Open Industries Available to	
			a WFOE	17
		2.3.1.2	Single-Person WFOE	18
	2.3.2		Peculiar to the EJV	19
		2.3.2.1	Profit-Sharing Rigidly in Proportion	19
			Negotiated Pricing of the Non-monetary	
			Assets Contribution	19
	2.3.3	Features	Peculiar to the CJV	20
		2.3.3.1	Provision of 'Cooperative Conditions'	20
		2.3.3.2		21
2.4	Compa	ny Name	The second secon	22
2.5		red Capit	al	23
			Requirement	23
			tion Assets	23
			njection Schedule	25
			Injection in One Lump Sum	25
		2.5.3.2	Injection by Instalments	25
		2.5.3.3	Legal Consequences of Default in	
			Capital Injection	26
	2.5.4	FIFs wit		1
		Capital	8-	27
	2.5.5	Capital I	ncrease	28 28 28
			Capital Increase in General	28
			Capital Increase with Surplus Reserve or	
			Undistributed Profits	28
	2.5.6	Capital I	Reduction	30
2.6		nvestment		32
2.7		f Operation		34
2.8			nance Structure of an FIE	35
			Directors as the Power Organ for an	
		EJV or (35
	2.8.2		ders' Meeting / Sole Shareholder as the	
			rgan for a WFOE	35
	2.8.3		Supervisors or a Single Supervisor	
			for All FIEs	36
2.9	Establis		ocedures of an FIE	37
2.10		ation of ar		44
2.11		ovisions a		44
	,		***************************************	1208

Table	of	Contents
Iuvic	ω_J	Comertis

Table of Contents

Chap	ter 3			
Forei	gn Inves	ted Holdin	ng Company (FIHC)	47
3.1	Introdu	ction and I	Latest Developments	47
3.2	Establis	hment of a	an FIHC	48
		Qualificat	ions of the Investor	48
	3.2.2	Registered	d Capital	48
		3.2.2.1	Capital Injection	48
		3.2.2.2	Contribution by Converting Paid-in	
			Capital in Existing FIEs	49
	3.2.3	Total Inve	estment Amount	51
	3.2.4	Approval	of the National MOFCOM	51
3.3	Busines	s Scope of	the FIHC	53
	3.3.1	Overview		53
	3.3.2	Investmen	t in Investee FIEs	53
	_	3.3.2.1	Investment Ways	53
		3.3.2.2	The Minimum USD 30 Million Investment	
			Commitment	54
	~ ·	3.3.2.3	Renminbi Contribution in the Investment	54
1.0	3.3.3	Provision	of Services to Qualified Investee FIEs	55
		3.3.3.1	Qualification of the Investee FIE	55
7		3.3.3.2	Services Provided under Specific	
			Appointment	56
		3.3.3.3	Services Provided in General	56
	3.3.4	Business	with Connected Parties	57
	3.3.5	Business	with Third parties	57
		3.3.5.1	Foreign Trade	57
		3.3.5.2	Distribution	58
		3.3.5.3	Other Business with Third Parties	58
3.4	Qualify	ing as a Re	egional Headquarter	59
	3.4.1	The Quali	ifications	59
	3.4.2	The Quali	fying Procedures	59
	3.4.3	Business	Scope of a Headquarter FIHC	59
3.5	Taxatio	n		60
		Tax Incen		60
	3.5.2		over the Investment Business	6
	3.5.3	Taxation	over the Provision of Services to the	
		Investee I		62
	3.5.4	Export Ta	x Rebates	62
3.6	Key Pr	ovisions at	Issue	63
Chap	ter 4			
		sted Comp	any Limited by Shares (FICLS)	65
4.1			Latest Developments	6.5
4.2			f the FICLS	60
	4.2.1	The Prom	ioters	66

