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

NEWSLETTER | 7 MAY 2012

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FCCC ACTIVITIES

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 '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. 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.

Business lunch Intellectual Property Rights in China, 22 May 2012, Brugge

The Governor and Vice Governors of the Province of West Flanders are organizing a business lunch "Intellectual Property Rights in China", on Tuesday, 22 May 2012, from 11.30 h. till 14.30 h. at Provinciaal Hof, Markt 3 in Brugge.

The Province of West Flanders has a cooperation of more than a decennium with the Chinese province of Zhejiang, aiming to strengthen the position of West Flanders in the global economy by actions in the fields of economy, education, and agriculture. Together with the POM West Flanders, VOKA and the Flanders-China Chamber of Commerce, the province is organizing the business lunch "Intellectual Property Rights in China". The aim is to bring together the economic and academic circles in West Flanders to determine the opportunities for research and internships in China.

Programme:

11.00 h.	Registration of the participants.
11.30 h.	Welcome by Mr. Carl Decaluwé, Governor of the Province of Wets Flanders General introduction to intellectual property rights in China by Mr. Raphaël Bailly, De Wolf & Partners

Intellectual Property Rights in China: a foucsed case study by Mr. Peter Waumans, European Law Matrix
IPR Helpdesk EU: Introduction to services by Mr. Philippe Healey, IPR Helpdesk EU

14.30 h. Educational institutions call on enterprises for sustainable cooperation on research and internships in China
Concluding remarks by Mr.Gunter Pertry, Vice Governor for Education

Participation fee: €50 euro
Registration before 15 May 2012 via the registration form. Confirmation and an invoice will be sent. After receipt of payment, registration is final. More information:
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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 by sending an e-mail to: gwenn.sonck@flanders-china.be. This visit is organized with the support of the Flanders-China Chamber of Commerce (FCCC).

PAST EVENTS

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

The Flanders-China Chamber of Commerce (FCCC) and Group T-International University College Leuven organized the Annual Flanders-China Job Fair at Vesalius Campus in Leuven.

Several Belgian companies were able to introduce themselves to more than 100 Chinese students and had successful discussions on the possibilities in future company projects, internships, longer-term learning tracks and/or future job opportunities.

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

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

Many Belgian companies pursue business opportunities in China using 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. Therefore the Flanders-China Chamber organized a seminar with testimonials of professionals on the ground from KBC Bank and Deloitte.

Mr Coen Ysebaert, Partner of Deloitte Belgium and Chinese Services Group Leader, gave us an introduction about Deloitte in Asia and Mr Jason Lee, CEO of KBC China, introduced to KBC in Asia.

During the first part, Mr Koenraad Van de Borne, Head of the European Network Desk of KBC China, gave a clear view on the critical success factors and the banking perspective in Mainland China. Mr Gerd De Vuyst, Director Audit and Enterprise Risk Services of Deloitte China, showed what the current financial and business risks are in China.

After a short break Mr Jo Vander Stuyft, First Vice President European Desk – Corporate Banking of KBC Hong Kong, explained how we can use Hong Kong as our gateway to China. He also gave us an insight on the internationalization of the RMB. Mr Wouter Claes, Managing Director Belgium Tax Services of Deloitte Hong Kong, concluded this interesting seminar with a presentation on the relevance of Hong Kong for Asia bound investments from a tax perspective.

This seminar 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

FINANCE

SAFE defends foreign investment strategy

The State Administration of Foreign Exchange (SAFE) claimed it made money from its outbound assets every year over the past eight years. Guan Tao, Director of the International Balance of Payment Division, said China earned USD128 billion income from its overseas investments in 2011. SAFE controls the country's more than USD3 trillion foreign exchange reserves, the world's largest. Between 2004 and 2011, outbound assets grew 26% on average and its income rose 32% on average. Guan did not elaborate on what kind of investments it had made in the past eight years. There had been concern that SAFE probably invested too much in government bonds in the United States, but Guan downplayed public concerns about the investments. His comments signal that the government is keen to reduce the size of its foreign exchange reserves, though at a stable pace. An economist with a foreign bank in Hong Kong said Guan's argument could be proved "technically correct" but Beijing should not ignore the reality that the world's No 2 economy, just behind the United States, is indeed facing rising challenges to guard and make good returns from its overseas investments. China's foreign exchange reserves have doubled from four years ago, reaching a new high of USD3.3 trillion at the end of March.

Bank lending down sharply in April

Chinese bank lending tumbled last month. New loans by the big four banks totaled CNY101.7 billion as of April 25, and total bank loans increased only by CNY700 billion. This compared with CNY1.01 trillion in new loans by all Chinese banks in March, the highest since January 2011. Analysts said lending for the whole of April could fall as much as 30% from March. A spike in March lending was a one-off, with new lending mostly coming from the household sector in the form of short-term financing, and not for investment, said Joy Yang, Chief China Economist at Mirae Asset Securities. Investment sentiment in China was weak in the first quarter despite the March rise, which failed to lift industrial investment, said Tao Dong, Economist at Crédit Suisse. Analysts said the slowing loan growth in recent months mainly stemmed from the fact that large state-owned enterprises suffered from weak demand, and small and medium-sized enterprises (SMEs), which needed money, could not access bank loans. Some analysts said more ambitious policy easing would start around mid-year to support growth. "This is because 2012 is the political transition year, and growth is the priority target," said Yang of Mirae Asset Securities. Chinese banks lent about CNY2.5 trillion in the first quarter, slightly beating market estimations of CNY2.4 trillion and above the CNY2.2 trillion seen in the same period last year.

