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FLANDERS-CHINA CHAMBER OF COMMERCE
VLAAMS-CHINESE KAMER VAN KOOPHANDEL

NEWSLETTER | 2 APRIL 2013

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FCCC ACTIVITIES

Alleviating your risks in China – A practical seminar on preliminary due diligence & managing contract terms – 16 April 2013 – Agoria, Brussels

Agoria, the EU SME Center, BCECC, FCCC, AWEX, BIE & FIT are organizing an afternoon seminar on how to mitigate risks in China. Join the seminar and discover:

How to find a suitable business partner? Are they reliable? Learn about the main aspects of preliminary due diligence, including:

- Legal due diligence on the legal status of the company – duly registered, having all licenses, company chop, etc. and,
- Financial and operational check – creditworthiness letter, financial statements, capital verification report, on-site check, premises, etc.

How to manage contract terms and reduce risk? There is a misconception that contracts have no value in China and that personal relationship takes precedence in commercial transactions. For successful business and, more importantly, staying safe, you really need both and your sales/purchase contracts can significantly influence the course of your deals, and business achievements in China!

- How to avoid common contractual errors which lead to loss of technology, know-how and competitiveness (also including terms and rights of employment contracts)
- Practical and useful tips on how to protect your business

You will receive practical advice from the EU SME Center expert, the panelists, and have the opportunity to attend a one-on-one consultation session to discuss your individual questions (each for max 20 minutes) with the EU SME Center expert after the seminar.

Programme:

13:30 Registration
14:00 Welcome word by Agoria on behalf of all organizers
14:10 Presentation by the EU SME Center

- How to find a suitable business partner?

- How to manage contract terms and reduce risk?

14:55 Coffee break
15:10 Panel discussions by

- Jan Kriekels, CEO, Jaga NV
- Ghislain Gilliot, CEO, Simonis Plastic SA
- Olivier du Roy, ex Country Manager China, Solvay

  moderated by Professor Johan Erauw (– also for the Q&A) of Ugent University

16:20 Q&A
16:50 Reaction with possible suggestions by EU SME Center
17:05 End + Networking Cocktail
17:05 In parallel – one-on-one consultation sessions

Interested to join the seminar? Thanks to register only via the link in Dutch or the link in French.

As the number of one-on-one sessions with the EU SME Center Expert is limited, it will be on first come first served basis. Please send us your one-on-one consultation session request together with your event registration.

Sino-Belgium Business Survey: Are Belgian companies suffering in China or enjoying an excellent year? – Wednesday, 24 April 2013, 17h – KBC Bank, Brussels

Last year the Chinese economy expanded by 7.7%, a rate of growth largely seen as a continued 'slowdown'. How did your company perform by comparison? The results of the 2013 Sino-Belgian Business Survey set the performance of Belgian companies in the right context. When we talk about the growth of Belgian businesses in China are we comparing apples and pears? Equally importantly, how do Belgian businesses feel about the future of their business in China?

Moore Stephens Verschelden, together with the Flanders-China Chamber of Commerce, Flanders Investment & Trade (FIT) and the Benelux Chamber of Commerce, are organizing a discussion on the results of this year's survey with a panel of leading business figures and independent experts on Wednesday, 24 April 2013, 17h at KBC Bank, Havenlaan 2B, 1080 Brussels.

Agenda

16h30 – 17h00:	Registration
17h00 – 17h05:	Welcome by Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce
17h05 – 17h15:	Introduction by Mr Philippe Snel, Chairman Bencham Shanghai
17h15 – 18h05:	Panel discussion moderated by Mr Andries Verschelden, Partner Moore Stephens Verschelden - Mr Tim Van den Bossche, Vice President Global Marketing & Strategy, Agfa Graphics - Mr Filip Goris, Regional Manager China & India, Recticel - Mr Wim Buyens, Senior Vice President Projection Division, Barco - Mr Thomas Baert, Owner & CEO, Chinafloors
18h05 – 18h30:	Q&A session
18h30 – 19h30:	Networking Reception

Please sign up using this link before 19 April 2013.

Members: €30, Non-members : €45

Networking Evening with Chinese Talent at Ghent University – Thursday, 25 April 2013, 17h – Provinciaal Administratief Centrum, Gent

The Flanders-China Chamber of Commerce, Ghent University and the Province of East Flanders, are organizing a networking evening with Chinese talent studying at Ghent University. This event will take place on Thursday 25 April at 17h at the Provinciaal Administratief Centrum (PAC), Woodrow Wilsonplein 2, 9000 Ghent.

This networking event will give you the opportunity to introduce your company to Chinese

students, which are mostly from the faculties of: Engineering Sciences & Architecture, Bioscience Engineering, Sciences, Veterinary Sciences, Law, Economics & Business Administration, Medicine & Health Sciences and Pharmaceutical Sciences.

The programme is as follows :

17u00:	Welcome by Mr Hedwig De Pauw, Director Economic Affairs and International Relations, Province of East Flanders
17u05:	Welcome by Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce
17u10:	"Strategies for finding an employer in Europe" by Mr Patrick Meirlaen, Managing Partner at The Future Alliance and Partner at the International Executive Search Federation (IESF)
17u30:	Presentation of the participating companies and networking between students and business leaders. Networking reception hosted by the Province of East Flanders
19u30:	End of programme

This event is an ideal way to meet about 100 Chinese students and to broaden your network. During this event, you will have the opportunity to present your company via a presentation and a promotional stand.

This evening is organized with the support of Flanders Investment & Trade.
If you are interested in attending, please sign up using the following link before 18 April 2013.

Participation for member company: €75, Non-members: €115.

ACTIVITIES SUPPORTED BY FCCC

Conference: "China's economy at the crossroads" – 7 May 2013 – Barco, Kuurne

The Chamber of Commerce of West-Flanders, in cooperation with the Flanders-China Chamber of Commerce (FCCC), is organizing a conference "China's economy at the crossroads: opportunities and challenges, also for Flemish entrepreneurs..." by Professor and China expert Jonathan Holslag, Research Director at the Brussels Institute of Contemporary China Studies (BICCS) at the Vrije Universiteit Brussels (VUB). The conference will take place at Auditorium Barco, Ringlaan 5, 8520 Kuurne on Tuesday, 7 May 2013, from 18h30 till 20 h. The conference will be followed by a network reception.

Participation for VOKA and FCCC members: €75 (excl. VAT), Non-members: €95 (excl. VAT). Cancellations accepted in writing until five days prior to the conference.
More info: www.voka.be/west-vlaanderen - Tel 056 26 13 93 Mail: griet.witdouck@voka.be

OTHER ACTIVITIES

Experts Seminar: China's New Leadership: New International Ambitions? – 15 April 2013, 10:30h – Egmont Palace, Brussels

EGMONT – Royal Institute for International Relations – is organizing an Experts Seminar on Monday 15 April 2013, from 10.30 to 12.00 at the Palais d'Egmont, place du Petit Sablon 8, 1000 Brussels (doors will open at 10.15)

China's New Leadership: New International Ambitions?
As the National People's Congress of China is giving its final approval to the leadership transition, international observers speculate on the international implications of this once-in-a decade event. Will China modify its regional and global posture? Will it become more responsible and cooperative, or more self-confident and assertive? What are the implications for regional stability? For the relations with Europe? What do we know about the objectives of the new leadership? Do we know anything at all about China's global ambitions?

Speaker: Dr Mathieu Duchâtel, Head Representative in Beijing of the Stockholm International Peace Research Institute (SIPRI), and co-author (with Joris Zylberman) of "Les Nouveaux Communistes Chinois" (Armand Colin, 2012).
Discussant: Dr Jan Hoogmartens, China Desk Manager in the Belgian Ministry of Foreign

Affairs, and Adjunct-Professor, Zhejiang Business School (Hangzhou, China).
Moderator: Thomas Renard, Senior Research Fellow, Europe in the World Programme, Egmont.

The working language will be English. The seminar will take place under the Chatham House Rule.

Registration in advance is absolutely necessary by e-mail by Thursday 11 April 2013: conferences@egmontinstitute.be

PAST EVENTS

Conference: “Opportunities for Flemish SMEs in China” – 27 March 2013 – Brugge

The Flanders-China Chamber of Commerce (FCCC), the Province and POM West-Flanders, VOKA and UNIZO organized a conference: “Opportunities for Flemish SME in China” on 27 March 2013 in Brugge.

