



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

# NEWSLETTER | 23 APRIL 2012

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## FCCC ACTIVITIES

### Via Hong Kong to China: A KBC and Deloitte testimonial, 23 April 2012, 14h00, Het Pand, Gent

Many Belgian companies pursuing business opportunities in China use Hong Kong as their gateway to the Mainland. Financing and tax considerations are probably the two most important drivers that are considered when opting for this setup. This seminar will provide testimonials of professionals on the ground from KBC Bank and Deloitte discussing the current practices being applied, risks commonly encountered as well as misconceptions frequently noticed.

This seminar will take place on Monday 23 April 2012 at 14h00 at Het Pand, Onderbergen 1, 9000 Gent.

#### Programme

13h30	Registration
14h00	Welcome by <b>Mrs Gwenn Sonck</b> , Executive Director, Flanders-China Chamber of Commerce
14h05	Introduction by <b>Deloitte &amp; KBC</b> <b>“Deloitte in Asia”</b> by <b>Mr Coen Ysebaert</b> , Partner, Deloitte Belgium Chinese Services Group Leader <b>“KBC in Asia”</b> by <b>Mr Jason Lee</b> , CEO, KBC China
14h30	<b>Mainland China</b> <b>“Critical Success Factors &amp; Banking Perspective”</b> by <b>Mr Koenraad Van de Borne</b> , Head of European Network Desk, KBC China <b>“Financial and Business Risks in China – What is happening on the ground?”</b> by <b>Mr Gerd De Vuyst</b> , Director Audit and Enterprise Risk Services, Deloitte China-
15h30	Eurasia
15h40	Coffee Break
	<b>Hong Kong</b> <b>“Hong Kong as your gateway to China”</b> & <b>“A technical primer on the internationalization of the RMB”</b> by <b>Mr Jo Vander Stuyft</b> , First Vice President European Desk – Corporate Banking, KBC Hong Kong <b>“Relevance of Hong Kong for Asia bound investments from a tax perspective”</b> by <b>Mr Wouter Claes</b> , Managing Director Belgium Tax Services, Deloitte Hong Kong
17h00	Networking reception

Participation fee for FCCC Members: €65, non-members: €95.

### Hannover Messe 23-27 April: Partner Country China, exciting opportunities for FCCC members

The Flanders-China Chamber of Commerce, through its membership of the EU China Business Association, is offering an exclusive opportunity to participate in Hannover Messe from 23-27 April.

Hannover Messe is a leading global trade fair embracing the whole spectrum of technological and engineering expertise from around the world. China is the Partner Country this year – hence our involvement.

FCCC members can benefit from a range of first-class opportunities as a co-exhibitor on the joint DCW-EUCBA stand 'Doing Business with China' to high-profile sponsorship and speaking opportunities in a number of China-related events, including "Invest in China" and "EU-China Business & Technology Forum". An opportunity is available to sponsor the overall programme and gain even higher profile. Please contact DCW (see flyer) to explore this.

Click [HERE](#) for the flyer and complete information, including registration and contact details. Please note all enquiries should be sent directly to DCW.

### Annual Flanders-China Job Fair, 26 April 2012, Leuven

The Flanders-China Chamber of Commerce (FCCC) and Group T-International University College Leuven are organizing the Annual Flanders-China Job Fair at Vesalius Campus (Andreas Vesaliusstraat 13, 3000 Leuven) on Thursday, April 26, 2012 from 13:00 to 18:00.

This job fair is a unique opportunity to present your company to Group T's Chinese and other international students, to its alumni, and to young Chinese professionals.

During the job fair you will be able to meet students from the following programs:

- Bachelors of Science in Engineering: Electromechanical Engineering, Electronics Engineering, Chemical Engineering
- Masters of Science in Engineering: Electromechanical Engineering, Electronics Engineering, Chemical Engineering, Biochemical Engineering
- Postgraduates: International Postgraduate Program in Enterprising, International Postgraduate Program in Logistics Management

The Flanders-China Job Fair also gives you the opportunity to offer these students and alumni internships, company projects, and longer-term learning tracks in your company.

#### Program

- 13:00 Registration  
Setting up of stalls
- 14:00 Official opening of the fair by:  
H.E. Liao Liqiang, Ambassador of the People's Republic of China to Belgium  
Prof. Dr. Johan De Graeve, President and Chief Executive of Group T  
Ms. Gwenn Sonck, Executive Director of FCCC.
- 14:15 Job fair, one-on-one meetings with students and alumni
- 17:00 Networking drink
- 18:00 End

Companies are welcome to publish their profile, job openings, and projects online and will also receive online access to the students' CVs.

The registration fee is €300 for members, €475 for non-members. Read more and register online at [www.flanders-china.be](http://www.flanders-china.be).

During the month of April, the Flanders-China Chamber of Commerce organizes similar job fairs in collaboration with Ghent University.

### FCCC Industrial fact-finding trip to Shandong province (21-24 May 2012)

Many Flemish companies in China are continuing to focus on a small number of large, well-known cities, like Beijing, Guangzhou, Shanghai and Shenzhen. However, numerous member companies are encountering mature, increasingly saturated markets with limited growth opportunities in these locations and finding themselves facing mounting competition, both from foreign rivals and from increasingly sophisticated Chinese companies.

The FCCC's strategy is to give our members a better insight into business opportunities in second- and third-tier cities.

The FCCC has a strong network in China thanks to partnerships and investments by our founding members in several cities.

We would like to organize an industrial fact-finding trip to Shandong province with a limited group of companies, to become better acquainted with the area and meet potential partners and senior officials. The mission will start from Beijing and take in the cities of Jinan, Qingdao and Weihai.

Shandong is China's third most populous province and also has the third-highest GDP. It offers attractive opportunities for business in the following sectors: food and agriculture, infrastructure, energy, minerals and chemicals, renewables and the environment, advanced engineering, professional services, retail and consumer goods. In short, all major industries are represented in Shandong, and its broad range of industrial and commercial activity offers great potential prospects for Flemish businesses in many sectors.

During the visit, participants will gain a clearer picture of the trade- and investment-related advantages of Shandong's various cities and development zones. Furthermore they will be given access to senior Chinese officials and meet European entrepreneurs who have already invested in these areas and potential Chinese business associates.