- Creditor banks are taking legal action to freeze the assets of Dalian Shide, a plastics-to-property conglomerate founded by a close business ally of disgraced former Chongqing Party Secretary Bo Xilai. Shide's founder Xu Ming was detained the day before Bo was sacked.
- Hong Kong Monetary Authority (HKMA) Chief Executive Norman Chan received a pay rise of 8% last year, giving him a total take-home sum of HKD9.04 million. Hong Kong lawmakers and analysts considered that to be too high. His base salary remained at HKD6 million, unchanged from the previous year.

- Yuan deposits from retail depositors fell for the fourth consecutive month in Hong Kong in March, but the Hong Kong Monetary Authority (HKMA) said professional investors were still big buyers of yuan certificates of deposit (CDs). Yuan deposits in the city fell by 2.1% month-on-month to CNY554.3 billion as of March 31, down 5.8% from December last year, and 13.17% lower than the CNY627.3 billion peak recorded on November 30. The amount of outstanding yuan CDs stood at CNY118.1 billion on March 31, up from CNY73.1 billion in December of last year, offsetting the fall in retail deposits.
- Chinese banks may see a drop of 50% in profit growth this year as earnings generated from their net interest margin shrink and fee income growth slows, said May Yan, Director of Barclays Capital Asia in Beijing. “Last year commercial banks registered an average profit growth of somewhere between 33% to 34%. This year the rate will fall to a range of 11% to 15%,” she said. Average net fee growth among lenders slowed to 26% year-on-year in the first quarter, from 30% in the fourth quarter of last year.
- Temasek is selling USD2.4 billion worth of shares in Bank of China (BOC) and China Construction Bank (CCB). A banking analyst, who preferred not to be named, said Temasek was engaging in purely speculative profit taking. The sale would net the fund hundreds of millions of dollars in profit. Jeffrey Fang, Spokesman for Temasek in Singapore, said the fund was “rebalancing” its position after buying a USD2.3 billion stake in Industrial and Commercial Bank of China (ICBC) last month. Temasek still owns 3.38% of Bank of China's H-shares and 8.76% of CCB's H-shares.
- The first yuan-denominated bond released outside China was listed on the London Stock Exchange (LSE) last week. The bond, issued by HSBC Holdings, is the first denominated in a currency other than the pound sterling to be offered to retail investors since the bond-trading system was introduced in February 2010. The listing comes as the British government aims to make London an offshore center for yuan trading.
- China, Japan and South Korea agreed to boost cross-investment in government bond markets, worth a combined USD14.61 trillion at the end of 2011. Chinese and Japanese bonds accounted for 97% of the total, Asian Development Bank data showed.
- The insurance industry will grow more slowly this year after witnessing rapid growth in past years, according to Ping An Insurance, but the potential of the life insurance business is still huge compared with developed countries. Ping An had a 16.4% share of the life insurance market in China in terms of premiums last year, 1.3 percentage points higher than in 2010. The insurer reported a first-quarter net profit of CNY7.8 billion, up 31% from CNY5.95 billion in the same period last year.

FOREIGN INVESTMENT

China and Russia to set up joint investment fund

China and Russia announced plans to raise USD4 billion for a joint investment fund. China Investment Corporation (CIC) and the Russian Direct Investment Fund (RDIF) would each commit USD1 billion to the joint venture, while the rest is expected to come from Chinese investors. In the first phase, the fund will be worth USD1 billion, according to Lou Jiwei, Chairman and Chief Executive of CIC. He expected the fund to start operating in the second quarter of this year. “Our investment in Russia mainly focuses on finance, energy and real estate,” he said. CIC paid USD300 million for a 45% stake in Russian oil producer Nobel Oil in 2009 and last year purchased 5% of Sberbank Russia. RDIF will invest at least 70% of its capital in Russia, Kazakhstan and Belarus, which have formed a customs union. Up to 30% of the fund may be invested in China. Machine building, agriculture, transportation and timber processing are among the sectors to be targeted for investment.

FOREIGN TRADE

Canton Fair posts disappointing results

The Canton Fair ended on a sombre note, with orders from overseas buyers down and traders reporting that most new contracts were kept short-term. Deals signed during the fair's three weeks amounted to USD36.3 billion, down more than 4% on its previous session last October.

