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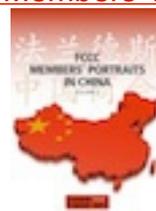
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FLANDERS-CHINA CHAMBER OF COMMERCE  
VLAAMS-CHINESE KAMER VAN KOOPHANDEL

# NEWSLETTER | 26 AUGUST 2013

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## FCCC ACTIVITIES

### Group Business Trip West-China (FIT) – 9-13 September 2013 – Chongqing and Chengdu; and FCCC Breakfast Seminar – 11 September 2013 – Chongqing

Flanders Investment and Trade (FIT) is organizing a group business trip to West-China, an enormous market. Minister-President Kris Peeters is leading the trip from 9 till 13 September 2013 to Chongqing and Chengdu.

On September 11, the Flanders-China Chamber of Commerce will organize a breakfast seminar in Chongqing.

Following the East, West China is now also starting to develop economically. Chongqing is under the direct authority of Beijing and is China's most populous (30 million inhabitants) and biggest (82,000 sq km, 2.5x Belgium) city. Chengdu (14 million inhabitants) is the capital of Sichuan province and as Chongqing an important economic center in West-China.

Opportunities for Flemish companies: Thanks to the economic development of West-China, there are several nice opportunities for Flemish companies. Important industries in the area are: foodstuffs, automotive, textiles, machinery, electronics, steel, pharmaceuticals, IT and the services sector.

FIT will organize an individual tailor-made meeting program (B2B), high-level business contacts, and official networking receptions.

<http://www.flandersinvestmentandtrade.be/acties/2013/09/09/Groepszakenreis-Multisectoraal-China?opendocument>

## PUBLICATIONS

### FCCC publishes "FCCC Members' Portraits in China Vol.2"

The Flanders-China Chamber of Commerce (FCCC) has published the second volume of "FCCC Members' Portraits in China". The booklet includes 17 portraits of member companies active in China. The China-based managers of those companies talk about how their firms became active in the country and the difficulties and pitfalls they faced to become successful in the largest and most challenging market on earth. They offer valuable insights and lessons about how to do business in China. Each manager interviewed makes a list of "do's and don'ts" based on their own hard-won experience. "All of them, without a single exception, enjoy their work and stay in China, despite less pleasant phenomena such as the worsening air pollution," says FCCC Chairman Bert De Graeve in his introduction.

Some of the companies presented in "FCCC Members' Portraits in China" are well known, such as Volvo Car, which is now part of Geely Holdings. But the story of how the company is building two car plants in China has never been told as extensively before. Other companies, such as Huiyin Group, which is active in the solar power industry, and Klako Group, which is guiding its clients to become successful in China, are not so famous, but have an equally fascinating story to tell.

Trying to write a book "Doing Business in China for Dummies" is futile, one of the managers told the Flanders-China Chamber of Commerce. More fundamental than that is an underlying attitude. Respect the Chinese you come into contact with and be interested in their culture. Remember, he added, that you are and will always remain a guest in their country. Above and beyond the usual tips and tricks, the managers telling their story in this booklet show the right attitude to become successful in China.

"The growth of the Chinese economy is slowing down a bit," says Chairman Bert De Graeve in the introduction, "but at 7.8% last year, it is still growing strong to offer a myriad of opportunities." For those companies which have not yet taken the step to open a representative office, set up a subsidiary or form a joint venture, it is probably not too late yet to enter the Chinese market. "Do your homework" is one of the most frequently tendered pieces of advice for companies contemplating their first steps on the China market. One might as well start with "FCCC Members' Portraits in China, Volume 2".

FCCC members can receive one copy free of charge.



List of interviews (companies in alphabetical order):

ACEA (Dominik Declercq), De Wolf & Partners (Philippe Snel), Eurbridge (Jan Van der Borght), Huiyin Group (Juha Ven), Jones Day (Sébastien Evrard), Klako Group (Kristina Koehler), LMS (Luc Pluym), Moore Stephens (Andries Verschelden), Neuhaus (Frédéric Linkens), Orientas (Dirk Laeremans), procurAsia (Etienne Charlier), Proviron (Vanessa Doms), Soudal (Eddy Vloeberghen), Urban Stream (Sébastien Goethals), Volvo Car (Koen Sonck and Benoit Demeunynck), White Pavilion (Raf Vermeire), and Wyatt & Wang (Jacques Borremans).

## EXPAT CORNER

### Foreigners punished for overstaying visa

Shanghai fined and punished more than 500 foreigners for illegally staying in the country after China imposed its new exit-entry law in July, according to statistics provided by the city's immigration inspection department. From July 1 through Aug 10, 534 foreigners had illegally entered or overstayed their visas. A foreigner who stayed illegally in Shanghai for 33 days was fined CNY10,000, the maximum fine allowed under the law that took effect on July 1.

## FINANCE

### CEO of Fanxin Insurance arrested in Fiji

Chen Yi, Chief Executive of Shanghai Fanxin Insurance Agency Co, was arrested in a joint operation between Chinese and Fijian police in Fiji, four days after the China Insurance Regulatory Commission (CIRC) said it had found Fanxin raising funds illegally by selling "self-

made,” fixed-income wealth management agreements without authorization. Police were probing Shanghai Fanxin Insurance Agency after it was found to have sold unauthorized wealth management products (WMPs). The investigation began after Chen Yi fled with an unspecified amount of money. Local media reported that Chen took CNY500 million from the company before fleeing the country. Founded in 2007, Fanxin is one of the largest insurance brokers in Shanghai. The company was known for its aggressive sales strategy of offering products with high investment returns.