Following a word of welcome by Jean de Bethune, Vice Governor Economy, Province of West-Flanders and an introduction by Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce, Mrs Yin Linggu, Senior Advisor, Province of West-Flanders in China, presented an interesting overview of opportunities for Flemish companies in the province of Zhejiang. Her speech was followed by testimonials on doing business with China presented by Yves Struyve, CEO, Trislot; Eddy Coppieters, CEO, Primus Group; and Didier Leclercq, Chief Operations Officer, Vitalo Industries.

Conference: Managing China in Transition – Can China’s 5th generation leadership get China on a sustainable path? – 15 March 2013, Brussels

The Flanders-China Chamber of Commerce (FCCC) and The Conference Board organized the conference “Managing China in Transition – Can China’s 5th generation leadership get China on a sustainable path? on 15 March at The Conference Board in Brussels.

Following an introduction by Mr Bert De Graeve, Chairman of the Flanders-China Chamber of Commerce (FCCC) and Chief Executive Officer of Bekaert, Mr David Hoffman, Vice President and Managing Director of The Conference Board’s Beijing-based China Center for Economics and Business, gave an interesting presentation on how this transitional period in China will shape the operating environment for multinational corporations.

The conference was moderated by Ethan Cramer-Flood, China Program Specialist of The Conference Board.

FCCC New Year Reception – 5 February 2013 – Brussels

The Flanders-China Chamber of Commerce (FCCC) organized a Chinese New Year reception on February 5, 2013 at at the Flemish Parliament in Brussels, with speeches by:

Mr Bert de Graeve, Chairman Flanders-China Chamber of Commerce

His Excellency Mr Liao Liqiang, Ambassador of the People's Republic of China in Belgium

Mr Kris Peeters, Minister President of the Flemish Government, Flemish Minister for Economy, Foreign Policy, Agriculture and Rural Policy

Pictures will soon be online at the FCCC website.

FINANCE

CCB expects interest rate liberalization to hurt income growth

China Construction Bank (CCB) has warned that interest rate liberalization could hurt its future income growth. CCB's annual results showed net profits climbed 14.1% year-on-year to CNY193.2 billion last year, slightly higher than the average market expectation, though the pace of growth was the slowest in six years, due to a slowing domestic economy and Beijing's tightening measures. May Yan, China Banking Analyst at Barclays Capital, said that new loans have been repriced at cheaper rates in the first quarter, following the Chinese central bank's cuts to the benchmark lending and deposit rates last year. CCB's net interest margin, which measures the spread between funding costs and lending income, edged up 0.05 percentage points to 2.75% last year, while return on equity fell 0.53 percentage points to 21.98%, suggesting that the bank may face mounting pressure from slowing interest income and increases in provisions amid deteriorating asset quality. CCB's net interest income, which represented 76% of its operating income, rose 15.9% year-on-year to CNY353.2 billion in 2012, while its net fee and commission income increased by 7.49% to CNY93.5 billion. CCB raised its bad loan provisions by 29.85 percentage points to 271.29% last year. Its non-performing loan ratio was 0.99% at the end of 2012, down 0.1 percentage point compared to the previous year, CCB Chief Executive Officer Wang Hongzhang said. CCB President Zhang Jianguo said that this year the bank would strengthen restructuring of its loan mix, and lower capital costs. Zhang said the lender’s mortgage loans to individuals were the largest among its peers. CCB is the largest lender to homebuyers in China. Corporate loans at the end of 2012 accounted for 66.07% of CCB’s total loans, down slightly from 67.74% in 2011. Central Huijin Investment, the lender’s largest shareholder, increased its stake in CCB when it bought 170 million shares in the bank in the fourth quarter of 2012. By the end of 2012, Central Huijin Investment held 57.21% of CCB’s shares, the China Daily reports.

Two banks report slower profit growth

The Agricultural Bank of China (ABC) and the Bank of China (BOC) both reported a slower increase in net profit in 2012. ABC’s net earning grew to CNY145.1 billion last year, up 19% from CNY121.9 billion in 2011. Its net interest margin narrowed to 2.67% from 2.73% a year earlier. Its bad loan ratio improved to 1.33% from 1.55%. “AgBank has the highest proportion of personal deposits and current deposits, which grants it the lowest deposit cost among the top four banks,’’ said BOC International, the investment banking unit of BOC. Net profit at BOC, China’s biggest foreign exchange lender, rose 12% to CNY139.4 billion last year from CNY124.3 billion in 2011. Net interest margin improved from 2.12% to 2.15%, while its bad loan ratio declined 0.05 percentage point to 0.95%. ‘‘BOC has the lowest net interest margin among the top four lenders due to weak returns from its foreign currency loans,’’ BOC International’s report said. Chinese banks have in the past benefited from a margin between lending and deposit rates of more than 3 percentage points, among the world’s largest, but the government is now loosening interest rate controls, leading to increased competition and lower margins.

ICBC remains the world’s most profitable bank

Industrial and Commercial Bank of China's 14.5% net earnings growth last year again made it the world's most profitable bank, though a slowdown in profit growth is set to continue. Net profit was CNY238.5 billion, marking the lender's slowest profit growth since the 2008-09 financial crisis. ICBC, the world's largest bank by market value and assets, plans to slow down asset expansion this year and tolerate a higher bad-loan ratio, underscoring the pressure from stricter capital rules and the anticipation of an economic slowdown. “It is not so good to be the largest lender by assets,” said ICBC's President Yang Kaisheng. “It reflects China's over-reliance on bank loans, and it brings about tremendous pressure for us in risk management and internal control.” In order to change its function from basically “an asset owner” to “an asset manager” and use capital more efficiently, the bank had decided to slow down the expansion of its assets, Yang said. It aimed to increase total assets by CNY1.7 trillion this year, or about 9.7%, compared to last year's pace of 13%. The bank also said it would maintain the year-end non-performing loan (NPL) ratio within 1.2%, while the ratio improved 0.09 percentage point to 0.85% over last year. The balance of NPLs increased by CNY1.56 billion to CNY74.58 billion over the year. “It will be difficult to realize dual reduction in NPL and the NPL ratio as companies struggle to make transformations amid the economic restructuring. 2013 will see lenders' asset quality seriously tested,” Yang said. Net interest margin (NIM), a key measure of lending profitability, improved 0.05 percentage point to 2.66% last year, but

Yang warned their would be “some change” this year as ICBC reprices 25% of its deposits and 50% of loans, the South China Morning Post reports.

China's largest banks capped a sixth year of record profits by posting a 21% average return on equity (ROE), more than twice the rate earned by U.S. and European competitors. Industrial and Commercial Bank of China (ICBC) and its three major local rivals boosted their combined profits 15% to CNY716.2 billion. By comparison, earnings at the four largest U.S. lenders rose 9.6% to USD51.9 billion while their ROE averaged about 7.3%, according to data compiled by Bloomberg.