Attendance rose slightly, however, setting a record of 210,831 overseas buyers. A fall in orders had been expected, with Deputy Commerce Minister Zhong Shan warning in January that the debt crisis in Europe was casting a shadow over global trade. Commerce Minister Chen Deming said the forthcoming April trade figures would show only “very small growth”. Fair Spokesman Liu Jianjun said about 86% of the deals were smaller and on shorter-term contracts than previously. The number of European visitors to the fair fell by 15%, and U.S. trade deals dropped 8.1%, although business from African buyers posted an increase of 13.5%, Liu said. Vice Premier Wang Qishan has tasked seven coastal provinces and municipalities with achieving an annual trade growth of 10%. The combined trade volumes of Jiangxi, Zhejiang, Shanghai, Jiangsu, Anhui, Fujian and Shandong last year accounted for more than 80% of the nation's foreign trade. Most only registered single-digit trade growth for the first quarter of this year.

China and South Korea to start free trade negotiations

China and South Korea jointly announced the start of bilateral free trade negotiations later this month. “I hope the negotiations can be finished within two years,” Chinese Minister of Commerce Chen Deming told a news briefing in Beijing. “After seven years of preparation, the launch of the FTA negotiations is a turning point to take bilateral cooperation to a higher level.” He added the start of the FTA negotiations will not only benefit people in both countries but also advance the economic integration of East Asia amid rising protectionism and a slow global economic recovery. The level of liberalization for trade in goods will go beyond each country’s commitment to the World Trade Organization (WTO). Sensitive areas include agriculture and seafood for South Korea and the petrochemical, electronic and machinery industries for China, so negotiations will have to move forward in phases. China has become the biggest trade partner of South Korea, and South Korea is China’s third-largest trade partner. Bilateral trade reached USD245.6 billion in 2011, up 18.6% from the previous year. The two nations aim to expand it to USD300 billion by 2015. South Korea, which is China’s fourth-largest source of foreign direct investment (FDI), added USD4.88 billion to its investments in China in 2011, lifting the cumulative figure to USD51.16 billion. China’s investments in South Korea totaled USD3.74 billion after an expansion of USD650 million in 2011. In addition to the bilateral FTA, the two countries are working with Japan on a three-way FTA, the China Daily reports.

- The Chinese government said in a new guideline that China will stabilize its imports of commodities and actively increase the imports of advanced technology and equipment, key components and parts, as well as resources and raw materials. Imports of consumer goods will also be increased “appropriately”, said the 18-clause guideline.
- The Ministry of Commerce (MOFCOM) has issued the “Spring 2012 Report on the Foreign Trade Situation of China”. The second quarter will continue to see slow trade growth while the whole year is expected to see slower but more balanced trade growth than 2011, the report said. Foreign trade is expected to grow by an average 10% a year till 2015.
- Five Chinese makers of household ceramics have been chosen to represent the industry in the latest anti-dumping investigation by the European Commission, and also plan to take legal action in the case. “We have invited international lawyers from Belgium to help us in the time leading up to the anti-dumping investigation,” Ding Xuewen, Vice Chairman of Hunan Hualian China Industry Co said. The other four companies are the Sanhuan Enterprises Group and Beiliu City Laotian Ceramic Co, both from Guangxi; Zhuhai-based CHL International; and the Shandong-based Niceton Group.

IPR PROTECTION

U.S. companies still worried about IPR, despite progress

For the eighth consecutive year, China topped the annual “priority watch list” of countries with the worst IPR record identified by the Office of the U.S. Trade Representative. Published annually, the report reviews the adequacy of IPR enforcement and protection by 77 trading partners of the U.S. “It is essential for trading partners to not only adopt effective legislation to safeguard IPR, but to also develop complementary and meaningful enforcement mechanisms," said Mark Elliot, Executive Vice President of the U.S. Chamber of Commerce's Global Intellectual Property Center in Washington. The local Administrations for Industry and Commerce in Guangdong and Fujian provinces drew specific criticism in the report, which said their officials had "turned a blind eye" to counterfeiting operations brought to their attention by U.S. companies. It said certain Chinese government agencies had been "inappropriately using market access and investment approvals to compel foreign firms to license or sell their IPR to domestic Chinese entities". "Government intervention in the commercial decisions that enterprises make regarding the ownership, development, registration or licensing of IPR is not consistent with international practice, and may raise concerns relative to China's implementation of its WTO obligations," the report said. But the U.S. Trade Representative's Office also recognized some improvements in China's IPR situation last year. Premier Wen Jiabao said in November that Beijing's special IPR enforcement campaign, which started in 2010, would be made permanent by creating a national group to lead these activities, the South China Morning Post reports.