## JPMorgan to probe hiring of well-connected Chinese

JPMorgan has started an internal probe into its hiring of well-connected Chinese individuals in Hong Kong and is adopting measures to mitigate potential penalties as U.S. authorities investigate its operations. The bank has hired U.S. law firm Paul, Weiss, Rifkind, Wharton & Garrison to investigate its hiring practices in Hong Kong. The anti-bribery unit of the U.S. Securities and Exchange Commission (SEC) is investigating the bank's hiring in Hong Kong of Zhang Xixi, a daughter of Zhang Shuguang, a former senior railway official under arrest for corruption, and Tang Xiaoning, a son of Tang Shuangning, Chairman of China Everbright Group. Both offspring no longer work for the New York-listed bank. The hirings could be investigated under the U.S. Foreign Corrupt Practices Act (FCPA). Hiring the children of foreign officials is considered an improper business advantage if the bank was involved in business negotiations with related officials around the time of the hirings. Because JPMorgan is a U.S. company, its employees are bound by the FCPA anywhere in the world, the South China Morning Post reports.

## Suning retail chain to set up Suning Bank

Suning Commerce plans to set up a bank after the central government issued guidelines encouraging private capital to enter the financial industry. The Nanjing-based firm, formerly known as Suning Appliance, said it was “preparing actively to apply for establishing Suning Bank”. A Spokeswoman said the company had secured the internet domain names “suningbank” and “sunanbank” last month for future use. Beijing has been encouraging private investment to enter the financial sector in order to break the near-monopoly of state-owned lenders. Last month, the central government issued guidelines reaffirming the decision to allow private banks. Shang Fulin, Chairman of the China Banking Regulatory Commission (CBRC), said earlier that trials of privately-owned financial institutions would debut in the second half of this year. Suning, the biggest seller of electronic appliances in China and a major online retailer, has wider ambitions. Last year, it said it planned to set up a microcredit firm in Chongqing to offer loans to small and medium-sized suppliers to the online shopping portal suning.com. It is also preparing to launch an online financial platform that will allow users to buy bonds, money funds and wealth management products. Yifubao, the online payment tool used by Suning, obtained a third-party payment license from the central bank a year ago. Other private firms have also shown interest in the financial industry. A consortium of investors led by Juneyao Group is spearheading a move to set up a privately-owned bank. Juneyao, which runs airlines and dairy businesses, along with other privately-owned companies including Fosun Group and Shanda Interactive Entertainment, plans to establish a bank with an initial investment of CNY5 billion. It is still in the application process and it is unclear when the investors will receive the go-ahead from the regulator.

- The average profit growth of the 16 listed Chinese banks is expected to slow to 8% from 17.4% last year, amid the economic slowdown and interest rate liberalization, the China Banking Association said.
- Smaller swings in the yuan are providing scope for widening the trading band for the first time since April 2012. The yuan's one-month implied volatility fell to 1.15% on August 13, the lowest level since October 4 and the most stable of 23 emerging-market currencies after the pegged Hong Kong dollar. The currency will end the year at 6.12 per U.S. dollar, the median estimate in a survey shows. The yuan has climbed 1.9% against the U.S. dollar this year, more than twice the appreciation of the next-best performing developing-nation currency, Bulgaria's lev.
- China won't adjust its monetary policy drastically for the remainder of the year as the “economic situation is good” but will fine-tune the prudent monetary policy when needed, People's Bank of China Governor Zhou Xiaochuan said in an interview with CCTV. He reiterated the economy isn't short of liquidity, that the central bank is ready

to free deposit rates as soon as possible, and is also determined to keep the yuan stable at a “reasonable” level against the U.S. dollar.