xi

	Table of Con	itents	Table of Contents	Xiii
	4.2.2 Establishment Ways	67	5.7 Establishment Procedures of an FIPE	95
	4.2.3 The Twenty-Five Per Cent Foreign Capital	07	5.8 Approval/Record-Filing of Post-Establishment Matters	98
	Requirement	67	5.9 Withdrawal from the Partnership	99
	4.2.4 Eligibility to FIE Preferential Treatments	68	5.10 Key Provisions at Issue	100
4.3	Registered Capital	69	5.10 Rey 110 visions at 15500	100
4.4	Corporate Governance Structure of an FICLS	71		
4.5	Establishment Procedures of an FICLS	72	Part II	
4.6	Restructuring an Existing Company into an FICLS	75	Merger and Acquisition: Non-listed Companies	
1.0	4.6.1 Overview	75	Meriger and recommends from insect companies	
	4.6.2 Restructuring an Existing FIE into the FICLS	76	Introduction II	
	4.6.3 Restructuring a State-Owned Enterprise (SOE)	70	M&As under the New M&A Rules (2006)	103
	into the FICLS	77	Interior and the first transfer of the first	
	4.6.4 Restructuring a Domestic CLS into the FICLS	79	Chapter 6	
4.7	Transfer of Non-floated Shares in an H Shares Company	80	Acquisition of Domestic Enterprises in General	105
4.8	Key Provisions at Issue	81	6.1 Introduction and Latest Developments	105
		0.1	6.2 Structuring the Acquisition: Equity vs. Assets Deal	106
Char	ter 5		6.3 Pricing Based on Valuation	108
	gn Invested Limited Liability Partnership (FILLP)	83	6.4 Procedures of the Acquisition	108
5.1	Introduction and Latest Developments	83	2.4.1 The Procedures of Equity Acquisition	108
5.2	General Matters	84	6.4.2 The Procedures of Assets Purchase	116
	5.2.1 The Door Opened to a Limited Liability		6.4.2.1 Available Approaches of the Assets	
	Partnership (LLP)	84	Purchase	116
	5.2.2 Application of the FIPE Rules	85	6.4.2.2 Particular Points as Compared with the	
	5.2.3 Industrial Controls	85	Procedures of Equity Acquisition	119
5.3	Partners	96	6.5 Merger Controls	124
	5.3.1 The Partners in an FIPE	86	6.5.1 Industrial Controls	124
	5.3.2 Limited Liability Legal Person as a General Partner	87	6.5.2 Report to the National MOFCOM in Particular	
	5.3.3 Partners in a Special General Partnership	88	Acquisitions	124
	5.3.4 Limited Partners in an LLP	89	6.5.3 Anti-monopoly Review Based on Competition Law	126
	5.3.4.1 Liability Limited to the Extent of		6.6 Taxation in an Acquisition Deal	126
	Contribution to the LLP	89	6.6.1 Tax Levied in an Acquisition Deal	126
	5.3.4.2 'Safe Harbour' Rule for the Limited Pariners	89	6.6.2 Tax Implications	128
	5.3.4.3 Special Treatments for a Limited Partner	90	6.7 Key Provisions at Issue	129
	5.3.5 Transformation from a General Partner to Limited			
	Partner or Vice Versa	91	Chapter 7	
5.4	Capital Contribution	92	Acquisition of Particular Structure: Acquisition via SPV,	
	5.4.1 Contribution Assets	92	Share Swap	131
	5.4.2 Valuation of Non-Monetary Contribution	92	7.1 Introduction and Latest Developments	131
	5.4.3 Time Limits for the Capital Injection	93	7.2 Establishment of an Offshore SPV by Domestic Residents	132
5.5	Partnership Agreement	93	7.3 Stringent Controls over the Acquisition via an SPV	133
5.6	Features Particular for an FIPE	94	7.3.1 Approval by the National MOFCOM	133
	5.6.1 MOFCOM Approval Requirement	94	7.3.2 Limited Availability to the FIE Preferential	
	5.6.2 Capital Contribution Amount	94	Treatments	135
	5.6.3 Total Investment Amount	95	7.4 Cross-border Share Swap in General	136
	5.0.5 Total investment Amount		7.4.1 Conditions for the Share Swap	136