MACRO-ECONOMY

PMI rises for fifth consecutive month

China's official purchasing managers' index (PMI) recorded its fifth consecutive rise last month to its highest in 13 months, edging up to 53.3 from 53.1 in March. It has been on a consistent recovery course from a low of 49 in November. The rise in April's PMI was mainly driven by the manufacturing output sub-index, which rose to a 15-month high of 57.2 from 55.2 in March. The official PMI followed publication of the HSBC Flash PMI, the earliest indicator of industrial activity, which also showed signs the economy was improving. However, HSBC Flash PMI's reading, of 49.1 for April, up from 48.3 in March, came in below 50 for the sixth straight month. The HSBC PMI has been weaker than the official PMI in the current downturn because the former focuses more on small and medium-sized firms, which tend to be exporters and are worse hit by weak demand from developed nations, according to Lu Ting, Economist at Bank of America Merrill Lynch. The National Bureau of Statistics (NBS) said that among the fastest growing sectors were: metals and minerals; electrical machinery; textiles and clothing; and paper and printing. Among the weakest were: car making; oil refining; production of the steel-smelting material coke; and metals smelting and processing. According to Lu, the latest PMI data supports his belief that China's economy bottomed out in the first quarter. He said the upturn was driven by: "pro-growth" economic policies initiated earlier; re-stocking by manufacturers; and higher infrastructure investment. "Beijing will continue its pro-growth policies, but … any big stimulus is unlikely at this stage because that would raise prices of raw material imports and re-ignite inflation," he wrote in a note. He said chances of an interest rate cut were extremely low, although the banks' reserve ratio might be cut by a total of 50 basis points before the year end. Although the overall PMI figure is on an uptrend, the NBS noted the divergent fortunes of companies of different sizes. Medium and large enterprises' PMI grew to 53.7 from 53.4, while small ones' dropped sharply to 49.1 from 50.9. Small enterprises have faced greater difficulties obtaining financing amid last year's credit tightening, the South China Morning Post reports. The Purchasing Managers' Index in the non-manufacturing sector declined to 56.1 last month from 58 in March, the National Bureau of Statistics (NBS) and the China Federation of Logistics and Purchasing (CFLP) said. An expected increase in investment and consumption was likely to accelerate the expansion of non-manufacturing activity this month, said Cai Jin, Deputy Chairman of the CFLP.

MERGERS & ACQUISITIONS

Bright Food buys control of Weetabix

State-owned Bright Food (Group) has bought a 60% stake in British cereal maker Weetabix Food from London-based buyout firm Lion Capital, in China's largest overseas acquisition in the food sector. Bright Food makes White Rabbit sweets. Lion Capital and the management of Weetabix will hold the remaining 40%, a statement by Bright Food said. Weetabix is valued at GBP1.2 billion, including debt. Weetabix also owns the brands Alpen and Ready Brek and is Britain's second-biggest cereal maker after Kellogg's. The acquisition, subject to the Chinese government's approval and anti-trust reviews in Britain, is expected to close in the second half of this year. The takeover follows Bright Food's purchase of a 75% stake in Australian food conglomerate Manassen Foods last year. It could reinforce Bright Food's go-global campaign, which aims to build the firm into a world-class player in the food industry by 2030. China's second-largest food group has been pursuing foreign assets, including those in the wine, sugar and dairy businesses. Bright Food generated net profit of USD1.2 billion on revenue of

USD12.2 billion last year. At present, imported food accounts for less than 10% of products on local supermarket shelves. Bright Food said it hoped to take advantage of its vast retail network to bring imported food to the domestic market. It operates more than 3,300 retail stores in China.

Take-over offer for China Gas extended

ENN Energy Holdings and China Petroleum & Chemical Corporation (Sinopec) extended the long-stop date on an offer for China Gas Holdings to July 6. ENN Energy and Sinopec have failed in their attempts to get China Gas Holdings directors to discuss their unsolicited USD2.2 billion take-over offer. China Gas said ENN and Sinopec had failed to make any progress in securing the pre-conditions in the offer made in December. It expressed frustration at the prolongation of the period of uncertainty. State-owned conglomerate Beijing Enterprises Group, meanwhile, says it has increased its stake in China Gas Holdings to nearly 9%, raising the prospect of a bidding war with Sinopec for the gas distributor. Beijing Enterprises Group – parent of utility Beijing Enterprises Holding – snapped up a 5.4% stake in China Gas from seller Oman Oil, paying USD126 million to become a significant shareholder. China Gas late last year received an unsolicited USD2.2 billion takeover offer from Sinopec and ENN Energy Holdings, which it rejected, saying it failed to reflect the true value of the company.

- At present there is no central regulator for the fast-growing private-equity fund industry. The China Securities Regulatory Commission (CSRC) and the National Development and Reform Commission (NDRC) are both involved, which sometimes led to registration and tax problems as well as uncertainly over how to legally raise onshore capital. A new law could settle the regulatory dispute later this year. Last year, private equity firms launched about 300 yuan-denominated onshore funds earmarked for investments in China, raising a total of about CNY20 billion. The Ministry of Commerce (MOFCOM), the State Administration of Foreign Exchange (SAFE) and the State Administration of Taxation (SAT) are also trying to wield influence over the private equity industry.