- There are about 140 city commercial banks in China. They had a combined CNY13.59 trillion of assets at the end of June, an increase of 18.1% year-on-year, and accounted for 9.6% of the banking sector.
- United States fund house Templeton Emerging Markets Group may open an office in Qianhai and set up Hong Kong-domiciled funds that can be sold on the mainland, according to Executive Chairman Mark Mobius. The central government is also considering allowing private equity funds that set up offices in Qianhai to invest in projects across the country. Mobius said if the rule was applied to funds, the zone would become very attractive to foreign fund houses. Mobius said he would also like to have his funds domiciled in Hong Kong if a proposed mutual recognition scheme could be implemented.
- The Chinese government has approved a proposal from the People’s Bank of China (PBOC) to host regular quarterly meetings as well as urgent discussions with the country’s securities, banking, insurance and foreign exchange watchdogs. The new system’s major tasks are to coordinate monetary policies and financial rules, maintain financial stability, prevent systematic risks, encourage cross-sector financial innovation, and share financial information. The Ministry of Finance and the National Development and Reform Commission (NDRC) could also be asked to join the meetings when necessary.
- China experienced capital outflows for the second consecutive month in July, data showed, suggesting its sluggish economy is still deterring investors, although the pace at which money is leaving appears to be slowing. The central bank and commercial banks sold CNY24.5 billion worth of foreign exchange on a net basis in July.
- The Organization for Economic Cooperation and Development (OECD) said that China would sign the Convention on Mutual Administrative Assistance in Tax Matters on August 27. China is not an OECD member but wants to cooperate with other countries in countering tax evasion.
- The Bank of Communications (BoCom), China’s fifth-biggest lender, reported a year-on-year rise of 12% in net profit to CNY34.8 billion in the first half of this year, its weakest first-half earnings performance in four years. Net interest income rose 11% to CNY65 billion during the first six months, slower than the 18% a year earlier. The bank’s bad loan ratio rose by 7 basis points to 0.99%, higher than the average of 0.96% of all commercial banks. The net interest margin weakened 5 basis points to 2.56% during the first half compared with the same period a year earlier. BoCom predicts CNY67.8 billion net profit for the whole of 2013.
- New China Trust, which led a Chinese investor group in a USD4.2 billion bid for American International Group’s (AIG) aircraft-leasing unit, pulled out of the deal on concern that its ties with a Chinese regulator would prompt added scrutiny. The consortium had missed three deadlines to complete the purchase of International Lease Finance Corp (ILFC) and AIG retained an option to terminate the deal. New China Trust’s withdrawal had made it more difficult for the bidding group to finance the purchase because it prompted other Chinese investors to pull out as well. The consortium, now led by Hong Kong-based P3 Investments, had raised about USD2.6 billion from five investors in Hong Kong and two in Taiwan.
- China’s major banks are expected to win approval for the issuance of tens of billions of yuan in negotiable certificates of deposit (NCD) as early as next month, in another step toward developing market-determined interest rates. NCDs would enable banks to access large amounts of funds at relatively stable costs, providing some alternative to borrowing from the interbank market, where the cost of funds can be volatile. The NCDs would be offered with maturities from three to six months and be priced with a premium over the Shanghai Interbank Offered Rate (Shibor). Each bank is planning an NCD issuance of more than CNY10 billion.
- China Construction Bank (CCB), China’s second-largest lender, posted a 9.7% rise in net profit to CNY60.1 billion for the second quarter, the smallest gain in five quarters, amid a slowing economy. For the first half, profit climbed 12.7% to a record CNY119.7 billion, driven by an increase in income from lending, and fee and commission services. In the second half of this year, more loans will be allocated for residential mortgages, small and micro-businesses and agriculture-related areas.

## FOREIGN INVESTMENT

### Eased rules planned for trade zones

China plans to suspend some laws on foreign investment in proposed new free-trade zones including Shanghai as part of Premier Li Keqiang's drive to open up the economy to sustain growth. The changes would provide innovative ways of opening up the economy, remove unnecessary administration and help transform the state's role in the economy, according to a government statement. "The Chinese government knows that having foreign investment is a very good thing and they want this to be an attractive market for strategic and financial investors," said Kent Kedl, Managing Director for Greater China and North Asia at risk consulting firm Control Risks. "Many foreign investors are concerned about the bureaucracy and lack of clarity around regulations, that's probably the biggest concern when they come to China", he said. Foreign direct investment (FDI) in China fell 3.7% last year to USD111.7 billion from a record USD116 billion in 2011, government data shows. Investment rose 4.9% in the first half of this year to USD62 billion. If the draft is approved by the Standing Committee of the National People's Congress (NPC), some laws on foreign investment, sino-foreign joint ventures and cooperative enterprises in the free trade areas, would be suspended. The statement did not give a time frame or additional details about the changes, which will apply to the proposed zone in Shanghai and any potential new ones. A 13-year ban on the manufacturing and sale of video-game consoles in China would be lifted, on the condition that companies make the products in the new Shanghai area. Reforms would also include interest-rate liberalization and full convertibility of the yuan. Besides Shanghai, other cities, including Tianjin and Xiamen, are seeking approval for free-trade zones.

### China presses foreign firms to admit guilt in anti-trust cases

A senior Chinese official put pressure on around 30 foreign firms including General Electric and Siemens at a recent meeting to confess to any antitrust violations and warned them against using external lawyers to fight accusations from regulators, sources said. The meeting is evidence of what many antitrust lawyers in China see as increasingly aggressive tactics to enforce a 2008 anti-monopoly law and highlight a worsening relationship between foreign companies and China's regulators. Two sources who were at the July 24-25 closed-door meeting said the senior official showed in-house lawyers how to write what they called "self-criticisms" and displayed copies of letters from companies admitting guilt in past antitrust cases. Lawyers employed by some of those firms were in the room. Three sources said the official who delivered the blunt remarks was Xu Xinyu, Division Director at the National Development and Reform Commission (NDRC). The message was: if you put up a fight, I could double or triple your fines. The NDRC has been conducting an investigation into whether companies effectively force retailers to sell their products at a minimum price. On August 7 it announced fines totaling a record USD110 million against five foreign milk powder firms and one Chinese producer for price fixing and anti-competitive behavior. Three other milk powder makers were investigated but not fined because, among other things, they carried out "self-rectification", the NDRC said. Representatives of GE, Siemens, Samsung Electronics, Microsoft, Volvo, IBM, Michelin, Tetra Pak, Intel, Qualcomm, Dumex, and Arris Group attended the meeting, the South China Morning Post reports. "The battle is not targeted at foreign companies. It is aimed at creating a fairer, cleaner and better-regulated environment for economic competition," Xinhua News Agency said. The NDRC is offering leniency for some companies in return for cooperation. "So far, no companies have challenged the NDRC for a judicial review because they are afraid of retaliation, the same reason why they would sign a confession letter," one lawyer said.