- HSBC has implemented a yuan cross-border trade settlement solution for a Fortune 500 company in China, providing a centralized approach to cash management, which is expected to lead more foreign corporates to adopt the yuan in international trade. The move enables Chinese subsidiaries of the company to use yuan to settle cross-border payments and collections with their parent company’s overseas treasury center. It significantly reduces foreign exchange exposure and optimizes liquidity management for the company. HSBC expects 30% of China’s total trade flow, or around 50% of bilateral trade with emerging market countries, to be settled in yuan within the next three years.
- The worst is over for China Construction Bank (CCB) in terms of piling up bad loans. CCB's non-performing loans rose CNY3 billion to CNY4 billion over last year to CNY74.6 billion. More than CNY6 billion of bad loans were booked as losses, said Chief Financial Officer Zeng Jianhua. Zhang Jianguo, President of CCB, said he expects asset quality to “remain stable” this year. “Bad loans rose last year mainly because the economic transformation hit some companies in the Yangtze River Delta, especially those in Zhejiang province. The worst is over now,” he said. CCB’s net profit grew 14% last year – the slowest since 2006. CCB's net interest margin edged up 0.05 percentage point to 2.75% last year.
- Chongqing Rural Commercial Bank expects its net interest margin to beat that of its peers, owing to its niche market of smaller borrowers. The bank's net interest margin rose 14 basis points to 3.5% last year. Margins in the industry as a whole are being squeezed after the CBRC allowed banks more flexibility to determine their interest rates for loans and deposits. Lower loan rates and higher deposit rates ensued as banks vied for customers. At the end of last year, SMEs accounted for 75.3% of the outstanding balance of loans at the Chongqing Rural Commercial Bank.
- Bank of China (BOC) has officially opened a branch in Chicago, which it hopes to use as a base for new business activities in 17 U.S. states. It is BOC’s fourth in the United States, following two in New York and one in Los Angeles. Chinese investment in the U.S. increased 17% in 2012 to a record USD6.5 billion.
- Earnings at Bank of China (Hong Kong) hit a record last year, but analysts are concerned about margin pressure and weaker revenue growth. Net profit rose 2.4% to HKD20.9 billion. Of this, HKD9.6 billion came in the second half of the year, 13.8% less than in the first half. The bank’s net interest margin fell 0.04 percentage point to 1.6% at the end of last year from six months earlier. Both Singapore and Taiwan have started offshore yuan-clearing services, and BOCHK is no longer the sole yuan-clearing bank in the region.
- Bank of Communications (Bocom) said its existing capital could sustain the growth of the bank and it had no plan to raise funds in the equity market. The bank's net profit jumped 15% to CNY58.3 billion last year, in line with market expectations. The capital adequacy ratio rose 1.63 percentage points to 14.07%.
- China Life Insurance said net profit dropped 39.7% in 2012 from a year earlier to CNY11.06 billion. “China’s life insurance market has gone through a tough and very difficult year in 2012,” the insurer said. China Life attributed the decline in net profit to a slower economic growth, sluggish capital market and weak demand for insurance. Six of China’s largest insurers listed in Shanghai and Hong Kong reported combined net profits of CNY46.7 billion, a 22% drop on 2011. Hong Kong-listed PICC was the only one to post double-digit growth in annual net profits, to CNY10.1 billion, a 28.5% increase.
- Banks' loan exposure to local governments and property developers is a far more serious and imminent threat to China's financial system than shadow banking, which was “more a symptom than a cause” of emerging systemic risks to the country's

banking sector and the wider economy, according to Standard & Poor's. Shadow banking, or unregulated credit offered by non-bank lenders, has grown at an annual rate of 34% since 2011, to reach CNY22.9 trillion at the end of last year.

- China Citic Bank reported flat earnings for last year, while earnings grew by a quarter at China Merchants Bank (CMB) and more than a third at China Minsheng Banking.

FOREIGN INVESTMENT

1 in 10 U.S. companies to invest less in China

One-in-10 U.S. companies operating in China have removed the nation from their list of top-three priority destinations for global investment in 2013 due to rising labor costs and slower growth, according to a survey conducted by the American Chamber of Commerce in China (AmCham). 68% of companies rated China among their top three investment priorities in 2013, down 10 percentage points from last year. “People are a little bit less focused on China,” said Grey Gilligan, Chairman of the Chamber. U.S. companies still witnessed strong performance in China, with 71% posting sales growth in 2012, while 44% said the profit margins of their China operations were higher than their global average. “The attraction of China is still quite high. Maybe in the past, they would say, China is clearly number one, but now they will say, we have a few options and China may be one of the top three,” Gilligan said. China attracted USD8.21 billion in global foreign direct investment (FDI) in February, up 6.32% year-on-year. Although 78% of respondents were optimistic about business in China over the next two years, only 18% said they planned to substantially expand their investments in the coming 12 months. Rising labor costs and the economic slowdown were listed as the top business risks in China. A shortage of qualified employees and managers is also seen as a major risk.

- Premier Li Keqiang said that China is likely to import as much as USD10 trillion worth of commodities and services in the next five years to boost domestic consumption. Li renewed the nation’s pledge to maintain its open policy, and promised a further opening up of services and industries related to energy-saving and environmental protection. Li also promised foreign businesses fair access to the market and a level playing field in terms of competition. Li made the remarks at a meeting with representatives and executive officers from about 100 multinationals who attended the two-day China Development Forum in Beijing.

FOREIGN TRADE

Western Guangdong’s trade fair targets Asean

Less developed western Guangdong will host its first trade fair targeting overseas Chinese business people in Asean countries this month in a bid to boost the local economy. The trade fair will be held in Zhanjiang from April 10 to 12. The Asean bloc is China's fourth-largest trading partner. 350 guests, including Chinese merchants from Asean countries and regional media, would be invited. They will tour Zhanjiang's major harbor projects, such as the Sino-Kuwait Guangdong integrated refinery and petrochemical project, and the Zhanjiang iron and steel hub. Efforts would also focus on investment in the Guangdong (Fengyong) industries park on Zhanjiang's Leizhou Peninsula. Guangdong province's trade with Asean totaled USD9.32 billion in 2011 and USD9.23 billion last year. Both sides were aiming to abolish bilateral import tariffs from 2015 to 2018. Dr Peng Peng, Researcher with the Guangzhou Academy of Social Sciences, said Guangxi had traditionally played a leading role in building business ties with Asean but its smaller economy had restricted its impact. “That is why Guangdong is taking up the baton,” Peng said. “Fostering trade between Guangdong and Asean can also foster the internationalization of the yuan.”

- A U.S. court has sentenced a Chinese national to more than five years in prison for illegally exporting military trade secrets to China. Liu Sixing, who formerly worked at L-3 Communications, was accused of taking information on U.S. missile, rocket and drone technology to China. He was convicted of exporting military information, possessing stolen trade secrets, and lying to the authorities. Liu says he did not break the law, or intend to pass secrets to China.
- China and Russia signed two arms-sale contracts for China to buy 24 Su-35 fighter jets and four Lada-class submarines. The submarines will be jointly designed and

built by both countries, with two of them to be built in Russia and the other two in China. During his recent visit to Russia, Chinese President Xi Jinping visited Russia's Defense Ministry, the first Chinese head of state to do so.

- Long-awaited talks on a free trade deal involving China, Japan and South Korea have opened. The idea of a trilateral free trade agreement has been on the table for years. With all three countries under new leadership, officials hope they can move beyond damaging territorial disputes that have dogged relations for decades. Analysts in Japan said the biggest winner of a trade deal would be South Korea, while Japan was taking part largely to avoid increasing regional tensions. Both Seoul and Tokyo could face intense domestic lobbying from sectors wary of a flood of cheap Chinese imports.
- The government's restrictions on taking infant milk formula from Hong Kong to mainland China was "based on a mistake" and should be scrapped in the long term. "There was never a stock shortage," said Arnoud van den Berg, General Manager of FrieslandCampina, the manufacturer of Friso products. "There were always products in our warehouse, but customers emptied all the shelves every time the products were put on the shelves," he said. "I respect the government's attention on the matter; however, it was based on a mistake that it was a supply problem," van den Berg told the South China Morning Post.
- A bill signed by U.S. President Barack Obama forbids NASA and the Justice and Commerce Departments from buying information technology equipment "produced, manufactured or assembled" by firms "owned, directed or subsidized by the People's Republic of China." Federal government agencies could buy IT products from China only if they pass a risks assessment involving "cyber-espionage or sabotage associated with the acquisition of such systems," according to the bill. China's foreign Ministry Spokesman Hong Lei said the bill "adopts a biased attitude toward Chinese enterprises under the pretext of information security" and is not conducive to the development of China-U.S. relations.

IPR PROTECTION

WIPO opens office in Beijing

The World Intellectual Property Organization (WIPO) has recently chosen Beijing as the site for its Chinese office, the fifth office to be opened worldwide after those in Brazil, Japan, the United States and Singapore. The new facility is expected to play an important role in enhancing WIPO's cooperation with China and offering local services, such as arbitration and mediation, collective management and capacity building, according to the Beijing Intellectual Property Office.

- Anheuser Busch InBev China sued five domestic beer makers and restaurants for "illegally using its trademarks", including AB InBev and Budweiser. It asked for CNY5 million in total compensation. Four of the defendants claimed that they have used retrieved beer bottles with the plaintiff 's trademarks printed at the bottom, but contend that the marks are barely visible. Shanghai First Intermediate People's Court began hearing the case on March 21.