PETROCHEMICALS

Rising costs threaten LNG venture between Shell and PetroChina

The cost of a liquid natural gas joint venture in Australia between Royal Dutch Shell and PetroChina may rise as much as 50% from initial estimates, which could force the companies to delay development. Arrow LNG is one of four operators on Australia's east coast that aim to pump gas from coal seams for export. The estimated investment for all the projects is rising rapidly from the initial price tag of around USD70 billion, due to the rising price of labor and the cost of meeting stringent environmental regulations. Arrow Energy initially estimated in 2010 that the project would cost a total of USD24 billion to USD26 billion, but that had now gone up to around USD34 billion to USD36 billion. The planned LNG export terminal would have the capacity to ship 8 million tons a year and is scheduled to start up in 2017. Arrow said the company would take a decision on whether to proceed with the project in late 2013. Public opposition to coal seam gas developments because of concerns about their impact on groundwater supplies has made it one of Australia's most closely regulated industries, and environmental regulations are likely to drive up overall costs, industry experts say.

CNPC-PDV refinery starts construction

China National Petroleum Corp's Guangdong-based mega joint refinery with Venezuelan partner Petroleos de Venezuela (PDV) started construction and is set to open by the end of 2014. The CNY58.6 billion project, in which CNPC will hold a 60% stake and PDV will hold the remaining 40%, has a designed annual processing capacity of 20 million metric tons, or 400,000 barrels a day, making it the country’s biggest integrated refining complex ever built at once. The project will process Merey-16 heavy oil from Venezuela, China’s fourth-biggest crude oil supplier in the first quarter. CNPC tapped into Venezuela’s upstream market as early as 1998 and now has stakes in several oil blocks, including the Zumano Oilfield. The Guangdong-based refinery will lead to increased oil imports from Venezuela. CNPC forecast earlier this year that China’s annual refining capacity is expected to reach 700 million tons by 2015. Capacity this year is expected to hit 578 million tons, up 38.2 million tons from 2011. Guangdong houses more than 10% of the country’s total refining capacity. Rival Sinopec is operating three out of four big refineries in the region, including Sinopec Maoming Petrochemical Co, with an annual processing capacity of 13.5 million tons. Sinopec said that it will expand the Maoming refinery's yearly capacity to 20 million tons by 2013.

REAL ESTATE

Property prices fall for eighth month

Home prices fell for the eighth month in a row in March. Year on year, prices fell for the first time last month by 0.71%. The average home price in the 100 cities tracked by the China Index Academy declined 0.34% last month from a month earlier to CNY8,711 per square meter as the government continued its measures to stabilize home prices. That was 0.04 of a percentage point higher than the decline in March. Seventy-one of the 100 cities recorded a month-on-month fall in flat prices last month. Shenzhen had the largest slump in home prices, 0.8%, among China's 10 biggest cities. In Shanghai and Beijing, prices fell 0.7% and 0.4% respectively. Flat prices in 29 cities increased last month, in most cases by 0.5% or less. The China Index Academy said: "Although the sales volume of residential flats in different Chinese cities has climbed since Chinese New Year, developers faced stronger financial pressure and high inventory levels in the second quarter of this year. This caused developers to launch more flats and prices went downwards." "Since prices have just started to fall, there is no sign that the government will loosen its grip on the market in the near future," said DTZ's David Ji, and he expected prices would continue to fall in the coming months.

- More than 40% of land, or about 70 hectares, to be used this year for public housing will be in downtown areas of Beijing, according to a land-use plan of the Municipal Bureau of Land and Resources. Industry insiders said the bulk of new land for all kinds of residential housing in the past three years was approved in suburban areas, meaning prices for private apartments in downtown areas were expected to rise.
- House prices in Shanghai are still very high compared to household incomes so the policy restricting the number of houses a family can buy is still necessary, said Liu Haishen, Director of the Shanghai Housing Support and Building Administration Bureau. Last year, the average cost of a new home in Shanghai was CNY2.58 million, according to the China Real Estate Information Corp, while the average annual income was CNY51,968. The restrictions that limit every local household to, at most, two housing units and confine every non-local family to just one were introduced in January 2011. About 40 cities have the same restrictions.

RETAIL

Profit warning sparks share sell-off in Gome

Shares of Gome Electrical Appliances fell to their lowest since June 2009 in Hong Kong after the company issued a profit warning for the first quarter. It attributed the poor performance to lower sales and a loss in its e-commerce business. Analysts said demand for home appliances had cooled since the central government ended a nationwide subsidy policy in December last year. To boost sales, home appliance retailers including Gome have cut their prices sharply over the past months, which may have hurt their profit margins. In addition, the tightly controlled housing market is also a reason for the weaker demand for television sets, refrigerators and washing machines. Gome's major rival Suning Appliance, the largest electronics retailer in the country, reported a 7.2% drop in same-store sales and a 15% fall in profit for the first quarter, reflecting the tough situation facing the entire industry. Gome operates 1,079 shops across the country as well as two online shopping platforms. Net profit fell 6% to CNY1.84 billion last year despite a 16% growth in revenue. Gome's stock has lost 28% this year, against a 15% gain in Hong Kong's benchmark Hang Seng Index.