### Foreign investment rises 24% in July

China's inbound foreign investment (FDI) rose at the quickest pace in 28 months in July, surging 24.1% year-on-year to USD9.41 billion last month, after rising 20.1% in June, the Ministry of Commerce (MOFCOM) said. China's non-financial outbound direct investment (ODI) gained 20% to USD50.6 billion in the January-July period. FDI inflow into the manufacturing sector in the first seven months fell 2.4%, while that in the service sector gained 15.8%. Property accounts for 41% of the service sector FDI, while the latter makes up half of the total FDI. FDI from the United States rose 11% in the first seven months while that from the euro zone gained 16.7%, led by a 58.3% jump from Germany.

- Shanghai's North Bund plans to become "China's Boston". Through attracting major

financial headquarters and creating a shipping service center for cruise liners, it will rival the east coast U.S. city, said Hongkou District Chief Wu Qing. The North Bund saw 105 offices of financial institution open in the first half of the year, up 20% on 2012's figure. Hongkou also plans to create the Shanghai Music Valley in an area with traditional shikumen housing.

- Huangpu district in downtown Shanghai aims to attract another 50 multinational companies by 2015 to base their regional headquarters there. It is mainly targeting e-commerce and high-tech companies. The headquarters will be clustered in the Bund area, Xintiandi and near People's Square. Huangpu now boasts 116 headquarters and 2,500 foreign companies with a total investment of CNY25 billion. Some 40 major multinational companies have set up regional headquarters in the district and contributed 40% of the district's annual revenue in 2012.

## FOREIGN TRADE

### China top target of EU's punitive trade measures

China has become the top target of the European Union's punitive trade measures in the first seven months of 2013, according to the latest report issued by the European Commission. All of the EU's four anti-dumping and anti-subsidy investigations from January 1 to July 31 were targeted against China, said the report. The investigations covered products including seamless steel pipes, solar panel glass and agglomerated stones. Meanwhile, five of the seven definitive duties imposed by the EU were against Chinese products ranging from steel products to kitchenware. Currently there are 84 anti-dumping and 10 countervailing measures in force in the EU, according to the report. At the end of July, 36 investigations were ongoing.

- Yi Xiaozhun, China's Permanent Representative to the World Trade Organization (WTO), has been appointed Deputy Director General of the body, becoming the first Chinese to be named to the post. Yi was China's Vice Minister of Commerce before moving to Geneva as Permanent Representative to the WTO in 2011.

## HEALTH

### Antibiotic overuse leads to drug-resistant bacteria

Chinese people have far more antibiotic-resistant genes in their gut microbes than Europeans, a study revealed. This is blamed on overprescription by doctors and the extensive use of antibiotics by farmers and food producers. It could mean antibiotics would be unable to fight serious infections, enabling them to spread quickly. The study, published in the science journal Nature Communications, found mainland Chinese have genes resistant to 70 major types of antibiotics in their gut microbes, compared to 49 in Spain and 45 in Denmark. Per capita use of antibiotics is among the highest in the world in mainland China, while in Denmark it was one of the lowest. Zhu Baoli, Researcher with the Institute of Microbiology at the Chinese Academy of Sciences (CAS) who led the study, said the most abused antibiotics were tetracycline, penicillin, amoxicillin and erythromycin. "This certainly increases the emergence of superbugs," he said. Zhu added that Chinese doctors tended to prescribe many more antibiotics than their European counterparts, but a more serious issue was the unregulated use of veterinary antibiotics at poultry, fish and pig farms. The drug-resistant bacteria could easily be passed from animals to humans, he said. "Heaven knows how many antibiotics the farmers have been feeding to their livestock to reduce sickness and increase production every year," he said.

- The deadly H7N9 influenza spreads at unprecedented speeds, Hong Kong microbiologists say, faster than all known strains of the bird flu virus. The bug – which infected 130 people on the mainland in March and April, killing 45 – may derive its speed from being more readily transmitted from birds to humans than other strains, including H5N1. The researchers say there is "no definitive evidence" yet to suggest continuing person-to-person transmission of H7N9. Hong Kong scientists also discovered another H7-type virus, H7N7, in chickens. "This virus could cause more severe infection than H7N9, based on our animal experiment," they said.
- Another New Zealand dairy product exported to China has been found to have quality issues, this time excessive levels of nitrates. Lactoferrin powder, a multifunctional

protein produced by New Zealand dairy company Westland Milk, was temporarily banned from import after two patches of the product, totaling 390 kg and imported to China by Wondersun Dairy as an ingredient in other products, were found to have elevated levels of nitrates. Westland said the nitrate levels did not constitute a food safety risk.

- More than 30% of Chinese people's diets contain more aluminum than recommended. Excessive ingestion of aluminum can lead to neurological and respiratory problems and affect bone development. Some 40% of excess aluminum in Chinese diets is found in flour. Aluminum-free baking powders are more expensive. Northern Chinese – who consume more flour-based foods such as steamed bread and noodles – have an average aluminum consumption of 2.9 mg/kg of body weight – almost 1.5 times the recommended amount.
- New Zealand's Fonterra revealed it had been forced to withdraw 42 tons of milk powder bound for China in May. Tests showed nitrate levels higher than allowed in China, although the milk powder had been approved for export after testing in New Zealand. Nitrates occur naturally in vegetables, water and soil, but excessively high levels can be toxic. During a visit to China, New Zealand Foreign Minister Murray McCully said Fonterra had some work ahead of it in rebuilding Chinese consumer confidence.