MACRO-ECONOMY

Guangdong to sustain high growth rate

Guangdong will be able to achieve a growth rate between 8% and 10% annually for at least another decade with the support of major new projects and industrial upgrading, according to Li Chunhong, Director of the Guangdong branch of the National Development and Reform Commission (NDRC). "I'm confident about Guangdong's sustainable development," he said. Li's optimism comes after the province suffered from the protracted global economic downturn. Last year, the province's gross domestic product (GDP) grew 8.2%, above the nation's average of 7.8% but below the rate achieved by rival provinces such as Jiangsu. The province plans to invest up to CNY2.4 trillion this year on infrastructure, with a focus on building roads in the underdeveloped eastern, western, and northern regions, highways that link them to other provinces, and more subways in the Pearl River Delta region, Li said. The investment means a rise of up to 25% in fixed-asset investment over last year. Among the major projects approved in recent years, the controversial Zhanjiang Steel project, with a majority stake held

by Baosteel Group, will start construction by June, with steel production beginning by 2015, Li said. The NDRC had delayed approval in 2009, on the grounds of overcapacity in the industry. The project, with a targeted capacity of 10 million tons, needs CNY70 billion in investment and required the relocation of 10,000 villagers. Li defended the plan, saying the steel mill will make high-end products including flat steel for cars, home electric appliances, and oil tankers, most of which still rely heavily on imports. Among other major projects, carmaker FAW's joint venture with Volkswagen will start producing cars in September at a plant in Foshan with an annual capacity of 300,000 cars, while the city of Huizhou has secured a refinery project with a capacity of 10 million tons and a 1 million ton capacity ethylene plant.

Stabilizing economic growth takes priority

The Chinese government has made stabilizing and sustaining economic growth and basic price stability policy priorities this year, according to a statement issued after a cabinet meeting chaired by Premier Li Keqiang. Meanwhile, the division of labor among the nation's four Vice Premiers is becoming clearer. Vice Premier Wang Yang, formerly Party Secretary in Guangdong, has been assigned to oversee the agricultural sector. Vice Premier Ma Kai appears to be in charge of the transport sector. Premier Li highlighted six major areas, comprising 48 items, as policy priorities. To spur economic growth and keep the price of consumer goods stable, the government plans to further liberalize interest rates and exchange-rate markets. Substantial progress must be made in reforming major areas to develop a multi-tiered capital market, a government statement said. Authorities plan to rein in property prices and speed up medium- and long-term urbanization plans. The government also called for an increase in job creation and an improved social security system.

Rise in industrial profits points to recovery

China’s industrial profits grew 17.2% in the first two months of this year from a year ago to CNY709.2 billion. “The industrial profit figure in the first two months extended the recovery trend starting from the fourth quarter of last year,” said He Ping, an official at the National Bureau of Statistics (NBS). Among 41 sectors surveyed by the NBS, 30 reported rising profits in the first two months, led by a 150% surge for power and heating suppliers and a 170% jump for steel companies. Firms in the computing and telecommunications sector saw the next strongest growth at 89%, followed by the tobacco industry growth of 21.3% and a rise of 19.8% for firms in the automobile sector. Petroleum refiners, coking and nuclear processors swung into profit in the first two months compared with losses in the same period of last year, the statement said. It added that power, steel and petroleum refining contributed more than 50% of the total industrial profit growth in the first two months of this year. On the downside, profits of the petroleum and natural gas extraction industry fell 4.5% during the same period. China’s economy has snapped out of a seven-quarter long slowdown and started to pick up from the last quarter of last year, as it regains internal strength on the back of the government’s pro-growth policies.

- Shanghai is to encourage social investment in the local health market, especially in elderly care, rehabilitation, mental health, pediatrics, obstetrics and traditional Chinese medicine (TCM). Private hospitals offering those services will have priority in being admitted to the medical insurance system. Social investment includes enterprises, charity organizations, foundations and commercial insurance facilities. Restrictions on foreign investment will be gradually eliminated, the Shanghai Health Bureau said. Currently, Shanghai has 1,379 private medical facilities – 169 hospitals, 1,201 clinics, and nine medical testing centers. Private hospitals are encouraged to cater to high-end patients.
- China’s local governments have earned at least CNY30 trillion in profits from appropriation of land from farmers as the country urbanizes on a massive scale, Wu Jinlian, Economist at the Development Research Center of the State Council told an economic forum in Beijing. ‘‘A reform of the land ownership mechanism should be a top priority for the government as the country proceeds with its urbanization,” he said. Under the current system, farmers usually get under 10% of the profit of land sales, which has led to numerous protests and created social unrest in some parts of the country.
- The profits of Chinese state-owned enterprises rose 9.7% to CNY306.01 billion in the first two months of the year, with the 118 central SOEs generating profits of

CNY251.92 billion, up 17.4% year-on-year. The total revenue of SOEs was CNY6.51 trillion from January to February, up 11.3% from a year earlier, while the revenue of central SOEs was CNY4.13 trillion, an annual growth of 9.9%.

- The number of Chinese consumers with investable assets of between USD100,000 and USD1 million may jump 17.2% from a year ago to 12 million by the end of this year, a Forbes report said. The average amount of investable assets of this affluent group was CNY1.33 million, and their share in the overall private assets rose from 15.5% in 2010 to 16.4% in 2012, the report said. The total private investable capital of Chinese citizens grew 13.7% annually last year to CNY83.1 trillion and may reach CNY93.7 trillion by the end of this year. Only 13% of this group has invested overseas. A fifth of them plan to emigrate and three quarters would send their children overseas to study.
- Shanghai raised the minimum monthly wage by CNY170 from the current CNY1,450 to CNY1,650, starting on April 1. The minimum hourly wage also rises to CNY14 from CNY12.5. The minimum wage was also raised by CNY170 last year.

MERGERS & ACQUISITIONS

Sinoma keen on acquiring European companies

China National Materials (Sinoma) will increase its capital expenditure by 29% to CNY11.23 billion this year, some of which may be spent on acquiring European companies. The state-owned firm had set aside CNY500 million to acquire mostly foreign cement equipment companies, said Chief Financial Officer Yu Kaijun. Sinoma's Shanghai-listed subsidiary, Sinoma International, is the world's biggest cement equipment producer. Sinoma is the third-largest cement producer and one of the three biggest manufacturers of wind turbine blades in China.

PETROCHEMICALS

Sinopec to acquire assets in Kazakhstan and Russia

China Petroleum and Chemical Corp (Sinopec) is to expand its overseas investments by acquiring oil and gas exploration assets in Kazakhstan and Russia from its parent for close to USD3 billion. The proposed acquisitions will be conducted through a new 50-50 joint venture company, JV HK. The joint venture is formed by SHI, a wholly owned subsidiary of Sinopec, and Tiptop HK, a wholly owned subsidiary of its controlling shareholder, China Petrochemical Corp, according to a statement filed with the Hong Kong stock exchange. “The transaction will expand the company's overseas business and enhance its resources and reserves so as to realize long-term and sustainable development,” said the statement. First, the joint venture plans to acquire 50% of the total issued share capital of Caspian Investment Resources (CIR), which is principally engaged in oil and gas exploration and development and production activities in Kazakhstan, for USD1.57 billion. The vendor is Tiptop, a subsidiary of China Petrochemical. CIR holds a 100% interest in the Karakuduk and Arman oil fields and a 50% interest in North Buzachi, Kozhasai, and Alibekmola. The remaining interests belong to an independent third party. Second, JV HK is to pay USD776 million for 50% of the total issued share capital of Mansarovar Energy Colombia together with the Mansarovar shareholder's loan from Sinopec Overseas Oil & Gas, a wholly-owned subsidiary of China Petrochemical. Mansarovar is principally engaged in exploration, development, and production of oil and gas. It owns a 50% interest in the Nare Contract Block and a 100% interest in the Velasquez Contract Block. It is also the operator in these two blocks. JV HK also entered into an agreement to pay USD652.77 million for 49% of the total issued share capital of Taihu, from Sinopec Overseas. Taihu is principally engaged in oil and gas exploration, development and production in Russia, and holds a 97.14% interest in Udmurtneft, a Russian company. Sinopec reported a 12.8% decline in net profit last year because of a fall in revenue from its upstream and chemical business. Net profit dropped to CNY63.87 billion from CNY73.22 billion a year earlier, the South China Morning Post reports.