174

174

11.3.4 Establishment Date

11.4 Procedures of the Merger

199

199

9.3.2

Pricing of the Acquisition

Procedures of Equity Acquisition of an Existing FIE

2	vi Table of Cont	ents	Table of Contents xv	vii
		205	10.0	51
		206	13.5.1 Ways of Indirect Takeover 25	
	1.7 Key Provisions at Issue	207	13.5.2 Cooperation Obligations of the de Facto Controlling Person 25	
				54
	Chapter 12			54
- 1	Merger Controls under Competition Law	209		55
	2.1 Introduction and Latest Developments	209	13.7 Key Provisions at Issue 25	56
	2.2 Authorities of the Anti-monopoly Review	211		
		212	Chapter 14	
		212	Strategic Investment in Listed Companies 25	57
		213	14.1 Introduction and Latest Developments 25	57
		214	14.2 General Matters of the Strategic Investment 25	58
		215	14.2.1 Ways of Investment 25	58
		216	14.2.2 Entry Standards 25	58
		220	14.2.3 Investment Restrictions 25	59
		220	14.3 Strategic Investment through Shares Purchase	
1	2.7 Key Provisions at Issue	221	Agreement (SPA) 26	60
			14.4 Strategic Investment through Private Placement 26	64
			14.5 FIE Treatments for the Listed Company with	
	art III		Strategic Investment 26	65
1	Ierger and Acquisition: Listed Companies		14.6 Repatriation Restrictions 26	67
-			14.7 Key Provisions at Issue	68
	ntroduction III			
1	akeover under the New Takeover Code (2006)	225	Chapter 15	
		4	Investment via Qualified Foreign Institutional Investors (QFIIs) 26	69
	hapter 13	14	15.1 Introduction and Latest Developments 26	
		227		70
		227	15.3 Strategic Investment vs. QFII: Pros and Cons 27	
		229	15.4 Licences Necessary for QFII Investment 27	
1		230	15.4.1 Grant of the QFII Permit by CSRC 27	
		230	15.4.2 Grant of the QFII Quota Certificate by SAFE 27	
		230	15.5 Controls over the Investment 27	
		231	15.5.1 Investment within the QFII Quota 27	
		232	15.5.2 Shareholding Caps 27	
		232	15.6 Agencies in the Investment 27	76
		233	15.6.1 Trading Broker: A Domestic Securities Company 27	76
		234		76
		240	15.7 Accounts Management 27	77
1		241		77
		241	15.7.2 Securities Accounts 27	
	13.4.2 The Procedures for an SPA Targeting Thirty		15.8 Key Provisions at Issue 27	79
		243	(1)	
	13.4.3 The Procedures for an SPA Targeting over		Chapter 16	
	CARACTER IN THE CONTRACTOR OF	245	Transfer of State-Owned Shares in a Listed Company 28	81
	13.4.4 Transitional Period	250	16.1 Introduction and Latest Developments 28	81

xviii	Table of Co	ntents	Table of Contents		xix
16.2	Centralization of the Approval Authority	282	Part IV		
16.3		283	Corporate Finar	ce	
	16.3.1 The Approval or Record-Filing Requirement	283	00-1		
	16.3.2 The SASAC Approval on the Trading of SS Shares	285	Introduction IV		
16.4	Transfer through Shares Purchase Agreement (SPA)	285	Securities Offeri	ng under the New Securities Law (2005)	325
	16.4.1 The Approval Requirement	285			
	16.4.2 Pricing under the SPA	286	Chapter 19		
	16.4.3 The Procedures of SS Shares Transfer through SPA	286		fering (IPO) and Listing	327
16.5	Indirect Transfer	292		n and Latest Developments	327
	16.5.1 Indirect Transfer of SS Shares	292		s Available to Foreign Investors	327
	16.5.2 Particular Features of the Indirect Transfer of SS Shares	292		ehicle: FIEs' CLS or FICLS	329
1//	16.5.3 Procedures of the Indirect Transfer of SS Shares	293		e Establishment of a CLS in China	329
	Role of the Independent Financial Advisor (IFA)	295		3.1.1 The Promoters	329
16.7	Key Provisions at Issue	295		3.1.2 Establishment Means	329
Char	ton 17			3.1.3 Registered Capital	329
	oter 17		The second secon	3.1.4 Establishment Procedures	330
	osure in the Takeover	297		rticular Requirements for Establishing an	222
17.1 17.2	Introduction and Latest Developments	297		CLS by Foreign Investors	332
17.3	Disclosure Reports in General Disclosure Reports in Specific	297		rticular Requirements for Promoting a CLS	222
17.3	17.3.1 Change of Interests Report	299		FIEs for the Issuer	332
	17.3.2 Takeover by Offer Report	299			333
	17.3.3 Listed Company Takeover Report	301 302		try Standards 4.1.1 Three-Year Track Record	333 333
17.4	Disclosure Procedures	302		4.1.2 Fully Paid-in Capital	333
2711	17.4.1 Disclosure in the Trading on the Stock Exchange	302		4.1.3 Financial Tests	334
	17.4.2 Disclosure in the Takeover by Offer	303		4.1.4 Public Floating Requirement	335
	17.4.3 Disclosure in the Takeover through SPA	304		od Standing and Operation Compliance	335
	17.4.4 Disclosure in the Indirect Takeover	304		4.2.1 Clean Ownership	335
17.5	Concepts Critical to the Disclosure	308		4.2.2 No Material Change	335
	17.5.1 Acting in Concert	308		4.2.3 Continuous Profit-Making Capability	335
	17.5.2 Controlling Rights	309		4.2.4 Operation Compliance	336
17.6	Key Provisions at Issue	310		lependence	336
				e of Proceeds	337
Chap	ter 18		19.4.5 Lo	ck-up Periods	338
Subst	antial Assets Restructuring (SAR) of a Listed Company	311		Particular for an FICLS	339
18.1	Introduction and Latest Developments	311	19.6 IPO and L	sting Procedures	340
18.2	Identification of the SAR	312	19.7 Key Provis		350
	18.2.1 The Definition of SAR	312			
	18.2.2 Quantitative Standards of the SAR	312	Chapter 20		
	18.2.3 SAR through Private Placement	314		o Offering by a Listed Company	353
	18.2.4 SAR through Means other than Purchase or Sales	315		n and Latest Developments	353
100	18.2.5 Very Substantial Assets Restructuring (VSAR)	315	20.2 Private Pla		354
18.3	Special Reports and Professional Opinions Involved in an SAR	316		vacy of the Placement	354
	Procedures of and Disclosure in the SAR	317		signated Subscribers	354
18.5	Key Provisions at Issue	320	20.2.3 Iss	uance Prices	355