## MACRO-ECONOMY

### Manufacturing activity picking up

China's manufacturing activity expanded for the first time in four months. The HSBC Flash China Manufacturing Purchasing Managers' Index (PMI), the earliest available indicator of operating conditions at private and export-oriented industrial companies, settled at 50.1 this month, up from July's final reading of 47.7, which was the lowest in 11 months. The flash estimate is based on approximately 85% to 90% of total PMI survey responses each month. Final August figures are to be published on September 2. The new order component rose by 3.9 points to 50.5, the highest reading since April. Export orders fell modestly in July by 1.2 points to reach 46.5, still registering the second lowest level since October last year. Qu Hongbin, Chief Economist for China at HSBC, said new business and companies' restocking activities are driving manufacturing recovery. "While we do not expect any major significant stimulus measures, the government appears keen to selectively support infrastructure investment, including railways, urban basic facilities, and environmental and energy conservation industries, hinting at solid public sector fixed assets investment growth in coming months," Zhu Haibin, JP Morgan China's Chief Economist, said. Data for July showed upbeat results from factory output and exports to retail sales, raising hopes that China's economy may be stabilizing, the Shanghai Daily reports.

- Profits at China's state-owned enterprises (SOEs) rose 7.6% to CNY1.3 trillion in the first seven months of this year. The centrally-administered SOEs turned in better results than local-government SOEs. The former's profits gained 14.9% to CNY945.8 billion, while the latter saw a fall of 8.2% to CNY349.7 billion. Electronics, power, petrochemical and property firms led the profit rise.
- The National Development and Reform Commission (NDRC) has started its review of the implementation of the 12<sup>th</sup> Five Year Plan over the past 30 months and the preparation work for compiling the 13<sup>th</sup> Five Year Plan. The mid-stage assessment will influence the direction of the next plan. Average GDP growth from 2016 to 2020 is expected to be maintained at 7%. In 2016, the launch year of the 13<sup>th</sup> Five Year Plan, growth in the labor force in China is expected to stop, which means the contribution made by population growth will be zero.

## PETROCHEMICALS

### CNOOC reports rise in net profit

CNOOC, China's dominant offshore oil and gas producer, posted a 7.9% gain in first-half net profit on higher output after buying Canada's Nexen. Net income totaled CNY34.4 billion in the first six months, up from CNY31.9 billion a year earlier. Revenue gained 17% to CNY139 billion as higher oil and gas output offset lower selling prices. Output jumped 23.1% to 198.1

million barrels of oil equivalent (BOE), including 24.8 million barrels contributed by Nexen. Without Nexen, the output increase was still high at 7.7% due to strong offshore growth. "We believe that production growth will continue to remain strong over the coming quarters given the 30 projects CNOOC has under construction," Sanford C. Bernstein & Co Analyst Neil Beveridge said. CNOOC sealed the USD15.1 billion takeover of Nexen in February. Chief Executive Li Fanrong said CNOOC is applying to list on the Toronto Stock Exchange under a pledge it made to win Canadian approval for the Nexen deal. Wang Yilin, CNOOC's Chairman, said the company believes it can achieve its production target for the whole year although the unit cost rose because of the Nexen deal. Wang said that the Liwan 3-1 block, the first deepwater offshore oil field in China, will start production by the end of the year. Nexen posted a net profit of CAD33.4 million for the first half, down 88% from CAD280 million a year ago. "We are not too worried about Nexen's short-term performance," Chairman Wang Yilin said. "It takes a long time to strengthen Nexen's management and realize its value in technology innovation." Sanford C Bernstein Senior Analyst Neil Beveridge said Nexen's profit drop could have been caused by the booking of much of the financing costs related to the acquisition to manage tax exposure. He also noted Nexen's Canadian operation remained in the red. CNOOC has maintained its output target of 338 million to 348 million BOE for the full year, excluding Nexen, and expects Nexen to contribute 59 million BOE for the 10 months after its acquisition in February.

### PetroChina's profit rises on higher production

PetroChina posted a 5.6% increase in first-half profit to CNY65.5 billion on higher energy production and smaller losses at its refining business after China reformed its fuel pricing. Revenue jumped 5.2% to CNY1.1 trillion. The company benefited from a 4.4% gain from a year earlier in crude oil and natural gas output totaling 697.2 million barrels in the first half. The average realized crude selling price fell 6.9% to USD100.49 a barrel. PetroChina's refining loss of CNY7.77 billion in the first half narrowed from CNY23.3 billion a year earlier after China unveiled a fuel pricing reform in late March to link prices more closely to global crude rates. "The group successfully reduced losses of the refining and chemicals segment to a significant extent compared with the same period in 2012 by taking advantage of this opportunity," PetroChina said. The supply in the global crude market may slightly exceed demand in the second half of this year, with highly fluctuating crude prices, PetroChina said. Also, the domestic petroleum and petrochemical markets may not improve sharply in the second half amid an economic slowdown, the Shanghai Daily reports. PetroChina will seek further co-investments in projects with private enterprises and foreign firms after forming a joint venture with two fund management firms in June, according to President Wang Dongjin. Areas open to co-investments included overseas oil and gas projects, hard-to-extract oil reserves in northern China, expensive-to-pump natural gas reserves in Sichuan province and refinery projects in Guangdong, Guangxi and Yunnan provinces.