The dates for the visit to Shandong province are **21 to 24 May 2012**.

Please send us any comments you may have and **let us know** whether or not your company would be interested in taking part in this focused industrial fact-finding mission, by sending an e-mail to [gwenn.sonck@flanders-china.be](mailto:gwenn.sonck@flanders-china.be). We will send you the programme and a subscription form as soon as we have evaluated the interest in such a visit.

Please do not hesitate to contact us if you require more information.

### Visit to Great Wall Motor Co, 5 June 2012, Baoding, Hebei Province

The Province of East Flanders and the Province of Hebei have a longstanding cooperation and are sister provinces. The Province of East Flanders is also an important structural partner of the Flanders-China Chamber of Commerce (FCCC). On June 5, 2012, a delegation led by Vice Governor De Buck will visit Great Wall Motor Company, located in Baoding, Hebei Province.

Great Wall Motor Company Limited is a large multinational company, the first private whole vehicle automaker listed on the Hong Kong Stock Exchange. With more than 30 subsidiaries and 28,000 employees, it is capable of producing 500,000 whole vehicles per year that fall into three categories of HAVAL SUVs, Voleex sedans and Wingle Pickups & MPVs.

The Province of East Flanders is inviting company representatives to take part in this visit in order to give the opportunity to introduce your company to Great Wall Motor Company at the highest level. If you are interested to join this visit, please inform us before 16 April 2012 by sending an e-mail to : [gwenn.sonck@flanders-china.be](mailto:gwenn.sonck@flanders-china.be). This visit is organized with the support of the Flanders-China Chamber of Commerce (FCCC).

## FCCC NOTICE

### Flanders-China Chamber of Commerce change of address

As from March 1, 2012, the Flanders-China Chamber of Commerce temporarily moved its offices to Voldersstraat 5, 9000 Gent. Our new telephone numbers are:

T : +32 9 264 84 86/82

F : +32 9 264 69 93

This change takes place in the framework of the China-platform, which is a cooperation between Ghent University, the Province of East Flanders and the Flanders-China Chamber of Commerce. Both are also structural partners of the FCCC.

## OTHER ACTIVITIES

### Who will run China? China's political transition and what it means for Europe, 24 April 2012, Brussels

China is entering into a very important period of political transition and this is a good opportunity to assess what this means for Europe. The Flanders-China Chamber of Commerce (FCCC) and the Brussels Institute of Contemporary China Studies organize a seminar on this subject on Tuesday 24 April 2012 with three prominent experts: **He Baogang**, a leading Chinese political scientist affiliated with the University of Deakin, **Thomas Heberer**, Professor at the University of Duisburg-Essen, and **Jonas Parello-Plesner**, a Senior Fellow at the European Center on Foreign Relations.

This panel will discuss the ongoing political reforms in China. How should we interpret democracy with Chinese characteristics? How is the growing heterogeneity of China's society affecting politics? The speakers will also discuss the organization of the 18<sup>th</sup> National Party Congress, which will appoint the new leadership and mull over future reforms. The programme is:

16h00: Opening: Jonathan Holslag  
16h05: Presentations by He Baogang, Thomas Heberer, Jonas Parello-Plesner  
17h00: Discussion  
18h00: End of meeting

Registration by sending an email to [biccsevt@vub.ac.be](mailto:biccsevt@vub.ac.be), mentioning your name, function, and organization. The meeting will be held at the premises of the Brussels Institute of Contemporary China Studies. The exact venue will be confirmed upon registration.

This meeting is organized in cooperation with the following partners: The Brussels Institute of Contemporary China Studies, Flanders-China Chamber of Commerce (FCCC), Kent University, the Université Libre de Bruxelles, and the Institute for European Studies.

### 7<sup>th</sup> China International Conference for Foreign Labor Service Cooperation & International Project Contracting, 29~31 May 2012, Nanjing

The 7<sup>th</sup> China International Conference for Foreign Labor Service Cooperation & International Project Contracting will be held in Nanjing, Jiangsu province, China from Tuesday, May 29 till Thursday, May 31, 2012. The Conference fees for accommodation, registration, documents, booths and activities, to be incurred during the conference, will be borne by the Organizing Committee; and only round-trip tickets will be borne by the participants. There are no extra charges. The Conference is sponsored by the China Association of International Trade (CAIT) under China's Ministry of Commerce (MOFCOM). Many organizations and companies from all over the world interested in human resources services and engineering construction will participate in the conference. Interested parties should reply as soon as possible by e-mail or fax. CAIT website: <http://gmxh.mofcom.gov.cn> E-mail: [worldtochina@hotmail.com](mailto:worldtochina@hotmail.com)

## PAST EVENTS

### Unlocking the Middle Kingdom: The keys to success in China's developing tax landscape, 3 April 2012, Gent

The Flanders-China Chamber of Commerce organized an interesting meeting on China's tax legislation. Mr Simon Tan, Tax Partner Deloitte and Mr Coen Ysebaert, Tax Partner Deloitte and Chinese Services Group Leader showed how your organization can adapt quickly to the challenges and opportunities offered in this changing tax environment.

Mr Simon Tan, Tax Partner Deloitte also presented a practical insight into managing China tax risks, availability of tax incentives, challenges for cash repatriation, opportunities for managing ETR and many other important aspects of China's tax environment.

This seminar took place at The House of the Province of East Flanders and was organized with the support of Flanders Investment & Trade.

## Sino-Belgian Business Survey: Results & panel discussion, 15 March 2012, Living Tomorrow, Vilvoorde

Moore Stephens Verschelden, the Flanders-China Chamber of Commerce (FCCC) and Flanders Investment & Trade organized an interesting meeting about the Sino-Belgian Business Survey. Through the results of 15 simple yet crucial questions we took the temperature of the Belgian business conditions. During this meeting we found out how our Belgian companies perform in China and what the greatest opportunities and threats are that lie ahead of us.

The presentation was followed by a panel discussion with Sino-Belgian business leaders such as Mr Stephan Csoma, Senior Vice President Government Affairs of Umicore and Member of the Board of Directors of the Flanders-China Chamber of Commerce, Mr Herman Van de Velde, CEO of Van de Velde, Mr Dirk Vyncke, Chairman of Vyncke Clean Energy Technology, and Mr Ivan Van de Cloot, Chief Economist Itinera Institute.