- Chinese bankcard owners' expenditure surged an annual 27% to CNY145 billion during the three-day Labor Day holiday on strong retail spending while that on travel soared 68%. They spent 29% more at domestic retailers and their retail expenditure overseas jumped 28%, UnionPay said.
- U.S. farmers will raise 117.1 million pigs this year, the most in at least a half century, as world pork output gains 2.7% to an all-time high of 104.4 million tons, U.S. Department of Agriculture estimates show. China may produce 690 million hogs, the

most since at least 1976. These two factors combined could drive pork prices down 10% by the end of the year, according to the median of 10 analyst estimates compiled by Bloomberg. Pork prices are one of the most important items in China's Consumer Price Index (CPI). While Chinese pork imports will drop 14% to 650,000 tons this year, shipments will still be the third-highest on record.

- Shenzhen's wealthier residents are relying on regular shopping trips to Hong Kong for not only big-ticket purchases, but also everyday items, such as toothpaste, spending CNY20 billion annually. The spending in Hong Kong is equivalent to about 6% of Shenzhen's total retail sales volume last year, or CNY352 billion, according to a survey by the Shenzhen Retail Business Association. The survey interviewed 2,116 Shenzhen residents and found that more than 27% had shopped in Hong Kong last year, and a quarter of those had visited at least once a month.

SCIENCE & TECHNOLOGY

Two scientists killed in failed rocket launch in 1996

Sixteen years after their deaths, it has been revealed by Liang Xiaohong, Party Secretary of the China Academy of Launch Vehicle Technology, that two colleagues were killed when the launch of the first Long March III rocket failed on February 15, 1996. "Let's mourn the deaths of Comrade Qian Zhiying and Comrade Yang Linzhen, who have spilled their blood to tell us that quality is a matter of life and death," Liang said in a CCTV documentary. The government hopes that China's share of the global satellite launch market will grow from less than 4% at present to more than 15% by 2015.

- The China National Tobacco Corp has withdrawn its research on cigarette improvement from a top award competition amid a nationwide outcry, with opponents accusing it of promoting smoking and misleading the public. China's National Office for Science and Technology Awards received 33 objections since March on the "Chinese-style cigarette" research, which focused on adding fragrance and enhancing taste.

STOCK MARKETS

Stock exchanges to lower transaction fees

China's two stock exchanges will lower fees charged for trading yuan-denominated shares by 25% from June 1, the securities regulator said. The Shanghai and Shenzhen bourses will charge both buyers and sellers 0.087% of the transaction value, while the Shanghai branch of the China Securities Depository & Clearing Corporation will set transfer fees at 0.375% of the transaction value. China shares climbed 1.8% to their highest closing level in seven weeks on May 2, after the China Securities Regulatory Commission (CSRC) announced the news. It estimated the combined impact would be CNY3 billion less fees collected in a year, a reduction of 25%. The CSRC also announced criteria for delisting and guidelines on reforming IPO mechanisms. Companies with negative net assets will no longer be allowed to remain listed, and the bourses may exclude non-recurring items from net income, as some unprofitable companies use government subsidies or other sources to book profits and avoid delisting. Roughly 50 firms face being delisted by the end of this year after regulators tightened the criteria to remain listed. The biggest hurdle now facing listed firms is likely to be a new provision on maintaining positive asset values. According to Donghai Securities, 27 Shanghai-listed firms and 18 Shenzhen-listed companies reported negative net asset values at the end of last year. If they remain negative by the end of this year, their listing status will be rescinded immediately. Since the first delisting of a Chinese firm in 2004, only 50 habitual loss-makers have lost their listing status, accounting for 2% of the 2,500 A-share firms.

- Of the 1,156 Shanghai and Shenzhen-listed companies that have released their first-quarter financial reports, 52 have qualified foreign institutional investors (QFIIs), among their top 10 stockholders. Foreign investors were most active in the vehicle, real estate, infrastructure and non-ferrous metal sectors. The sectors of steel, food and beverages, and biomedicine, saw decreases in holdings by foreign investors in the first quarter. The value of the shares held by QFIIs accounted for 1.09% of the total traded A shares. The total number of QFIIs has risen to 158.

- China City Railway Transportation Technology hopes to cash in on an investment boom in urban metro systems after raising about HKD246 million from listing on the Growth Enterprise Market (GEM) in Hong Kong. The company supplies city rail networks with information technology systems, ranging from automatic fare collection to passenger information equipment. Shares start trading on May 16.
- Lin Songli, Macro-economics Analyst with Guosen Securities Co, was sentenced to six months in jail with a one-year probation. Lin was the fourth person to have received a jail sentence after suspicions arose in late 2010 that key economic data, including gross domestic product (GDP), consumer price index (CPI) and credit increase details, were being leaked. The leaks could allow some traders to make a profit at the cost of other investors by anticipating how securities prices would react after the official release of the data.
- Jewelery maker and retailer Graff Diamonds got Hong Kong stock exchange approval for a listing worth up to USD1 billion. The initial public offering (IPO) could be the biggest in Hong Kong by an international issuer so far this year, but details of the issue, including its timing, have yet to be confirmed.
- The State Administration of Foreign Exchange (SAFE) approved USD3.61 billion in quotas for 28 qualified foreign institutional investors (QFIIs) between January 1 and April 16, bringing the total quota issued to USD25.19 billion. Individual quotas may be raised. China last raised individual quotas for QFIIs to USD1 billion from USD800 million in 2009.