Sinopec Corp's net profit rose 24.1% to CNY29.42 billion in the first half, beating PetroChina's 5.6% increase. Sinopec's turnover grew 5% to CNY1.42 trillion in the first half. In the second half, the company plans to sell 84.25 million tons of oil products in the domestic market. In the first half, Sinopec produced 9.2 billion cubic meters of natural gas, processed 115.4 million tons of crude oil and turned out 23.3 million tons of crude oil. The company sold 88 million tons of oil products.

- China will surpass the United States as the world's top oil importer by around 2017 and will need to pay USD500 billion a year for foreign crude by 2020, according to Wood Mackenzie. It estimated China's crude imports will rise to 9.2 million barrels per day (BPD) by 2020, or 70% of its demand, from 2.5 million BPD in 2005. China's demand growth will be powered by gasoline and diesel requirements, with the country's total fleet of private cars to reach 160 million by 2020, up from just 20 million in 2005. China imported 271 million tons of crude last year worth USD221 billion.

## REAL ESTATE

### Guangzhou developers show half year growth

Guangzhou R&F Properties, the largest developer in Guangzhou, and Yuexiu Property, the real estate arm of the Guangzhou city government, posted solid half-year results. Guangzhou R&F's underlying profit, excluding property revaluation gains, jumped 31% to CNY1.14 billion in the first six months as turnover grew 21% to CNY10.19 billion. Chairman Li Sze-lim said

Guangzhou R&F had set itself a sales target of CNY55 billion for next year, 31% higher than the CNY42 billion target for this year. Yuexiu Property raised its sales target for this year by 9.85% to CNY14.5 billion after reporting strong sales in the first half. Although the firm recorded just 8.6% growth in the gross floor area of contracted sales in the first half, revenue from contracted sales jumped 20.5% to CNY8.62 billion.

- New housing development loans in Shanghai amounted to CNY4.7 billion in July, a significant rebound of CNY5.6 billion from a year earlier when the figure was negative. The city's housing loans rose for the sixth consecutive month in July on an annual basis due to rising market sentiment and growing individual demand.
- Longfor Properties' net profit rose slightly to CNY3.85 billion in the first half of this year and the firm was cautiously optimistic about prospects for the sector despite government attempts to rein in property prices. It said large-scale migration within China was underpinning demand for property. Longfor's Chairwoman Wu Yajun last year lost her title as the richest woman in China following her divorce from Cai Kui, who co-founded Longfor.
- Soho China's net earnings surged 242% year-on-year to CNY2.1 billion during the first six months of 2013 on a 103% jump in turnover to CNY2.5 billion. The firm's core net profit, excluding gains on investment properties, soared 130% to CNY537 million. As of June 30, Soho China had CNY15.2 billion of cash, the company said.
- Chinese insurers are expected to continue their investment spree in real estate as they strive to diversify their portfolios. Property investments accounted for about 5% to 7% of Chinese insurance firms' assets, far below the ceiling set by the insurance regulator, said Chen Xingyu, Analyst with Phillip Securities in Shanghai. In August last year, the China Insurance Regulatory Commission (CIRC) raised the cap on the value of property investments to 15% of an insurer's total asset value, from 10% previously.
- Kerry Properties said its net profit rose 59% to HKD5.38 billion in the first half of 2013 versus the same period a year ago, but gave investors no guidance on the progress of the potential spin-off of the firm's logistics business. Stripping out property revaluation gains, the company posted a fall of 21% in net profits to HKD2.3 billion. Wong Siu-kong, previously Chief Executive of Kerry Properties, has replaced Kuok Khoon Chen as Chairman of the company.

## RETAIL

### Chinese buying more quality goods at higher prices

Chinese consumers are increasingly buying quality goods at higher prices, embracing online shopping and using social media to gather product information, according to the 2013 China Consumer Market Strategies study, the third of its kind based on a survey of nearly 90 Chinese and multinational companies, conducted jointly by Booz & Co and the American Chamber of Commerce (AmCham) in Shanghai. The companies ranked the evolution of consumers from price-driven to value-driven buyers as the top trend driving their China market strategy. Chinese consumers, particularly in gateway and second-tier cities, are seeking greater reliability, consistency and integrity in consumer products. "As China's consumer market matures, Chinese consumers in developed cities and regions continue to trade up in their purchasing choices, presenting companies with opportunities to build products and brands that could deliver great value," said Adam Xu, Director of consumer and retail practice at Booz & Co. The rise of e-commerce and increasing integration of social media into the daily lives of consumers was ranked as the second key trend. "Online marketing channels and internet forums offer a platform for consumers to gather the intelligence they need to make informed purchasing decisions," said Robert Theleen, Chairman of AmCham Shanghai. "Companies must develop targeted strategies and China-specific capabilities that enable them to respond."