The complete results of the Sino-Belgian Business Survey can be downloaded via [this link](#).

This meeting was organized with the support of Flanders Investment & Trade.

### PUBLICATIONS

#### “Voices on China” (more information on the FCCC website)

For more information on the book “Voices on China”, please go to the FCCC website at [www.flanders-china.be](http://www.flanders-china.be)

### FINANCE

#### Goldman Sachs sells USD2.5 billion stake in ICBC

Goldman Sachs' move to sell shares of Industrial and Commercial Bank of China (ICBC) to Singaporean sovereign wealth fund Temasek could be followed by gradual divestment of its remaining stake worth about USD3 billion in the coming years, analysts say. Goldman sold USD2.5 billion, or about 40% of its H-share holding, through a block trade at HKD5.05 per share. Goldman posted a loss in Asia last year, partly because of its stock-market losses in ICBC, but a source said Goldman has no plans to sell more ICBC shares in the immediate future. Goldman said in its annual report its investment in ICBC posted a USD517 million pre-tax loss last year. This is the fourth time the U.S. firm has sold shares in China's largest bank since 2009. The latest sale cuts its holding to less than 5 billion shares, or 5%. Temasek raised its interest in the bank to about 5.3% of H shares, or 1.3% of the total share base. Goldman bought its shares in ICBC at HKD3.07 each during the lender's initial public offering (IPO). The latest sale would mean a profit of 68%. Analysts said the trend of foreign banks trimming their stakes in Chinese banks could continue because of tighter regulations both in China and abroad. Citibank recently sold all its investment in Shanghai Pudong Development Bank.

#### S&P expects no mass default by local government vehicles

China's local governments can avoid a wave of defaults on the USD1.7 trillion of debt owed by thousands of companies they set up, Standard & Poor's says. Local authorities “are likely to avoid system-destabilizing defaults of their financing platforms in 2012 by providing sufficient support to meet the platforms' interest payments and necessary refinancing needs”, Analysts Zhong Liang and Tan Kim Eng wrote in a report. S&P said last year as much as 30% of their liabilities might turn sour. “Tough financial conditions for local and regional governments this year have made mass bankruptcies of their financing platforms a non-negligible possibility. Ultimately we believe the central government would also provide more direct financial support to them to avoid any systemic crisis,” the report said. Local governments face much slower revenue growth this year than in the past two years as the economy cools and tax cuts are implemented, while pressure is rising to boost social spending, according to the report. Local governments might find it difficult to finance new investment projects and those that are already in progress, Zhong and Tan wrote.

## HSBC issues yuan-denominated bonds in London

HSBC issued the first yuan-denominated bonds in London on April 18, furthering the UK's aim to become a yuan business center. The three-year bond raised about CNY2 billion. London, which is competing against places such as Singapore and New York to become an offshore yuan center, aims to complement rather than compete with Hong Kong's role as the major offshore business center for the yuan. London already accounts for 26% of global yuan foreign-exchange trading. Hong Kong's yuan deposits reached CNY566 billion by the end of February, more than five times London's yuan deposit base at the end of last year. Allowing London to become an offshore yuan market could create more investment channels for Chinese currency accumulated in Europe, economists said. HSBC is among a number of banks fighting for a major role in the development of an offshore yuan business in London. Stuart Gulliver, chief executive of HSBC, called the bond issue, which was oversubscribed, "an early sign of the huge potential of this market". The bank is the biggest arranger of dim sum bonds in Hong Kong. Standard Chartered Bank is also seeking to develop yuan-related business in Hong Kong and London.

- The Chinese government will probably allow companies in Wenzhou to pioneer the sale of high-yield bonds as it speeds up preparations for the launch of the junk debt market. The China Securities Regulatory Commission (CSRC) and the stock exchanges in Shanghai and Shenzhen were expected to select the first group of small companies that would be allowed to issue high-yield bonds soon. Last month, the government announced it would legalize Wenzhou's underground banks by granting it the status of a "special financial zone".
- Shares of Chongqing Rural Commercial Bank dropped last week as the bank was being investigated following the sacking of Bo Xilai as the city's Communist Party Secretary. Chongqing Rural Bank is the largest bank in terms of total assets and total deposits in the city, and is also the third-largest rural commercial bank in the country.
- China has taken another big step toward liberalizing the yuan's exchange rate by allowing banks to hold short positions in foreign currencies. Banks that had foreign exchange dealings of more than USD1 billion in 2011 may hold USD10 million worth of short positions, according to a statement released by the State Administration of Foreign Exchange (SAFE). Banks with less foreign exchange dealings may hold smaller positions. The new rules apply to all lenders except for national banks and foreign-exchange market makers.
- Morgan Stanley and China Fortune Securities Co plan to set up a financial leasing joint venture, said Jiang Songtao, Vice President of state-owned INESA Holding Group, parent of China Fortune Securities, which is also known as Huaxin Securities. The two sides formed a securities joint venture last year, Morgan Stanley Huaxin Securities Co, that focuses on underwriting yuan-denominated stocks and bonds for small-cap companies in China. Huaxin Securities holds a two-thirds stake in the CNY1 billion securities venture, with Morgan Stanley holding the remainder. They also jointly run an asset management venture, Morgan Stanley Huaxin Fund Management Company.
- Hong Kong Exchanges and Clearing (HKEx) plans to launch yuan futures in the third quarter, a move that would help investors hedge their exposure to the currency.
- China Development Bank (CDB) said it will issue slightly fewer bonds this year than last, but the moderate drop will not significantly change the lender's ability to support China's industrial policy. The policy bank plans to issue CNY1.055 trillion of bonds in 2012. CDB, China's largest policy bank by assets, does not take deposits, but raises funds by issuing yuan bonds onshore and dollar bonds offshore.