		20.2.3.1 Pricing Guidelines	355
		20.2.3.2 Determination of the Specific Price	356
		Lock-up Periods	357
	20.2.5	Disqualifications of the Issuer to Launch	
		a Private Placement	357
20.3		ocedures of a Private Placement	358
	20.3.1	Procedures of the Private Placement to	
	ounumer-ser	Specifically Designated Subscribers	358
	20.3.2	Procedures of the Private Placement through	~~~
	~ .	Pricing Enquiry and Bidding	365
		ation Disclosure in the Private Placement	368
20.5		Offering	370
		Common Conditions for a Public Offering	370
	20.5.2	Disqualifications of the Issuer to Launch a Public	270
	20.52	Offering	370
	20.5.3	Conditions Particular for the Rights Issue to Existing	272
	20.5.4	Shareholders	372
		Conditions Particular for the Additional Issue to the Public	372
20.6		The Procedures of a Public Offering	373
		Proceeds ovisions at Issue	375 376
20.7	Key Pi	OVISIOIIS at ISSUE	3/0
Chap	ter 21		
		onds Available to a Listed Company	379
		ction and Latest Developments	379
		Essentials	382
	21.2.1	Essentials of Company Bonds	382
		Essentials of Convertible Bonds (CBs)	382
	21.2.3	Essentials of Warrant Bonds (WBs)	383
21.3	Offerin	g Conditions	384
21.4	Security	y for the Bonds	386
21.5	Credit 1	Rating	388
21.6	Use of	Proceeds	388
21.7	Protecti	ion of the Creditors (Bondholders)	389
		Offering on the Stock Exchange	390
21.9		on the Trading Markets	399
		Available Bond Trading Markets	399
	21.9.2	Listing on the Stock Exchange	399
		21.9.2.1 Applicable Listing Rules	399
		21.9.2.2 Listing Conditions	399
		21.9.2.3 Listing Procedures	400
		21.9.2.4 Listing Application via the Sponsor	402
	cana manar	21.9.2.5 Listing Approval by the Stock Exchange	402
21		Listing on the Interbank Market	402
21.10	Key Re	egulations at Issue	404

Table of Contents

Table	of Con	tents	XX
Chap	ter 22		
		overnance and Internal Controls of Listed	
Com	panies		407
22.1	- 1	action and Latest Developments	407
22.2	Corpor	rate Governance	408
		The Corporate Governance Structure	408
	22.2.2	Shareholders' General Meeting	408
	22.2.3	Board of Directors	411
	22.2.4	Board of Supervisors	412
	22.2.5	Senior Officers	413
	22.2.6	Disqualifications of the Senior Management	413
22.3	Interna	l Controls	414
	22.3.1	Controls over External Security	414
	22.3.2	Controls over Connected Transactions	415
		22.3.2.1 Definition of the Connected Persons	415
		22.3.2.2 Disclosure of the Connected Transactions	416
	~O	22.3.2.3 Approval Procedures for the Connected	
		Transactions	417
22.4	Key Pr	rovisions at Issue	419
10	J 7 2		

419

421