Fuel prices reduced under new mechanism

Fuel prices were cut by more than 3% to reflect lower crude oil prices, as the government announced long-awaited pricing reforms. In the first price cut this year, decided under the old pricing system, the gasoline and diesel price dropped by CNY310 and CNY300 per ton, or

3.2% and 3.4% respectively. Pump rates vary from province to province. China has adjusted fuel prices 25 times – 10 cuts and 15 increases – under the old mechanism, which was introduced in late 2008. The pricing reforms announced last week will shorten the price adjustment cycle and remove a threshold of minimum changes in crude rates. They could help improve profit margins in China's refining industry which has been long subject to government price controls. "This is a big milestone for the energy industry and a big win for the refiners as the new scheme should lead to more market-driven prices which will lead to improved profitability in the sector," Gordon Kwan, head of energy research at Mirae Asset Securities in Hong Kong, told Reuters. Previously, prices could be adjusted when the 22-day moving average of a basket of international crude, based on Brent, Dubai and Indonesia's Cinta, changed more than 4%. Under the new system, the government will adjust gasoline and diesel prices every 10 working days and scrap the 4% trigger point, the National Development and Reform Commission (NDRC) said. "This should lead to more stable refining margins and an end to the significant refining losses during periods of oil price inflation," Sanford C. Bernstein & Co Analyst Neil Beveridge said. Sinopec made an operating loss of CNY11.9 billion in its refining division last year. The government also intends to curb wasteful fuel consumption, as the country is set to double its fuel use by 2030. The NDRC said it can still decide to delay or reduce the level of fuel price changes in the case of high domestic inflation or when international crude prices spike. Analysts say natural gas pricing is likely to be the next reform in the energy sector. Price controls on natural gas have made importers suffering losses, the Shanghai Daily reports.

Oil companies report decline in profits

China's big three oil companies have all reported a decline in earnings in 2012, blaming government price controls and rising taxes. But they still raked in an average of CNY660 million a day in profit in the past year. China Petroleum and Chemical Corp (Sinopec), CNOOC and PetroChina, earned a total of CNY242.5 billion, down more than 10% year-on-year. Sinopec's profit fell to CNY63.9 billion from CNY73.2 billion in 2011. Sinopec blamed the tumbling price of its chemical products. CNOOC said rising exploration costs and a new resource tax were mainly responsible for the 9.3% fall in its 2012 profit. PetroChina said its profit fell 13% to CNY115.33 billion from CNY132.96 billion in 2011, in spite of a 9.6% increase in revenue generated from increased oil and gas output. Vice President Sun Longde said that government price controls dampened its margins, especially natural gas. The company's natural gas and pipeline business lost CNY2.11 billion in 2012, compared with a CNY15.5 billion profit in 2011. In China, oil and gas companies cannot fully pass on higher crude oil costs to customers, because prices are set by the government. On February 25, China raised fuel prices for the first time since September, increasing gasoline prices by CNY300 per metric ton and diesel by CNY290. This year might be easier for the big three as the government has vowed to reform the country's pricing system, especially in the fields of energy and resources. The price of natural gas could increase by 10% to 20% in parts of the country in April. "PetroChina, as the nation's biggest natural gas producer, is set to benefit greatly from the natural gas price reform," Goldman Sachs said in a report. Last year, the three oil companies all made strides in their internationalization, which they hope can help diversify production and revenue, and mitigate profit swings. PetroChina's overseas oil and gas production grew 13.3% to 137 million barrels of oil equivalent (BOE) in 2012. Its overseas profit stood at CNY32.67 billion, accounting for 19.6% of its total profit. CNOOC's overseas production was 75.4 million BOE and its USD15.1 billion takeover of Canadian oil and gas company Nexen is expected to significantly boost its overseas output. Sinopec lags a little behind in overseas expansion. Its output outside China stood at 21.68 million BOE last year, an 18.1% increase year-on-year. Sinopec plans to pay USD1.5 billion for overseas oil and gas-producing assets held by its parent company, the China Daily reports.

- The joint venture oil refinery of Sinopec and Kuwait Petroleum Corp in Zhanjiang, Guangdong province, is scheduled to start operations in 2016, while Sinochem Group's Quanzhou refinery will start a trial run by the end of this year.
- By the end of last year, CNOOC had established 36 oil depots with a total storage capacity of 1.03 million cubic meters, and 356 gas stations in 10 provinces and municipalities. China's retail sector has long been dominated by China National Petroleum Corp (PetroChina) and China Petrochemical Corp (Sinopec). CNOOC has made good progress in building an integrated LNG industrial chain, linking its upstream resource exploration activities with its downstream retail operations.

REAL ESTATE

International investors to become more active in the market

China may see an increase in property transactions involving international investors in 2013, according to Andy Zhang, Managing Director of Cushman & Wakefield China. Demand for commercial and residential property will remain buoyant, according to Regina Yang, Director of Research for Knight Frank Shanghai. Average Grade A office rents in Shanghai have dropped 1.5% quarter-on-quarter by CNY9.1 per square meter per day, decreasing for the first time since the third quarter of 2009. However, owing to limited new supply, the average vacancy rate of Shanghai's Grade A offices remained at 5.1%. Ground-floor rents in core retail areas have reached CNY54.7 per sq m per day, an increase of 1.7% quarter-on-quarter and 11.6% year-on-year. MGPA Asia Fund III acquired a newly completed Grade A office building called j-Tower in Shanghai for CNY263.5 million. Its portfolio in China includes a 50% interest in Galleria Chengdu, a high quality retail mall in Chengdu. According to the real estate fund LaSalle Investment Management, the best opportunities in China's real estate this year include warehouses, offices, hotels, retail and mixed-use developments. Stabilized modern warehouses offer compelling entry prices and secure income in many countries, with China at the top end of expected returns. Henry Sim, Executive Director of Industrial & Logistics Services at CBRE, is expecting more deals involving business parks. As the grade A and grade B office rental gap widens, grade B offices at core locations in first-tier cities offer upgrading potential through asset and tenancy improvements, LaSalle's research note showed. Hotels are also considered to be good investments, the China Daily reports.

Real estate prices drop in Wenzhou

Real estate has lost its allure as an investment option in Wenzhou, Zhejiang province, since property prices tumbled due to purchasing curbs imposed by the central government. The average price of residential apartments in Wenzhou has dived by about 24% since 2012. In addition, the average price of land has dipped to a five-year low, while the value of some villas has fallen by 50% since 2010. Business people from the city, one of China's wealthiest, are well-known for their speculative activities in the property market. "Compared to 2009 and 2010, when prices peaked at CNY80,000 per square meter for certain luxury apartments, the average price of is now under CNY45,000 per sq m," said Ding Yi, a developer of luxury homes in Wenzhou. Wenzhou suffered the largest drop in housing prices among the monitored small and medium-sized cities in the first two months of 2013, according to the National Bureau of Statistics (NBS). Demand for new property projects has kept declining. Some investors are switching from the residential property market to commercial and industrial properties – not covered by purchase restrictions – although profits are lower.

Shanghai unveils guidelines on property curbs

On March 30 Shanghai unveiled its long-expected local guidelines to further strengthen its property curbs, one day before the central government's deadline. A 20% capital gains tax on the sale of second homes, as required by the central government, will be strictly levied in the city if the original value of the house can be verified. Shanghai will also continue to implement home-purchase restrictions vigorously, while enforcing differentiated credit policies to rein in speculation in the housing market. Banks are not allowed to extend loans to buyers of third or more homes and should "adjust" their requirement for the down payment ratio as well as interest rates for second-home buyers at an "appropriate" time. This year's commercial housing land supply should not be less than the actual annual supply average in the past five years. Analysts said it could be difficult to implement the 20% capital gains tax as it could be hard to calculate capital gain or track the original value of some houses.

- Guangdong became the first province in the country to release guidelines on strict implementation of property tightening measures. Guangzhou, Shenzhen, Foshan and Zhuhai must continue to enforce curbs on home purchases vigorously while Guangzhou and Shenzhen should also report their 2013 targets to control housing prices. Areas where property prices are rising rapidly must impose a 20% capital gains tax as required earlier by the central government. But Sky Xue, Analyst with China Real Estate Information Corp, said the guidelines seem to be very 'mild', with no clear requirements on the implementation of a capital gains tax and no mention of a policy on home mortgages.