## FOREIGN INVESTMENT

### China's FDI falls for a fifth month

China posted a fifth straight monthly drop in foreign direct investment (FDI) to USD11.8 billion in March, down 6.1% from a year ago, according to the Ministry of Commerce (MOFCOM). FDI from European Union investors in the first three months of this year was valued at USD1.4 billion, a year-on-year drop of 31.2%. "The downward trend for FDI is irreversible," said Zhang Jun, Professor of Economics at Fudan University. "The good old days when the Chinese economy grew on a fast track banking on massive FDI inflows and soaring exports are

history.” For the first quarter, the country attracted USD29.5 billion in FDI, down 2.8% from the same quarter last year. About half of the FDI in China has been directed at the processing trade – which imports raw materials from abroad before re-exporting the finished products after processing or assembly. Frederic Neumann, Managing Director of Asian Economic Research at the Hongkong and Shanghai Banking Corp, remains optimistic. “Many international companies are looking at other investment destinations, such as Southeast Asia, to take advantage of cheaper labor. But this doesn’t mean that China is not an attractive investment destination. In fact, we still sense a lot of interest by capital market investors taking more exposure to China,” Neumann said. Wang Chao, Deputy Minister of Commerce, said recently that FDI could be “sustained” thanks to the country’s stable economic growth and improving business sentiment. Foreign capital into the eastern region dropped, in the first quarter, by 3.66%, but FDI into central areas grew by 20.72%, the Ministry of Commerce said.

- Vice Premier and Chongqing Party Secretary Zhang Dejiang met with Meg Whitman, CEO of Hewlett-Packard, and said the city would stick to the opening-up policy and maintain the continuity and stability of its policies. To attract foreign capital, Chongqing will continue to make itself into a better place for investments, he added. Whitman reiterated Hewlett-Packard’s commitment to Chongqing.

## FOREIGN TRADE

### China to further promote imports

China should take concrete steps to expand imports and cut tariffs quickly, as the deceleration of import growth is raising economic concerns, Wei Jianguo, former Deputy Minister of Commerce, said. On April 15, import tariffs on items including leather garments, accessories and computers were cut from 20% to 10%. Imports rose 5.3% last month, while exports increased 8.9%, yielding a trade surplus of USD5.35 billion. “For three decades, China has prioritized expanding its exports, but now, it needs to shift to imports,” said Wei. “Expanding imports could help China stimulate domestic consumption”, part of the effort to transform its economic growth model by 2015, he said. In March, imports of commodities including copper, oil and iron ore fell. Imports of refined copper, copper alloy and related products totaled 462,182 metric tons, down 4.6% from February. China aims to expand foreign trade by 10% this year.

### More volatile yuan worries foreign traders

Many foreign traders at the Canton Fair fear the doubling of the daily trading band of the yuan against the U.S. dollar to 1% will mean wider swings for the Chinese currency, which may appreciate further and erode cost advantages. Commerce Ministry Spokesman Shen Danyang conceded that exports would be affected by a more volatile yuan and that some buyers at the fair were so worried about a more unpredictable currency that they were not placing long-term orders. “It will be more difficult to predict the yuan,” Shen said. “This creates a certain degree of challenge to exporters and traders, who have got used to a stable currency.” The yuan has gained 30% against a basket of currencies since it was depegged from the dollar in 2005. Economists at BBVA and Nomura say they expect the yuan to strengthen by a further 2% to 3% by the end of the year, while Citigroup anticipates a 1% to 2% appreciation.

- China has lowered duties on personal imports of digital cameras, computers and mobile phones by more than 50%. The new tax rules published by the customs administration also halve to 10% the overall import tax rate for consumer electronics, effective from April 15. The taxable base for most electronic products has also been reduced, with the tax base for some mobile phones cut to CNY1,000 from CNY2,000. The new tax rules apply only to products imported as personal luggage and by post.
- Foreign trade expanded 7.3% in the first quarter. “The growth rate, which is better than expected, shows that measures to stabilize trade are taking effect and the continuous slowdown in trade growth since August has been halted. The full-year trade growth goal of 10% set by the central government can be achieved”, said Ministry of Commerce Spokesman Shen Danyang.
- China was the target of 16 trade remedy investigations in the first quarter, 1.8 times the number a year earlier, which involved exports worth about USD3 billion, up 2.4

times.

- Qingdao Publishing Group and Quarto Publishing agreed to co-edit and publish more books, as well as to collaborate on commissioning works on new subjects and ideas. The deal was signed during this year's London Book Fair. For the first time, China was the Market Focus country at the three-day fair. About 180 Chinese publishers showcased their books. Robert Morley, Creative Director of Quarto Publishing, said he believed China would become "a huge market" for his company.
- Chinese have overtaken Americans for the first time as buyers of arts and antiques, with a global share of 30% based on auction and dealer sales last year. The U.S. share dropped by five percentage points to 29%, coming in second, with Britain ranking third at 22%, according to a study commissioned by the European Fine Art Foundation. The global art market was up by 7% from 2010 to €46.1 billion last year. The combined value for art auctions sales on the mainland, Hong Kong, Macao and Taiwan totaled €9.8 billion, 42% of the world's total.

## **IPR PROTECTION**

### **Online IPR disputes on the rise**

Disputes over online trademark infringement are rising sharply as e-commerce flourishes, Sun Jungong, Spokesman for the Supreme People's Court said. Nearly 13,000 trademark disputes were received by courts in the past year, an annual rise of 54%. Well-known trademarks, which provide an edge for their companies, are also more prone to piracy, the Spokesman said. Moreover, when administering justice in such cases, courts at various levels sometimes gave completely different verdicts, especially when it comes to the responsibility of the online service providers. Company representatives said websites, such as Taobao, should verify and oversee the businesses on the platform. Zuo Chen, Spokesman of Alibaba Group, parent company of Taobao, said it has specialized channels for complaints of trademark infringements on its website. "We will force sellers to remove the logos if they fail to provide certificates of trademark registration after being reported," said Zuo. Online marketplaces can take other steps, said lawyers, such as asking retailers to submit evidence of trademark ownership when registering on the platforms as well as expelling lawbreakers. Lawyers said it is understandable that courts give different decisions when handling similar cases since e-commerce disputes are new. More than 60% of intellectual property cases heard in Beijing's courts last year were copyright-related, and infringements mainly happened through the internet, said a judge from a Beijing municipal intermediate people's court. The city's courts heard 9,653 intellectual property cases last year, 6,105 of which were related to copyright infringements, Jiang Ying, Judge of the Beijing No 1 Intermediate People's Court, told China Daily. Intellectual property rights are composed of copyright, patent and trademark, "but disputes about the latter two have not been very common in China up to now, since they are too professional and need a more developed commercial environment", she said. In the past five years, 40,866 intellectual property disputes were tried in the city and 20,653 touched upon copyright infringements, according to the Beijing High People's Court, and about 80% of those copyright cases were related to the internet.