### Wumart Stores focusses on fresh food and new stores

Wumart Stores plans to enhance its fresh-food operation and expand to eastern cities to compete against bigger rivals such as Wal-Mart Stores and Sun Art Retail's RT-Mart. First-half net profit at Beijing-based Wumart edged up 0.4% year-on-year to CNY340 million. Revenue increased 11.5% to CNY9.56 billion. The company attributed the revenue growth to

comparable store sales, which rose 3.8% during the period, and the contribution from newly opened stores. Gross profit margin edged up 0.1 percentage point to 19.9%. "During the first half of 2013, the retail sector experienced intensified competition," said Wu Jianzhong, Chairman of Wumart. In June, Wumart had 541 stores in Beijing and Tianjin and in Hebei and Zhejiang provinces, compared with 529 a year earlier. Rising labor and rental costs remained key challenges for the retailer, as its distribution and selling expenses jumped 17% and administrative costs surged 25% in the first half. Growth in China's retail market has been slowing this year. Total retail sales growth dropped to 12.7% in the first half of the year from 14.3% a year earlier.

- Spending in Hong Kong by tourists from the mainland is still rising, but at a slower pace, according to the Hong Kong Tourism Board. The deceleration can be partly attributed to slowing economic growth in China and a ban on official spending on luxury items in October last year. E-commerce is also increasingly competing with shopping trips to Hong Kong. However, any cooling has yet to be felt among the five-star hotels across the city, which reported operating at nearly full capacity.
- Tesco, Britain's largest retailer, may join forces with state-backed China Resources Enterprise to bid for ParknShop. China Resources, which is the largest retailer on the mainland and also owns Hong Kong's third-biggest supermarket chain Vanguard, this month signed a memorandum of understanding with Tesco to merge their hypermarket business in China. ParknShop has so far attracted eight bidders with deals worth between USD3 billion and USD4 billion. Wal-Mart Stores, Lotte Group and Aeon are said to be among the bidders. China Resources announced net profit plunged 54% to HKD1.02 billion in the first half as sales rose 12% to HKD71.8 billion.

## SCIENCE & TECHNOLOGY

### Student information database to be launched

The Ministry of Education announced that a national student information database will be launched in September to facilitate smoother school transfers and more efficient student administration. The database contains the personal data of 35 million primary and middle school students from eight provinces and municipalities. Another 14 areas are currently collecting information. Each student will be assigned a permanent and unique ID number, which contains a profile of basic information, education history, previous assessment results and specialties in sports and arts. The information won't be allowed to be modified once it is confirmed and entered into the database. "Once the system comes into operation, the school transfer could be done online, which can save a lot of time and energy," said Du Kewei, Deputy Director of the Ministry's Elementary Education Department.

- Xu Xiaoming, 56, former President of the University of Shanghai for Science and Technology, was sentenced to 11 years in prison and fined CNY300,000 for taking CNY1.13 million in bribes.
- Liangzhu in Zhejiang province and the Shimao Stone City in Shaanxi province were placed on the list of the world's top 10 archaeological discoveries at the first Shanghai Archaeology Forum. The Liangzhu site, the cradle of the last Neolithic jade culture, is one of the biggest ancient cities discovered in China, while the Shimao Stone City, dating back some 4,000 years, provides vital data on the beginning of Chinese civilization.

## STOCK MARKETS

### Everbright President resigns following trading mishap

Everbright Securities's President and Director, Xu Haoming, resigned amid an investigation into the brokerage for erroneous buying orders that caused wild swings on the Shanghai stock market on August 16. Chairman Yuan Changqing will become the acting President. The brokerage said it lost CNY194 million from the trading error, based on its closing price that day. Everbright said its net profit fell 2.2% annually to CNY810.9 million in the first half of this year, a sharp easing from a 27% fall a year ago. Revenue rose 13.24% to CNY2.4 billion, up from a 33% fall in the first half of 2012. China Everbright Securities will not trim its holding of shares bought through an erroneous transaction on August 16 that resulted in the wildest swing on

the Shanghai stock market in four years. Everbright will withhold the shares until a disposal plan is reached, the broker said in a filing to the Shanghai Stock Exchange. The buy orders were triggered by design flaws in Everbright's trading system. The erroneous orders totaled CNY23.4 billion, of which CNY7.27 billion was actually transacted. Everbright has been banned from opening new stock-index futures positions, and conducting proprietary business for three months. Everbright committed a second blunder when it mistakenly sold CNY10 million worth of bonds too cheaply, resulting in a loss of around CNY120,000. Shanghai Mecrtsoft Tech Co, a provider of trading system to Everbright Securities, is being investigated after design flaws in the system were blamed for placing 26,082 unintentional buy orders directly to the Shanghai Stock Exchange in two seconds. The failure of a set quota limit of CNY80 million in the order execution system caused the massive erroneous orders to proceed. Mecrtsoft said it also provides trading systems to nearly 80 domestic brokerages. Analysts expect these erroneous trades could drag down Everbright's full-year earnings by up to 20%.

- China Resources Power Holdings (CRP), which is embroiled in controversy over a 2010 coal mining investment deal, posted a forecast-beating 78% jump in first-half net profit to HKD5.33 billion on the back of lower coal costs. First-half turnover grew 4.5% year-on-year to HKD32.3 billion, on the back of a 9.3% rise in power output to 83.8 billion kilowatt-hours, the company said in a filing to the Hong Kong Stock Exchange. The company's share price dropped 6.5% year-to-date.
- Haitong International Securities reported a 44% rise in net profit to HKD220.3 million for the first half, partly because of a mild recovery in stock trading in Hong Kong. Revenue rose 20% to HKD702.3 million. Chief Executive Lin Yong, who has more than 16 years of investment banking experience, said the future of brokers depended much on their capital-based businesses and the ability to manage capital, suggesting the conventional broking business was on the brink of being phased out by capital-based trading and securities lending business, as opposed to fee-based services.