- The average net profits of China's top 500 developers stood at CNY434 million in 2012, down 18.64% year-on-year, according to a study conducted by the China Real Estate Research Institute, the China Real Estate Association and the China Real Estate Valuation Center.
- According to the National Association of Realtors, the largest real estate trade association in the U.S., Chinese buyers spent USD9 billion on house purchases in the U.S. in 2012, second only to Canadians, and they accounted for 11% of the transaction value by foreigners. Real estate specialists expect Chinese buyers to focus their attention on central and western parts of America in the future.
- Defying Beijing's tough measures to cool the property market, The Wharf (Holdings) plans to spend nearly CNY30 billion to expand its retail-office-hotel portfolio over the next three years. It also raised its sales target by a third for this year to CNY20 billion, after announcing that profits rose 37% to HKD11.04 billion, its highest ever. The group plans to complete five retail-office-hotel projects – Chengdu International Finance Square (IFS), Chongqing IFS, Suzhou IFS, Wuxi IFS and Changsha IFS – between 2014 and 2016.
- Property developer and contractor Socam Development will aggressively cash in its mainland properties and pursue opportunities in Hong Kong's expanded building program for public housing and infrastructure. The company announced net profit declined 6.8% to HKD848 million for last year from a year ago. Turnover rose 29% to HKD7.92 billion. "Our strategy is speeding up our asset turnover. So we will be aggressively selling our properties once we get the right price," said Chief Executive Philip Wong. The company still owns about 2.1 million sq m of developable gross floor area in Beijing, Tianjin, Shanghai, Chengdu, Shenyang and Guizhou.
- Shui On Land is to raise up to HKD4.13 billion through a rights issue to finance its involvement in two large-scale urban renewal projects in Shanghai and future land acquisitions. The company revealed its full-year underlying profits had plunged 87% year-on-year to CNY201 million in 2012. Sales had halved to CNY3.51 billion and interest expenses more than doubled to CNY513 million last year.
- Rents for expatriates are likely to go up 8% in Shanghai, while the average vacancy is likely to stay at around 4%, according to Knight Frank's latest Shanghai Expatriate Housing Market Insights. "The inflow of expatriates into Shanghai is therefore expected to remain strong, leading to increasing demand for expatriate housing, especially in the Pudong New Area," said Regina Yang, head of research & consultancy at Knight Frank Shanghai. The highest average rent per square meter per month was CNY189 last year in the most popular areas of Shanghai. In the coming two years, rentals are expected to go up mainly due to tightened credit and home purchase restrictions.

RETAIL

Li Ning posts first annual loss since 2004

Chinese sportswear group Li Ning reported a steeper-than-expected CNY1.98 billion loss for last year, its first annual loss since it listed in 2004, hit by inventory charges and fierce competition from domestic and foreign brands. The result compared with a profit of CNY385.8 million in 2011 and was deeper than the average forecast of analysts. Li Ning, backed by Singapore sovereign fund GIC and U.S. private equity firm TPG Capital, had warned in December of a big loss last year as it racked up as much as USD288 million in expenses by buying back inventory from distributors. The company had said it expected inventory charges to cut its full-year earnings by up to CNY1.8 billion. "The Group's financial performance is expected to remain challenging at least in the first half of this year," company founder and Chairman Li Ning said. Li Ning, which competes with larger domestic rival Anta Sports Products, Adidas and Nike, recorded a CNY2.02 billion loss for the second half of last year, deeper than market estimates of a CNY1.13 billion loss. In the first half, it had posted an 85% drop in profit to CNY44.3 million. Revenue last year fell to CNY6.74 billion from CNY8.93 billion in the previous year. Li Ning, which gained attention late last year when it signed U.S. basketball star Dwayne Wade to produce a new line of sportswear, had a network of 6,434 retail stores in China at the end of December, a net decrease of 1,821 stores from the end of 2011. It said its gross profit margin was 37.8% in the period, down from 45.3% a year earlier. Anta Sports reported in February a 21.5% drop in last year's net profit. Nike, which has been grappling with intense competition in China, posted last week a forecast-beating quarterly

profit and saw a turnaround in demand in greater China, with orders rising 4%, after falling in the previous two quarters, the South China Morning Post reports.

Gome convinced worst time is over

Gome Electrical Appliances' net loss for the year to December was CNY597 million, compared to a net profit of CNY1.84 billion in 2011, as sales revenue fell 20% to CNY47.9 billion, only about half of arch rival Suning Appliance Co's sales of CNY98.4 billion during the same period. Wang Junzhou, Gome's President, said that the worst time for the company was over. "This year we will see the results of changing our product mix and our cost-control measures coming further through," he said. Comparable store sales shrank as much as 25% year-on-year. The gross profit margin dropped 1.97 percentage points to 16.18%. The company said the decline in sales was mainly due to the suspension of the government's stimulus measures in the sector and the slack consumption sentiment last year. However, the business performance in the second half started to improve, Gome said, without disclosing further details. During the period, the company cut the number of retail stores to 1,049 from 1,079, following the opening of 107 new stores and the closure of 137 underperforming outlets. Looking ahead, the retailer aims to improve profitability by stepping up the closure of underperforming stores, expanding product lines and improving store ambience. Both Gome and its major rival, Nanjing-based Suning Appliance, have been investing heavily in e-commerce as part of a plan to shift from a traditional appliance seller into a comprehensive retailer in both online and offline channels. Last year Gome completed the integration of its two e-commerce platforms, Gome Online and coo8.com. "The e-commerce industry is distorted by aggressive price wars and hostile competition… the group is committed to find a sustainable path towards profitability," the company said. It planned to speed up the introduction of new product categories and tighten cost controls, the South China Morning Post reports.

Walmart to close three stores

Walmart will close a store in Shanghai on April 8 while two other outlets in Wuxi, Jiangsu province, and Shenzhen, Guangdong province will be shut down in May to streamline its sales network. Consumers are increasingly shunning brick-and-mortar stores in favor of online shopping sites due to cheaper prices of daily necessities and fast-moving consumer goods. Walmart added that it would continue to invest in Shanghai and open new stores. Walmart still has 21 shops in the city after the Minhang store is shut. It said last year it would open at least 100 new stores in China in the next three years, without elaborating on the locations of the new stores. Its pace of expansion has slowed down in recent years. Walmart added 30 new stores in China last year, lower than the 50 new shops it opened in 2010 and the 41 in 2011. By the end of last year the retailer has under 400 stores on China's mainland. Walmart holds a 51% stake in Shanghai-based online shopping site yihaodian.com. A recent study by McKinsey & Co suggested retailers should take both online and offline as equally important channels, the Shanghai Daily reports.

Consumption of delicacies affected by austerity measures

Knife fish, once a prized Yangtze river delicacy favored by government officials, could fetch up to CNY8,000 for 500 grams last year, but its price has now fallen to as low as CNY400, due to the new government's austerity and anti-corruption measures. The volume of sales at a local fish market in Shanghai has halved. High-quality green tea, which used to cost up to CNY10,000 for 500 grams, is now sold from CNY300 to a maximum CNY3,000. Curbs on public expenditures have also affected business at some restaurants. In Beijing, the sales volume at high-end restaurants had decreased by 35%. The National Development and Reform Commission (NDRC) said the drop in luxury consumption due to austerity measures would drag down overall consumption figures, even though ordinary consumption is growing at a normal rate. In December, President Xi Jinping called for an end to special traffic arrangements for officials, lavish banquets, lengthy meetings, flower arrangements and unnecessary travel. Turnover in high-end restaurants has fallen by 35% in Beijing and 20% in Shanghai.

- First lady Peng Liyuan's choice of home-grown designer brands on her maiden overseas trip with President Xi Jinping has been hailed as a boon for China's fashion industry. Peng, 50, who is making her first public appearances in state visits to Russia and Africa, has become a fashion icon in China, as people flock to snap up coats,

scarfs and handbags similar to those she has been seen wearing. Stocks of Chinese high-end clothing firms surged on the expectation that “the first-lady effect” would give a big boost for the domestic fashion sector.

- Mengniu Dairy reported that last year’s revenue dropped 3.5% to CNY36.1 billion as changes to the product mix led to a drop in sales volume. Net profit slumped 20.9% to CNY1.26 billion due to the turnover decline, the rising cost of raw milk production, hiring of quality inspection staff and the use of more inspection equipment. Annual production capacity rose by 0.53 million tons to 7.58 million tons. Mengniu Chief Executive Sun Yiping said the company had a five-year strategic plan to strengthen milk sources and quality control, rationalize brand structure, adjust product portfolio and improve management.
- Hero Nutradefense's infant formula was ordered off Shanghai shelves after reports it had been mixed with expired milk powder and that expiry dates had been altered. Suzhou’s quality watchdog determined in November that Xile Lier, Hero Group’s sole authorized China dealer based in Suzhou, had blended expired milk powder and an unknown milk source into imported formula, changing production and expiry dates, repackaging them and re-labeling formula for older babies as more expensive milk for younger children. The baby formula was marked “100% imported dairy source from the Netherlands.”