## **MACRO-ECONOMY**

### **IMF expects faster economic growth in China next year**

China's economic growth should rebound to 8.8% in 2013 despite slowing property and export sectors, the International Monetary Fund (IMF) said in its latest World Economic Outlook report. China had felt the pinch from weakening demand for its exports but was sustained by "resilient domestic demand", the IMF said. "Investment and private consumption remained strong in China, buoyed by solid corporate profits and rising household income," it said. Separately, HSBC forecast Chinese economic growth would accelerate to 8.3% in the second quarter from 8.1% in the first three months of the year. HSBC meanwhile said it expected interest rates to be cut by a quarter of a percentage point in the second quarter, and banks' reserve ratio requirement before the end of June. The threat of inflation in China appears to be waning, with the producer price index dropping unexpectedly to 0% in February, a 27-month low, despite a rise in oil prices. Because of weak demand from Europe, HSBC expects export growth of 8% this year, down 11 percentage points from a year earlier. China's GDP is forecast to grow 8.6% this year if the government eases its monetary policy, the Hongkong and Shanghai Banking Corp said, which is higher than the target of 7.5% set by the government in March. China's economy registered an 8.1% growth in the first quarter.

- The income gap between rural and urban residents is expected to continue narrowing slightly this year. The urban-to-rural income ratio, which reached a record high of 3.33 to 1 in both 2007 and 2009, should drop to 3-1 this year, according to the "Analysis and forecast on China's rural economy 2011-2012", issued by the Chinese Academy of Social Sciences (CASS). The report said the average rural income was expected to grow by 10% this year and continue outpacing growth in urban areas for a third straight year.

## MERGERS & ACQUISITIONS

### M&As absorbed 40% of China's ODI in first quarter

Chinese outbound direct investment (ODI) in the non-financial sectors increased by 94.5% in the first quarter from a year earlier to USD16.55 billion. Of all Chinese outbound direct investment in the first quarter of 2012, about 40%, worth about USD6.2 billion, went into mergers and acquisitions (M&As). By the end of March, China's accumulated outbound direct investments in non-financial sectors totaled USD338.5 billion. Last year saw such investments increase by 1.8% year-on-year to reach USD60 billion. "Chinese companies are more motivated to invest abroad, while their profits are getting thinner and thinner amid rising labor and operational costs in the local market," Ministry of Commerce Spokesman Shen Danyang said. China has established various funds to help its companies invest overseas, including the China-Africa Development Fund and the China-ASEAN fund. By the end of March, 809,000 Chinese were active overseas, up by 40,000 from the same period last year.

- ENN Energy and Sinopec have failed in attempts to get China Gas Holdings' directors to the table to discuss their unsolicited USD2.2 billion takeover offer. China Gas, a bigger rival of ENN, also rejected the latest approach. The consortium promised not to lay off any China Gas staff but declined to sweeten its offer. ENN has 55% of the consortium and Sinopec the rest. The clock is ticking, with May 15 the deadline for the consortium to meet a string of conditions for the pre-conditional offer before proceeding to launch a formal bid.

## PETROCHEMICALS

### Linc and GCL to make diesel from coal gas

Australia's Linc Energy and Chinese green power firm GCL Projects will team up in a venture to make diesel fuel from coal gas, with GCL buying a 5% stake in Linc for AUD124 million. Linc Energy Chief Executive Peter Bond, who owns 40% of the company, said the joint venture aimed to produce 100,000 barrels a day of diesel for the Chinese market. The venture with GCL Projects, a unit of Hong Kong-based Golden Concord Holdings, will build plants that will turn gas extracted deep underground from coal into diesel. Their first gas-to-liquids plant is scheduled to start in 2014. "I think China will become a significant player," Bond said. "You've got so many advantages in China in terms of fast-tracking a project, cheap capital, a huge consumer base, a fairly low tax regime," he said. He added that ideally half of Linc's production would be in China within three years. "It will take probably four to five years before it's 50% of our income," Bond said. Linc's Chinese partner, Golden Concord, also owns GCL Poly Energy Holdings. Linc first started producing diesel from gas in 2008 at a demonstration plant in Queensland. It has also started producing jet fuel, which it plans to use on a flight across Australia for the first time in May. Bond said the joint venture's first plant in China would probably be in Inner Mongolia. It aims to start construction later this year.

### Use of unconventional natural gas to rise

The contribution of unconventional natural gas to China's supply is expected to surge to 30% of total supply by the end of this decade from 1.5% currently, according to Shi Xin, Deputy Director of the Strategic Development Office of China Petrochemical's Economics and Development Research Institute. China has only 1% of the world's proven reserve of conventional natural gas that is easily extracted using traditional methods. Chinese gas producers are increasing production of unconventional, or hard-to-extract, gases in the form of tight gas, coal-bed methane and shale gas. The U.S. already sources half its gas output from unconventional sources, compared to the world average of 13%, Shi said. The National Energy Administration (NEA) has targeted for shale gas output to reach 6.5 billion cubic

meters (BCM) in 2015, rising to between 60 BCM and 100 BCM in 2020. Production is currently undergoing small-scale trials. Beijing also aims to raise natural gas extracted from coal mines and coal seams to 30 BCM in 2015 from 1 BCM in 2010. As China's annual gas consumption growth accelerated from an average of 16% in the decade to 2010 to 20% last year – and output growth lagging at 14% in the past 11 years – imports have surged. Last year's imports, via tankers in chilled and liquefied form or long-distance pipelines, jumped 90.3% to 31.6 BCM. This amounted to 24% of consumption of 130.7 BCM, up from 11% three years ago and 6% five years ago, due to a huge piped gas import deal with Turkmenistan, as well as liquefied natural gas (LNG) imports from Australia, Indonesia, Malaysia and Qatar, the South China Morning Post reports.