## TRAVEL

### Chengdu to adopt 72-hour visa-free policy

Chengdu, capital of Sichuan province, will become the fourth Chinese city after Beijing, Shanghai and Guangzhou to adopt a 72-hour visa-free policy for foreign tourists from 45 countries with onward flight bookings. With a population of more than 14 million, Chengdu received 122 million tourists last year. Around 1.6 million came from abroad, according to government figures. Shuangliu International Airport in Chengdu, the fourth largest in China in terms of passenger traffic, has 22 direct flights to 16 countries and regions around the world. The number of people passing through China via the airport is expected to surpass 2.3 million at the end of this year. Chengdu has more international flights than any other city in central and western China. Several foreign general managers at international five-star hotels in the city said they believe the policy may boost the hospitality industry.

- More flights between Shanghai and Beijing should be on time starting this week, as China's civil aviation authority is freeing up airspace over the capital. From Wednesday, some 60 flights that would normally pass over Beijing are being rerouted to avoid the capital's airspace and give way to the 1,200 daily flights to and from Beijing Capital International Airport.
- People in Beijing living near the route of a high-speed railway line to Shenyang have rejected a revised construction plan that shortens the route. They want a new survey conducted on the impact of the link. The railway line will end at the Xinhua Railway Station, in a suburban area on the East Fifth Ring Road, instead of the Beijing Railway Station in the city center. Up to 200 representatives from estates that sit along the planned route staged a protest outside the Ministry of Environmental Protection (MEP) last week. The project has failed to pass the environmental impact assessment three times since March 2009, largely due to residents' opposition. When finished, the link will cut traveling time between Shenyang and Beijing in half, to about 2½ hours.
- Shangri-La Asia's first-half profit of its hotels in China, which account for nearly 39% of the firm's revenue from hotel operations, dropped to USD2.5 million from USD15.1 million a year earlier. An oversupply of hotels drove occupancy rates to an average of

just 49% for the first half, compared with 77% at its Hong Kong properties. Expenses for the opening of new hotels for this year, amounting to USD11.8 million, also cut into the group's bottom line. Shangri-La opened five new hotels in China in the first half. Shangri-La has a further 13 hotels in China in the pipeline.

- The number of Japanese tourists visiting Beijing fell 53.7% in the first seven months of the year to 136,000 amid a spike in tensions between the countries. The drop follows anti-Japanese protests in Beijing and several other Chinese cities in September last year. The decline in Japanese visitors was part of an overall 13.9% decline in tourist arrivals blamed on the sluggish global economy, as well as a spike in Beijing's air pollution.

## VIP VISITS

### Kenyan President visits Beijing

Kenyan President Uhuru Kenyatta and President Xi Jinping held talks in Beijing. Kenyatta's visit to Beijing following a stopover in Moscow highlights Nairobi's strengthening focus on its "look East" policy. The two nations are the first non-African countries he has visited since his inauguration in April. China and Kenya signed cooperation agreements on energy development, environmental protection and personal exchanges. China has become Kenya's second largest trading partner and Chinese investment in Kenya has reached USD474 million, the nation's largest source of foreign direct investment. Trade between the two nations was worth USD2.84 billion last year.

- U.S. Defense Secretary Chuck Hagel met his Chinese counterpart General Chang Wanquan at the Pentagon. Chang also visited the U.S. Pacific Command in Hawaii and the U.S. Northern Command in Colorado. Both countries agreed to expand military exchanges and exercises.
- Chinese Foreign Minister Wang Yi paid a two-day visit to Cambodia. He met Cambodian Prime Minister Hun Sen and held talks with his Cambodian counterpart Hor Namhong. Cambodia has long been one of China's most important allies in the region, receiving nearly USD3 billion in development aid from Beijing over the past two decades. China is Cambodia's largest foreign investor and a vital trading partner.

## ONE-LINE NEWS

- The trial of Bo Xilai, former Politburo member, Mayor of Dalian, Governor of Liaoning, Minister of Commerce and Party Secretary of Congqing, started in Jinan, Shandong province, on August 22 and ended on August 26. He is accused of corruption, bribery and abuse of power. The court provided live updates on its Twitter-like service weibo. A verdict will be issued at a later date.
- Casino operator Galaxy Entertainment reported a 35% jump in first-half net profit to a record HKD4.65 billion as Macao gaming revenues continued their robust growth. Revenue rose 9% from a year earlier to HKD30.8 billion. The firm was selected as a constituent of the blue-chip Hang Seng Index in June, the second casino operator to be included, after Sands China.
- British risk consultant Peter Humphrey and his American wife Yu Yingzeng were formally arrested in Beijing after they had been detained as police probed bribery allegations against British drugmaker GlaxoSmithKline. Humphrey and Yu co-founded ChinaWhys, a business risk advisory firm that has done work with drugs companies, including GSK. The couple had been detained last month because they broke a law related to buying private information.
- Shanghai experienced its hottest summer since 1934 as 46 high temperature days, when the mercury hits 35 degrees or above, were recorded. There were 55 such days in 1934, the city's hottest summer on record. August 26 was the first day since July 1 that the daily high has been below 30 degrees.

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This newsletter is realized with the support of Flanders Investment & Trade.

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