SCIENCE & TECHNOLOGY

Shenzhou-10 transported to launch center

The Shenzhou-10 spacecraft has arrived at the Jiuquan Satellite Launch Center in Gansu province in preparation for the country’s next manned space mission. The launch is planned between June and August, carrying three astronauts, including one woman. They will stay in orbit for 15 days, including 12 days inside the Tiangong-1 module which is already in orbit. The objectives of the mission include further assessing the performance of the docking system, the module’s capability in supporting life and work, and the conditions of the astronauts. All tests have been completed on the spacecraft’s carrier rocket, a modified Long March-2F. This summer’s mission will be China’s fifth manned mission since Yang Liwei became the country’s first man in space in 2003. China is aiming to launch a space laboratory in 2016 and its first space station, made up of three capsules, should be in orbit around 2020. By that time, China could have more than 200 spacecraft in orbit, a fifth of the world’s total.

- China is to build two extra research stations in Antarctica, where it currently has three facilities, the State Oceanic Administration confirmed. A summer base, to be used between December and March, will be built between two of its existing stations – Kunlun and Zhongshan. The new station will be used to study geology, glaciers, geomagnetism and atmospheric science. A new all-year base will also be built in Victoria Land, on the Ross Sea, for multi-disciplinary research on bio-ecology and satellite remote sensing. Both bases are to be finished by 2015.
- Two men suffering from a lesser-known type of bird flu (H7N9) have died in Shanghai and a woman is still in critical condition in hospital. There is no vaccination for the virus. H7N9 bird flu is considered a low pathogenic strain that cannot easily be contracted by humans. So far, there is no evidence of human-to-human transmission of the virus.

STOCK MARKETS

E&Y and SFC in court over accountancy records

The legal battle between Hong Kong’s Securities and Futures Commission (SFC) and Ernst & Young (E&Y) has kicked off in court, with lawyers debating whether state secrets were an excuse for not handing a listing candidate's audit working papers to the regulator. The landmark case will determine if the regulator can require accounting firms to provide documents for investigations. E&Y helped water treatment firm Standard Water apply for a listing in Hong Kong in 2009, but resigned as its auditor in 2010 after finding inconsistencies in documents. E&Y refused to provide the company’s accounting records to the regulator, citing China’s secrecy laws. The law states that auditors' working papers may contain information relating to state secrets, E&Y’s lawyer said. As such, mainland firms can only give information

to the China Securities Regulatory Commission (CSRC), he argued. For the SFC, Jat Sew-tong SC said that the Hong Kong regulator, under the city's laws, had every right to ask E&Y for documents, but it was not the intention of the SFC to challenge the mainland's secrecy law. While Standard Water was audited by E&Y's mainland joint venture, Ernst & Young Hua Ming, the E&Y Hong Kong office was the one that signed the audit report for Standard Water's listing in Hong Kong. As such, the two offices should have a lot of communication records or documents that could be obtained by the Hong Kong office, the lawyer for the SFC argued.

Only 10 IPOs launched by Chinese companies in first quarter

Only 10 Chinese mainland companies were listed in the first quarter of 2013 with total financing of CNY6.3 billion, a drop of 84% year-on-year, according to a report by ChinaVenture Group. The 10 firms all went public in Hong Kong, with one of them invested by private equity and venture capital. With IPOs in the A-share market suspended and those in the United States inactive, the number of Chinese companies listing in the first quarter and the funds involved were the lowest since 2009. The average financing for an IPO for Chinese companies in the first quarter was CNY630 million, compared with CNY1.68 billion the previous quarter. The largest offering was that of Chinalco Mining Corp International, a unit of China's top aluminum group Aluminum Corp of China. No IPO was made in the A-share market this quarter because the China Securities Regulatory Commission (CSRC) stopped the examination and approval processes and carried out strict financial verification of firms applying to go public. Since the start of the year, 48 companies have canceled their IPO plans, largely because their business performance declined.

Fewer than expected IPO applications withdrawn

Fewer than expected IPO applicants have withdrawn their application following a re-examination by the China Securities Regulatory Commission (CSRC). 124 IPO applicants had terminated their share-sale plans as of March 29, while 765 firms continued to await a nod from the regulator for their listing plans. The number of withdrawals fell well short of expectations that about 200 applicants with lackluster earnings for 2012 would abandon their listing plans. All applications for initial public offerings were temporarily frozen in October to shore up investor confidence while preventing new shares from draining liquidity from existing holdings. In January, the CSRC ordered all auditors and underwriters to conduct an in-depth check on prospective listing candidates' 2012 earnings. Though the regulator wouldn't announce the purpose of the re-examination, investment bankers said it was intended as a clear message that companies whose profits declined last year wouldn't be eligible for IPOs and should withdraw their listing plans. All re-examination reports were required to be filed before March 31. There were also expectations that IPOs would resume following the appointment of Xiao Gang as CSRC Chairman, but the CSRC has not officially unveiled a time frame for the reopening of the IPO market. Under the existing IPO rules, companies that report positive earnings three years in a row qualify for listings on the Shanghai Stock Exchange and the SME board at the Shenzhen Stock Exchange.

- Three companies have received investigation notices from the China Securities Regulatory Commission (CSRC) under its new Chairman Xiao Gang: Shanghai-listed Weifang Beida Jade Bird Huaguang Sci-Tech Co, a software provider based in Shandong province; Sichuan-based Huasu Holding Co; and Shenzhen-based Hirisun Technology.
- Datang International Power Generation expects its profits to be helped by lower coal prices this year, but analysts said its earnings outlook was uncertain, given a lack of output growth and weak profits from its non-power businesses. Last year Datang saw its cost of coal per unit of output fall 3.6%. The cost of coal took up 69.4% of total operating costs in 2012. Those lower fuel costs helped the company more than double net profit to CNY4.06 billion for last year. Datang is aiming to generate 200 billion kilowatt-hours (kWh) of power this year, 1% less than last year.
- Stocks are the most popular investment tool among mainland Chinese who have HKD5 million or more in liquid assets when they invest in Hong Kong, followed by Hong Kong dollar deposits, gold, and investment funds, according to Nielsen. Offshore stocks account for more than a quarter of such investors' total average portfolio. Even investors with liquid assets ranging between HKD100,000 and HKD5 million put stocks as the second most favored investment tool after Hong Kong dollar deposits,

the survey found. The number of mainlanders with holdings of overseas stocks is expected to more than double over the next year, said Nielsen.

- The People's Insurance Company (Group) of China has submitted an application to list A shares in Shanghai and is waiting for feedback from the China Securities Regulatory Commission (CSRC). PICC Group went public in Hong Kong on December 7, and raised about HKD24 billion in the city's biggest IPO last year. The company posted a 31.8% increase in its 2012 net profit attributed to shareholders to CNY6.83 billion. Its consolidated net profit rose 28.5% to CNY10.14 billion. The market share of its property and casualty insurance unit was 34.9%, and that of its life insurance unit 6.4%.

TRAVEL

Talks between two airlines on use of A380 continue

Talks between two state-owned carriers, Air China and China Southern Airlines, over operating Airbus A380s from Beijing seem to have reached a deadlock. Air China has been looking to lease two A380s equipped with cabin crew from China Southern, the only Chinese airline to have bought the aircraft. Air China wants to use them on the Beijing-Paris route jointly with China Southern. The Civil Aviation Administration of China (CAAC) and the alliances to which the two airlines belong had approved the proposal, but China Southern Director Xu Jiebo said the airline could not accept wet-leasing A380s to Air China. He expected the talks to be concluded in two months. Besides Paris, the Guangzhou-based airline wants to fly A380s to New York and other destinations in the United States from Beijing. As the talks have been dragging on, China Southern has only been able to deploy A380s on one international route, Guangzhou to Los Angeles, from October – nearly a year after it took delivery of the first plane. It also uses its fleet of five A380s on the Beijing-Guangzhou route, although analysts say flying A380s on short routes is a waste of money, China Southern said the services were profitable in some months, with a load factor averaging 80%. "We are confident of operating the plane on our own but we are still interested in cooperating with Air China if it helps us," said Tan Wangeng, Vice Chairman and Chief Executive of China Southern.