- An attempt by Repsol to sell its 57% interest in YPF to Sinopec broke down after the Argentinian government announced that it would expropriate 51% of YPF. Repsol meanwhile said it would pursue Argentina for at least USD10 billion in compensation and is seeking international arbitration.

## REAL ESTATE

### Listed property companies expect declining earnings

Of the 33 property developers listed either on the Shanghai or Shenzhen bourses that have released their earnings estimates for the three months ended March 31, 70% said they expected a decline from a year earlier. Only six predicted an increase. The industry's poor performance was due to the decline in prices and sales in major cities, particularly Beijing and Shanghai. In Shanghai some developers have offered discounts of up to 40% to kick-start sales. Residential property prices in suburban Shanghai have been sliding since October 2011, but sharp declines are now being witnessed in the most expensive downtown areas, and the substantial price reductions in Shanghai are irreversible, according to Xue Jianxiong, Analyst from China Real Estate Information Corp. The average price of high-end properties in Shanghai has fallen sharply over the past six months. The average price at Shimao Riviera Garden, a high-end riverside development in Pudong district, dropped from CNY80,000 per square meter in April 2010 to CNY46,000 this month, according to online property trading platform Anjuke.com. Still, Zhang Bo, Analyst with UBS, said big-cap residential developers in the A-share market are set to have better results in the second quarter because they have more cash in hand, and will be able to acquire cash-strapped smaller ones at favorable prices.

### Real estate prices continue their fall

Real estate prices fell in March in 46 of the 70 cities reviewed, up from 45 in February. Prices were stable in 16 cities and rose less than 0.2% in eight cities. First-tier cities including Beijing, Shanghai, Guangzhou and Shenzhen were among those that saw their prices decline for six consecutive months. Alan Jin, Analyst at Mizuho Securities Asia, said prices would continue to fall for a few months. "Developers will continue to have a tough time ahead, though most likely it will not be as bad as late last year," Jin said. "But developers are also adapting within the tight policy framework. They have set conservative sales targets, scaled back construction activities and cut prices. A number of Hong Kong-listed developers have tapped the capital market, while relatively smaller plays are having a tougher time than the big ones." Fueled by the price cuts and discounts on mortgage interest rates for first-time homebuyers, sales rebounded sharply last month. Bank of America Merrill Lynch said sales of new homes in 14 key cities it monitored climbed 53% to 2.4 million square meters for the week to April 15. However, sales in first-tier cities are down 17% on a year ago, and the volume in the 10 top tier-two cities was down 1%, it said. The statistics bureau said prices for new homes in Beijing fell 0.4% last month from February, while in Shanghai they dropped 0.2%. In Wenzhou, prices were down 1.1% month on month.

- Highly indebted Greentown China and another developer are to sell a prime development site in Shanghai to Soho China for CNY2.13 billion in the face of a credit crunch. Soho China said it had entered into a framework agreement to acquire the entire interest in Greentown Plaza Development, of which 70% is ultimately owned by Greentown China and the remaining 30% held by Maanshan Development. The site will generate a total gross floor area of 172,208 square meters of offices and commercial space.

- Chongqing launched the Commercial Cluster of Chongqing Tiandi last week, with the tallest building reaching 468 meters. The skyscraper with more than 100 floors, will join the ranks of the world's tallest buildings, dwarfing Taipei 101 in Taipei, the Jin Mao Tower in Shanghai and the Petronas Twin Towers in Kuala Lumpur.
- Two more property developers in Guangdong and Hangzhou have filed for bankruptcy: Guangdeye Property Development in Shunde, southern Guangdong, and Hangzhou Jinxiu Real Estate. David Ng, Property Analyst at Macquarie Equities Research, believes more small players would fold if the property downturn persists. Industry watchers say there are about 60,000 property firms in China.
- There are about 65 buildings higher than 200 meters in Shanghai, while Tokyo has 45, according to Emporis, one of the world's leading providers of building statistics.

## RETAIL

### Traditional Chinese medicine to be sold in Europe

A Chinese traditional medicine has been authorized for sale in a European market for the first time, the Chinese Academy of Sciences (CAS) announced. Di'ao Xin Xue Kang, a well-known herbal medicine produced by the Chengdu-based Di'ao Group, received marketing authorization from the Medicines Evaluation Board of the Netherlands, making it the first Chinese traditional drug to be identified as a therapeutic medicine in the European Union. "This is an important step for TCM to enter mainstream markets of developed countries," Health Minister Chen Zhu said. CAS President Bai Chunli urged TCM research institutions to increase their focus on the European market now and study the authorization requirements of different countries. The certification of Di'ao Xin Xue Kang follows an EU ban on traditional Chinese medicine in May 2011, imposed to prevent unlicensed herbal medicines being sold as food supplements. Zhang Boli, President of the China Academy of Chinese Medical Sciences, said another seven or eight Chinese TCM firms were trying to get access to the EU market. "Maybe one or two of them will receive authorization next year. And this may lead to more applicants," he added. "The medicine is also the first herbal medicine that has entered the EU market from a country outside EU member states," said Li Bogang, President of the Di'ao Group. He added that the group took six years to obtain the certification from the Netherlands, although the medicine has been sold in China since 1988. Di'ao Xin Xue Kang contains only a single portion of traditional medicine, which makes the research much easier than for a compound medicine. Identifying the active substances is essential when applying to enter the EU market, the China Daily reports.

- The selling of 13 commonly used drugs was halted on the orders of the State Food and Drug Administration (SFDA) after they were found to contain excessive levels of chromium. The capsules were made from industrial gelatin, which contains far more chromium than allowed in edible products. Police in Zhejiang province caught 22 people suspected of producing or selling the contaminated capsules. The affected drugs varied, ranging from amoxicillin to those used to treat the common cold.
- The Bureau of Quality and Technical Supervision of Shanxi province has refuted widely reported claims that 121,000 boxes of Coca-Cola products, more than half sold in February, were found to be contaminated with chlorine.