TRAVEL

Ministry of Railways posts first quarter loss

China's Ministry of Railways (MOR) suffered a loss in the first quarter of CNY6.98 billion, due to the large interest payments the Ministry had to make on its huge debts. Its leverage ratio now stood at 60.62%, up from 59.6% on September 30 last year, while its long-term bank loans now totaled CNY1.9 trillion. It is expected that the losses will increase when more high-speed rail projects get completed and begin operations. Apart from the Beijing-Shanghai high-speed railway, virtually all such projects were losing money. Railway funding in China remains dominated by bank loans and government funds, with little private financing. Fixed-asset investment in railways plunged 51% to CNY59.6 billion in the first quarter. The share prices of several railway construction firms dropped following the news.

- Air China launched new non-stop flights between Beijing and London Gatwick Airport, increasing its capacity on the route by more than 50%, in addition to daily direct flights to London Heathrow. According to official figures, more than 1 million business people, students and tourists travel between China and the UK every year. Hong Kong Airlines launched its first service between Hong Kong and London Gatwick in March.
- China will begin issuing a new type of passport on May 15 with an electronic chip to store the holder's personal details, including name, date of birth, photograph and fingerprints.
- Boeing has reached a trade-in deal with China Eastern to buy 10 of its Airbus A340 jets as part of a USD6 billion agreement to sell Boeing 777s to the airline. Airbus has itself agreed to take back the other half of China Eastern's A340 fleet as part of a separate deal to sell 15 A330 jets, but this deal could be delayed due to a row between China and Europe over emissions. Aircraft manufacturers sometimes offer to take back their old models when trying to persuade airlines to upgrade to the latest models.
- The cost of business travel airfares for Hong Kong firms is the highest in the world, a report by Concur, a U.S. provider of travel and expense management services says. In its second global report on corporate spending on travel and entertainment (T&E), Concur reveals that the average cost of airfare in Hong Kong is USD1,112, while in India it is USD263, the lowest in the world. The average spending on airfare globally is USD441, up 5.2% from 2010. The findings, based on data from Concur's corporate clients, represented more than USD50 billion in spending last year by firms in more than 100 countries.
- Beijing launched an hourly updated online index of crowds at major tourist sites at

bjta.gov.cn. The index covers six major sites in Beijing, including the Palace Museum, Summer Palace and Badaling section of the Great Wall. It indicates the size of crowds according to a five-level system. More than 1 million people visited 24 sites in Beijing on April 30, the second day of the three-day May holiday. Beijing is ranked third in the top 10 list of Chinese tourist destinations during the May Day holiday.

- Hong Kong has four of the world's 100 best restaurants – Amber, Bo Innovation, Caprice and Lung King Heen – according to the San Pellegrino World's Best Restaurants List. Only one mainland restaurant – Shanghai's Mr and Mrs Bund – is represented, ranking 95th. Macao's Robuchon a Galera is ranked at No 82.
- China's first air-rail combined service began receiving passengers at Shanghai's Hongqiao International Airport. The service allows passengers to transfer between a domestic or international flight and a train with a single ticket. The service, jointly launched by the Shanghai Railway Bureau and China Eastern Airlines, allows travelers to take a flight to either of Shanghai's two airports and then transfer by rail free to the cities of Suzhou, Wuxi, Changzhou and Ningbo.

VIP VISITS

Vice Premier Li visits Hungary, Belgium and EU headquarters

China will invest more in Hungary and import more high-tech goods from the country, Vice Premier Li Keqiang said. China-Hungary trade reached a record high of more than USD9 billion last year, up by 6.2% year-on-year. Hungary is the largest destination for Chinese investments in Central and Eastern Europe. “We also expect to import more goods from Hungary, including machinery, electronics goods, electrical products and agro-goods,” Li said. Guan Chengyuan, former Chinese Ambassador to the European Union, said, “China and the new member nations of the EU, including Hungary, are highly complementary economically and the potential for cooperation is huge.” China and Hungary signed a series of investment and cooperative agreements, covering agriculture, telecommunications, infrastructure and finance. Huawei Technologies agreed to set up a logistics center in Hungary, which is expected to provide jobs for more than 1,000 Hungarians. Rival ZTE signed an agreement with the Hungarian government to set up an operating maintenance center in Hungary that would target consumers across Europe. In the next three years, the company will recruit 300 to 500 locals. China Civil Engineering Construction Corp signed a memorandum worth USD1 billion on building a 20-kilometer rail express linking the airport to downtown Budapest.