Sharp drops in profit at Chinese airlines

China's three major state-owned airlines posted sharp drops in annual profit because of the weak global economy, higher jet fuel prices and smaller foreign currency gains. China Southern's profit plunged by half compared with the previous year. Air China and China Eastern reported earnings tumbled by about a third. China Eastern said the average price of fuel rose 2%. The Shanghai-based carrier said profit fell 35% to CNY2.95 billion. Jet fuel costs rose the most for China Southern. The Guangzhou-based carrier said it spent CNY33 billion on fuel last year, 14.5% more than in 2011. Chinese airlines can do little to keep their fuel bill under control as fuel for domestic flights is supplied by a state-owned monopoly, which marks up prices "higher than an otherwise open market would allow," Barclays Analyst Patrick Xu wrote in a report. Chinese carriers also don't typically use hedging contracts to lock in part of their fuel bill, like other airlines do, because they lost a lot of money in 2008 using such techniques, Xu added. The three airlines also reported sharply lower foreign exchange gains as the yuan's appreciation against the dollar slowed from the year before. Chinese airlines are vulnerable to currency fluctuations because while they mostly earn in yuan, their expenses for fuel and new airplanes are in dollars. Air China, which said profit fell 35% to CNY4.6 billion last year, reported a net foreign exchange gain of CNY124 million, compared with CNY3 billion in 2011. China Eastern Airlines' net profit decreased 29.81% year-on-year to CNY3.43 billion, the lowest drop among the three major carriers. China Southern Airlines' net profit was down 48.22% year-on-year to CNY2.63 billion, while Air China posted a net profit of CNY4.95 billion, a decrease of 33.82% compared with the previous year.

- China Eastern Airlines said it needed to delay the launch of Jetstar Hong Kong, a low-cost carrier it jointly owned with Jetstar Group, by nearly six months to the end of the year due to "unexpected complexity" in its application for an operating license in the city. The airline would start with two A320s instead of three as it had originally planned, said Ma Xulun, Vice Chairman and Chief Executive of China Eastern.
- Airspace capacity between Shanghai and Beijing will grow by 30% as all aircraft flying between Europe and Japan or South Korea began using a new route, which does not

interfere with the busy Beijing-Shanghai route. The new route also shortens the flying time to and from Japan and South Korea by eight minutes.

- Guilin, a popular tourist destination renowned for its unique scenery of karst topography, is going to expand its international flights and seek favorable visa policies from the central government to promote itself as an international tourist destination. The city now has only five direct international flights, Mayor Huang Junhua said. Guilin received 1.9 million overseas tourists last year. So far, the National Development and Reform Commission (NDRC) has approved Hainan and Yunnan provinces as well as Guilin as three reform pilot areas to explore ways to develop the tourism industry.
- The annual number of Chinese residents traveling overseas will reach 200 million by 2030, Amadeus IT Group said in a report on China's tourism industry. Statistics from the National Tourism Administration (NTA) show that Chinese residents made 83.18 million trips overseas in 2012. Visa requirements are one of the main barriers for Chinese travelers. In 2012, 32% of business travelers and 50% of leisure travelers in China took budget airlines to travel overseas.
- The government has begun to allocate funding for the development of the MA-700, an indigenous turboprop regional airliner. Regional airliners account for nearly 40% of the total number of aircraft in developed countries' fleets, while in China the figure is only 10%.
- Kunming Shipbuilding Equipment Co (KSEC) has received approval to launch its baggage handling system at Chinese airports. It is the first such system manufactured by a Chinese company, and puts it in direct competition with foreign rivals such as Siemens. The Chinese equipment can be purchased for just 70% of the cost of systems manufactured overseas. Annual service and maintenance charges amount to 0.2% of the total cost of the equipment, compared to between 2% and 5% for foreign products. In 2008, KSEC set up a joint venture with Logan Teleflex which provided the know-how for the system.
- The new flight season from April 1 till October 26 will see 75 more domestic air routes and an additional 28 international sectors opened, increasing the number of weekly domestic flights for 32 mainland airlines to 48,552, up 8.3% from the previous year. China now has 4,582 flights carried out by domestic airlines to 117 international cities every week and another 4,870 flights operated by international air carriers between 36 Chinese cities and 114 cities in 55 countries per week, according to the CAAC.

VIP VISITS

Xi Jinping promises more investment in Africa

During his visits to Tanzania, South Africa and the Republic of Congo, Chinese President Xi Jinping defended China's role in Africa and promised increased investment. Speaking at a Chinese-built conference center in Dar es Salaam, the President underscored China's longstanding policy not to interfere in domestic politics, praised Africa's economic growth and reaffirmed China's pledge of USD20 billion in loans to Africa over the next three years. He also signed an agreement to build a major port and industrial zone in Tanzania, which officials say could cost up to USD10 billion. "The African lion is galloping faster and faster, while China also maintains a good development momentum," said Xi. "We each view the other's development as our own opportunity." Some African officials however fear that Chinese exports to Africa could undermine the continent's manufacturing sector. Much of China's loans and aid to Africa are used for massive infrastructure and resources projects – from airports to mines to highways – and China's imports of African crude oil have been rising during recent years. During Xi Jinping's two-day visit to Tanzania a range of agreements on infrastructure, agriculture and commerce were signed. One of the largest projects is a new port and industrial zone in Bagamoyo, north of Dar es Salaam, which will be constructed by China Merchant Group.

At the BRICS Summit in Durban, members China and Brazil agreed to a bilateral currency swap accord allowing them to trade the equivalent of up to USD30 billion per year in their own currencies, moving to take almost half of their trade exchanges out of the U.S. dollar zone. The agreement is valid for three years. Trade between China and Brazil totaled around USD75 billion last year. Nearly half of Brazil's exports to China consist of iron ore and related products, while soy and soy products make up about a fifth. China's biggest exports to Brazil are electronics and machinery. The BRICS nations plan to set up their own development bank

as an alternative to the World Bank, but further talks were needed to finalize the plan. Key sticking points included how much cash would be injected, how projects would be distributed and where the bank would be based.

In South Africa, President Xi said the Chinese government would encourage Chinese firms and financial institutions to participate in basic infrastructure, coal mining, energy and the car industry, adding that "China will promote bilateral cooperation based on a mutually beneficial principle". Xi made similar remarks in Tanzania, where he stressed that China would work alongside African countries in adopting practical measures to solve problems in trade and economic cooperation. Trade between China and South Africa reached about USD60 billion last year, nearly a third of total China-Africa trade. Dr Mzukisi Qobo, a senior lecturer in political science at the University of Pretoria, said South Africa was keen to diversify its trade with China, as almost 60% of bilateral trade comprised iron ore exports to China.

On the final leg of his first trip abroad as China's President, Xi Jinping and his Congolese counterpart Denis Sassou Nguesso witnessed the signing of 11 deals worth several million dollars in sectors as varied as banking and infrastructure. China is already Congo's largest trading partner, with bilateral trade expanding to USD5 billion last year from USD290 million in 2002.

ONE-LINE NEWS

- Casino operator Galaxy Entertainment is increasing its budget for the second phase of the Galaxy Macao to HD19.6 billion from HKD16 billion. The company expects the second phase of its flagship project on Macao's Cotai Strip to be completed in mid-2015. Galaxy reported net profit more than doubled last year to HKD7.4 billion from HKD3 billion the previous year. Revenue rose 38% to a record HKD56.7 billion, helped by a growing number of mainland tourists flocking to the world's largest gaming destination.
- Zhu Yanfeng, Deputy Party Secretary of Jilin province, has been placed under investigation by the party's Central Commission for Discipline Inspection (CCDI). He was allegedly implicated in problems related to the assets of Jilin-based First Automobile Works Group (FAW), the company of which he was formerly President. If the report is confirmed, Zhu would be the second high official brought down in President Xi Jinping's anti-corruption campaign. Li Chuncheng, former Deputy Party Secretary of Sichuan province, was sacked in early December.

ANNOUNCEMENTS

Second China International Import Conference 2013 – June 25 and 26, 2013 – Beijing

In accordance with China's policy for increasing imports, the China Council for the Promotion of International Trade (CCPIT) will host the Second China International Import Conference 2013 in the Beijing International Hotel on June 25 and 26, 2013, with support from the Ministry of Commerce; the National Development & Reform Commission (NDRC); China People's Bank; the Ministry of Agriculture; the General Administration of Customs; the General Administration of Quality Supervision, Inspection & Quarantine (GAQSIC), the State Intellectual Property Office (SIPO), State Food & Drug Administration and some other Ministries, Administrations and Offices of China's central government as well as CCPIT's overseas counterparts like the United States-China Business Council (USCBC), the China Britain Business Council (CBBC), etc. It is expected that the conference will attract 1200-1500 participants. Official website of the Conference: http://import.ccpit.org

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