## SCIENCE & TECHNOLOGY

### National cancer center to be set up

China's first national cancer center will be inaugurated within a year, Lei Zhenglong, Deputy Director of the Disease Prevention and Control Bureau of the Ministry of Health, said at an event to mark National Cancer Week, which starts on April 15 every year. The cancer center, to be headquartered at the Cancer Institute and Hospital at the Chinese Academy of Medical Sciences in Beijing, will help curb the rising incidence of cancer. China records about 2.8 million new cancer cases each year, and the number is expected to exceed 3.8 million in a decade. Lung cancer is the most common and also has the highest mortality rate in the country. According to Shi Yuankai, Vice President of the Chinese Academy of Medical Sciences Cancer Hospital, among people between the ages of 30 and 60, cancer has become the leading fatal disease in China and the overall prevalence is steadily on the rise. There are 195 cancer registries in China, covering about 185 million people, less than 14% of the

population.

- Thirty-four university libraries in Beijing will gradually open to the public, and 12 of them have already begun to do so during the establishment of the Capital Library Alliance in March. Most of the dozen universities allow visitors to read in the library without the right to borrow books. Peking University library, established in 1902, with a collection of more than 8 million books, is one of them. The National Library of China in Beijing is under reconstruction till the end of 2013, and has suspended its book borrowing service.
- Xing Wei College in Shanghai has become China's first liberal arts college, aiming to nurture talents who can think out of the box. Xing Wei occupies a CNY500 million campus a 20-minute drive from Pudong international airport. All courses are given in English and the college charges annual tuition fees of CNY100,000, plus CNY30,000 for accommodation. Its three-year programs lead to qualifications that are not recognized as university degrees in China, but students can continue their studies at U.S. universities.

## STOCK MARKETS

### People's Daily website raises CNY1.38 billion

In the first-ever listing of the editorial operations of Chinese state media, the online unit of People's Daily raised CNY1.38 billion in Shanghai, nearly triple its fundraising target. Beijing hopes that it will lead the way to similar IPOs, with the internet portal of Xinhua news agency up next, raising cash to boost the appeal of state-run media. Bids covered more than 60 times the amount of shares on offer, as investors scrambled for a slice. The strong performance reflected optimism that the People's Daily, founded in 1948, will be able to modernize and close the gap with private internet companies such as Sina and Tencent, which have built popular news websites. People.cn's market capitalization will be USD876 million based on the float, while the New York Times is valued at about USD943 million. The People's Daily website was 49<sup>th</sup> in visitor numbers in China last year, according to internet monitoring organization ChinaRank. People's Daily said it would use the funds to upgrade its technology and expand its web-based products. Valued at 46 times its 2011 earnings, the People's Daily website will trade at a multiple that is nearly 5% higher than the industry average for Chinese media companies, the Financial Times reports.

### Haitong raises HKD13 billion in new listing

Haitong Securities has raised HKD13 billion in Hong Kong's biggest initial public offering (IPO) since December. The brokerage firm is also listed in Shanghai. Haitong's stock sale is about 40% higher than the total amount raised in first-time offerings in Hong Kong in the first quarter, according to Bloomberg data. Haitong, based in Shanghai, is the third-biggest publicly-traded Chinese brokerage with a market value of CNY85 billion. China's two largest brokerages are Beijing-based Citic Securities and GF Securities in Guangzhou. Haitong closed up 2.4% at CNY10.33 in Shanghai, outpacing the benchmark Shanghai composite index which increased 1.2%, and 17% above its offer price. Haitong now has 11 cornerstone investors, who have pledged a total of USD580 million to buy H shares in Haitong. They include Sumitomo Mitsui Trust Bank, one of the two cornerstone investors who pledged to invest in the IPO last December, when Haitong called off the listing, blaming volatile markets. Hong Kong trading in the stocks will begin on April 27.

- Air China stocks were suspended until further notice as parent China National Aviation considers injecting more than CNY1 billion into it. Air China is also considering non-public equity financing but no concrete plan has been finalized.
- The average price of initial public offerings in China fell to about 20 times earnings early this month after the government acted to curb insider trading and speculation, China Securities Regulatory Commission Chairman Guo Shuqing said. Valuations were now more in line with the secondary market after falling from a ratio of more than 30 in the first quarter and 47 last year.
- A third of companies traded on ChiNext, the start-up board at the Shenzhen Stock Exchange, have issued warnings of profit declines or losses when results are released

for the first quarter. 16 start-ups have warned they will report losses for the first quarter, while another 74 firms have warned that profits will fall in the same period. Beijing Easpring Material Technology posted a full-year loss of CNY728,000 for 2011, winning the dubious distinction of being the first loss-maker on ChiNext since it was launched in October, 2009. The Shenzhen Stock Exchange said firms that reported negative net assets for two consecutive years would face delisted.

## TRAVEL

### China Railway issues warning about first half results

China Railway Group warned that its first-half results would be hurt by the slowdown in rail spending but expected to increase orders for urban metro lines tenfold this year. "During the first half, few new rail projects were launched. Many rail projects originally scheduled to start in the first half have been delayed. This will affect our results in the first half as our orders will be affected," China Railway Chairman Li Changjin said. China Railway CFO Li Jiansheng said some rail projects were facing a cash crunch. The Hong Kong- and Shanghai-listed firm's capital expenditure would tumble from CNY21.73 billion last year to CNY10 billion this year, she added. In the first two months of this year, the country's rail construction spending fell 67.5% to CNY20.8 billion, according to the Ministry of Railways (MOR). But the state-owned company's urban metro rail orders would jump tenfold to CNY150 billion, Chairman Li predicted. In the first quarter, China Railway received more than CNY100 billion of metro rail orders, including a CNY26 billion order for the Shenzhen Line 11, three lines worth more than CNY30 billion in Chengdu, three worth more than CNY30 billion in Kunming and an CNY8 billion contract in Nanjing. Li said CNY1 trillion would be spent on urban rail projects during the 12<sup>th</sup> Five Year Plan. Li said China Railway also expected to win CNY60 billion of expressway contracts this year.