During his visit to Belgium, the Premiers of both countries vowed to enhance bilateral cooperation especially in scientific research and trade. Belgian Prime Minister Elio Di Rupo expressed hope for China's help in the recovery of the EU's economy, which he said is experiencing its most difficult time. The two sides also signed two agreements to boost investments and cooperation in agriculture. Belgium was the last stop of Li's 10-day visit to Europe after Russia and Hungary. Li hailed Belgium's level of internationalization and called for increased bilateral economic and trade cooperation as well as cultural exchanges, saying the “two wheels should roll on simultaneously”. Trade between China and Belgium hit a record high of USD29 billion in 2011. Belgium is the sixth-largest trading partner of China in the EU, while China stands as the second-largest trading partner of Belgium outside the EU. A mutual fund, the China-Belgium Mirror Fund, was launched during Li's visit by the China Investment Corporation and Belgium's Federal Holding and Investment Company. Li also paid a visit to the EU headquarters. In 2011, Sino-EU trade volume hit a record high of USD567 billion, a year-on-year increase of 18.4%. The Ministry of Commerce (MOFCOM) will actively enlarge imports from the EU, Vice Minister of Commerce Zhong Shan said. The European Union should loosen its restrictions on high-tech exports to China as soon as possible, a move that could help the region resolve debt problems and create benefits for both sides, Li Keqiang said. “Belgium is the first country in the EU to lift the ban on high-tech exports to China. China expects it could open up more in that respect, further stimulating the whole region to follow suit,” he added. The Chinese Vice Premier also attended the China-EU Urbanization High-level Conference.

China-U.S. strategic dialogue held in Beijing

Chinese leaders called on their U.S. counterparts to deepen mutual trust and to respect the nation's right to follow its own development agenda, at annual bilateral talks in Beijing on May 3 and 4. Speaking at the opening ceremony of the talks, President Hu Jintao called for cooperation and warned that any worsening of relations posed “grave” risks to the world. “Given the different national conditions, it is impossible for China and the United States to see eye to eye on every issue,” Hu said. “We should approach our differences in the correct way and respect and accommodate each other's interests and concerns. We should properly manage differences through dialogue and by improving mutual understanding.” Vice Premier Wang Qishan emphasized that “under the existing circumstances, China and [the] U.S. should get their own things done properly.” State Councillor Dai Bingguo said nothing could push the two countries towards confrontation, but added that they would face difficulties in boosting ties. Commerce Minister Chen Deming urged the U.S. to remove restrictions on hi-tech exports. U.S. Treasury Secretary Timothy Geithner said further appreciation in the yuan is important to aid a reshaping of China's economy as significant as the nation's opening of its markets in the 1970s. “A stronger, more market-determined” currency would “reinforce China's reform objectives of moving to higher value-added production, reforming the financial system and encouraging domestic demand”, Geithner said at the U.S.-China talks in Beijing. “Future economic growth will require another fundamental shift in economic policy” akin to that of more than 30 years ago”, he said.

A U.S. official said on the sidelines of the talks that China has shifted its position to agree to abide by international rules on providing credit to exporters. The issue has been a point of friction between China and other major economies that are part of the International Arrangement on Export Credits. “Since China is by some measures the largest provider of export credits in the world, it is a very important shift,” the official said. The United States said it would quicken its examination and approval for Chinese financial institutions that apply to invest in the U.S. China will revise regulations to allow foreign investors to raise their stakes in joint venture securities companies and joint venture futures companies to as much as 49%, up from 33%. Both delegations said they were deeply encouraged by the results of the dialogue. The two countries reached 67 agreements, covering a wide range of issues covering the macro-economy, bilateral trade and investment, as well as financial cooperation. Chinese officials also announced plans to allow foreign and domestic auto financing companies to issue bonds regularly, a step that could give a boost to U.S. automakers relying on China for growth.

ONE-LINE NEWS

- A Guangzhou court has sentenced Charlotte Chou, an Australian businesswoman, to eight years in jail for embezzling funds from the private school she helped found in China. Her supporters said a former minority shareholder had used his influence with officials to have her jailed to try to gain control of the school. Chou plans to appeal.
- Chinese Economist Mao Yushi has received the Milton Friedman Prize for advancing liberty from the Cato Institute in Washington. The award committee cited his push for “an open and transparent political system” in China, and his work in creating private charities and self-help programs that fostered individual empowerment. He also will receive USD250,000. Mao said his most important work in recent decades had been raising awareness about the principles of a market economy among the public.
- China's lottery sales rose by 30% year on year to hit CNY60.3 billion in the first quarter of this year, an increase of CNY13.9 billion, the Ministry of Finance said. Last year, lottery sales in the country rose 33.3% to CNY222 billion.

QUOTES OF THE WEEK

“We hope to see a united, strong and prosperous Europe. Despite the debt problems encountered by some EU countries, Europe, with its solid economic foundation and scientific and technological strength, can beat the crisis and turn it into an opportunity for greater progress. In fighting the debt crisis, EU countries have enhanced cooperation and carried out reform with tremendous courage. This is laudable. As a result, the EU has made major progress to fiscal integration and the long-term mechanism for preventing financial risks, the European Stability Mechanism, will be launched earlier than scheduled. These steps have boosted market confidence and sent an encouraging message to the world.”

Chinese Vice Premier Li Keqiang, writing in the Financial Times, May 1, 2012.

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