Separately, CSR Corporation, a leading rolling stock maker, announced it had won CNY3.3 billion of orders, including a CNY850 million order to supply trains for Subway Line 1 in Wuxi city, Jiangsu province; a CNY980 million contract for Subway Line 14 in Beijing; and a CNY1.36 billion deal to supply trains to the MTR Corporation for the high-speed link between Hong Kong and the mainland scheduled to open by 2016, the South China Morning Post reports. China South Locomotive and Rolling Stock Corp said its overseas orders will increase by at least 50% this year as overseas demand for its products outstrips domestic demand. The company predicted that 20% of its revenue will come from overseas by 2015, up from 8% in 2011. CSR Zhuzhou Electric Locomotive Co, a CSR subsidiary, recently won a bid to supply 20 sets of light rail vehicles to Malaysia's Ampang (AMG) Line Extension Project, which will extend one of the two lines in the Kuala Lumpur Rail Transit System network.

- The Civil Aviation Administration of China (CAAC) is investigating two incidents in which passengers forced their way onto runways at two airports in Shanghai and Guangzhou, posing threats to the safety of air traffic. They were upset about flight delays. Chinese airlines and airports have been asked to improve their response to flight delays in the wake of the incidents.
- The World Tourism Cities Federation, an international tourism organization created by 37 cities, will have its headquarters in Beijing. The federation was established by 17 Chinese cities, including Beijing, Tianjin, Chongqing and Guangzhou, and 20 cities overseas, including Los Angeles, Vienna, Moscow and Barcelona. The federation, which aims to include 100 cities within three years, will publish annual reports and statistics on the global tourism market.
- The number of tourists arriving in Tibet in the first three months of this year was up nearly a quarter on the same period last year, Xinhua reports, with 230,000 tourists visiting between January and March. Tourism revenue climbed 27.9% over the same period last year to reach CNY229 million.
- The Ministry of Science and Technology has revealed plans to develop a "super-high-speed train" that can reach speeds of 500 km/h or more, stressing the need to address issues of speed, safety, energy efficiency and developing export markets. But Wang Mengshu, Deputy Chief Engineer of China Railway Tunnel Group and a drafter of the country's high-speed-rail blueprint, said that he opposed plans for a super-high-speed train, as rails were built for trains operating at 350 km/h. "Instead of endlessly increasing speed, the limited manpower and resources should be invested in studies that improve safety and quality," he said.

## VIP VISITS

### Premier Wen Jiabao visits four European countries

China plans to seek a larger role in the Arctic during Premier Wen Jiabao's visit to four European countries, with Sweden supporting its bid to become a permanent observer at the eight-member Arctic Council. Deputy Foreign Minister Song Tao said China had economic and scientific interests in the Arctic and would strengthen cooperation with Arctic countries. He added China wanted to explore geothermal energy and study the North Pole and northern lights. Wen began a week-long visit to Iceland, Germany, Sweden and Poland on April 20. Besides an Arctic cooperation agreement, the two sides signed five other accords with 11 Ministers and Vice Ministers accompanying the Chinese leader. Iceland is the first European country to recognize China's full market economy status and the first European country to start FTA talks with China. Wen's visit is the first by a Chinese Premier since China and Iceland established diplomatic relations in 1971. China sees Iceland as its "primary partner" in geothermal energy. Iceland's Orka Energy signed a deal with China Petrochemical Corporation of the Sinopec Group on using geothermal energy in China for heating homes and generating electricity. Other agreements cover marine and polar science, and technology and solar energy. Next stop on Premier Wen Jiabao's schedule is a visit to the Hannover Messe.

## ONE-LINE NEWS

- Former President Jiang Zemin met Starbucks Chief Executive Howard Schultz on April 17 in Beijing, it has been reported. Jiang has made few public appearances in recent years. He attended ceremonies in Beijing last October marking the 100<sup>th</sup> anniversary of the 1911 revolution.
- China's five major power companies, which suffered heavy losses in the past years due to China's control of electricity prices, are going "upstream" to almost double their coal output by 2015 in an attempt to improve profits, according to Liu Xiangdong of the China Electricity Council, which represents power generators. The big five together produced 227 million tons of coal last year, a third more than in 2010 and amounting to 29% of their consumption. Liu said they planned to raise that to over 400 million tons by 2015.
- The Supreme People's Court declined to approve the death sentence imposed on Wu Ying, once one of the richest women in China, and referred the case back to the High Court in Zhejiang province. She was sentenced to death in 2009 on charges of raising funds with the intention to defraud. She has been unable to pay back debtors CNY380 million. It is unclear what the new sentence might be, but the lower court would not be able to reapply the death sentence.

## ANNOUNCEMENTS

### 2012 China Global Outbound Investment Summit, June 7 - 8, Kerry Hotel, Beijing

The 2012 China Global Outbound Investment Summit will be held at the Kerry Hotel in Beijing on June 7-8, 2012. Banking and financial institutions play an important role in Chinese global outbound investment. China's central bank (People's Bank of China), State Administration of Foreign Exchange (SAFE), sovereign funds, and commercial banks are rolling out new policies and platforms, aiming at facilitating China global outbound investment. Major Chinese banking and financial institutions will attend the 2012 China Global Outbound Investment Summit.

Early bird registration 30% off before April 27.

Web Site: <http://www.china-enterprise-forum.com/en> Tel (overseas): [+86 10 8599 7383](tel:+861085997383)

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Tap into the China opportunity at the Canton Fair



Canton Fair opens from April 15 to May 5, 2012 at the China Import and Export Fair Complex in Guangzhou, China.

### TAP INTO THE CHINA OPPORTUNITY AT THE CANTON FAIR

China's largest trade fair takes on greater role in global economic downturn

As the United States and Europe grapple with economic uncertainty, Canton Fair has become an even more essential platform for foreign businesses seeking new trade opportunities and new territory.

Luigi Capretto, owner of Italian company, Foccacia Tech (Italy), which makes bespoke air-conditioning units, says his business has boomed since he started exhibiting at the 2004 Canton Fair. "The Canton Fair puts me in touch with many Chinese property development companies, architects and designers and now I even manufacture in China," he says.

The 111<sup>th</sup> session of the Canton Fair comes at an ideal time for foreign businesses as the Chinese government plans to boost imports to achieve a more equitable trade balance as part of its 12th five-year plan.



For more information, please visit: <http://www.cantonfair.org.cn>

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- Large enterprises: €875
- SMEs: €350

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