法兰德斯中国商会 FCCC VCKK

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

NEWSLETTER | 21 MAY 2012

FCCC ACTIVITIES

FCCC Industrial fact-finding trip to Shandong province (20-24 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 will 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. H.E. Mr Patrick Nijs, Ambassador of Belgium in China, will accompany this very interesting visit to Shandong province. The mission will start from Beijing, where Ambassador Nijs will firstly welcome the delegation with a dinner at the Ambassador's residence. A lunch meeting with local FCCC members will be also organized on Sunday 20 May together with Bencham.

The mission will then visit 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 from 20 to 24 May 2012. This visit is organized with the financial support of Flanders Investment & Trade.

A detailed report will be given in this newsletter after this visit.

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).

Conference “Fragile China? – Appraising Recent Developments and Future Operating Conditions for MNCs”, 6 June 2012, 15h30, Le Méridien, Brussels

The Flanders-China Chamber of Commerce (FCCC) and The Conference Board are organizing the conference “Fragile China? – Appraising Recent Developments and Future Operating Conditions for MNCs”. The conference will start at 15h30 and will take place at Le Méridien, Carrefour de l'Europe 3, Brussels.

In this briefing, David Hoffman, Vice President and Managing Director of The Conference Board China Center for Economics and Business, will dimension China’s near-term economic outlook and medium term economic challenges, and outline the issues, implications and opportunities – yes opportunities – for MNCs in China that are inherent to the economic transition now underway in China.

David Hoffman leads the Conference Board China Center for Economics and Business in Beijing, and for some 20 years previously was a strategy partner and practice director in the advisory practice of PricewaterhouseCoopers China. An ever-aspiring Sinologist and management practitioner, David has lived and worked in China for 26 years. He is considered an expert on China strategy, regulatory risk management and business and organizational development.

Programme:

15h00	Registration
15h30	Introduction by Mr Bert De Graeve, CEO Bekaert NV, Chairman Flanders-China Chamber of Commerce
15h40	Speech by Mr David Hoffman, Vice President & Managing Director, The Conference Board's China Center
16h40	Question and answer session
17h00	Networking reception

If you would like to attend this conference please subscribe online before 30 May 2012 through this link.

The Conference Board has a robust and unique China program that began with project research in the early 90s. The China Center for Economics and Business in Beijing provides essential information and insights on China to help members continually deepen their understanding and improve their business planning and performance in China. The China Council Europe Council U.S. leverage China Center knowledge and resources to keep senior-most HQ executives who have corporate responsibility for China well informed on and in front of high priority China developments that are critical to their business. Learn more: https://www.conference-board.org/chinacenter/, or contact the China Program Specialist Ethan.CramerFlood@conference-board.org

Participation fee for FCCC members: €85, non-members: €115.

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

Big four banks barely extending loans

China's four largest lenders posted almost zero loan growth and losses of about CNY200 billion in deposits in the first two weeks of this month. Two of the four lenders issued new loans of less than CNY20 billion, while the others posted drops in total outstanding loans. The big four – Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), Agricultural Bank of China (ABC) and Bank of China (BOC) – account for about half of all loans issued in China. “The problem last year was too much lending and underreporting loan growth due to off-balance-sheet wealth management loans. This year, the problem is that loan demand is weak and the economy is faltering,” said James Antos, Senior Analyst at Mizuho Securities. Bankers said local government infrastructure projects and property development lending were falling out of favor, but there have not been many drivers for private investment elsewhere. The poor loan growth in the first two weeks of this month reflected the true state of the economy, in which demand and growth were very weak without government intervention, said Yao Wei, China Economist at Société Générale. Yao added that China would have to fall back on infrastructure construction to stimulate growth. “'Good projects are hard to find' is a common complaint we hear from corporate bankers nowadays,” said Stanley Li, Analyst at Mirae Asset Securities. However, analysts think banks will come up with ways to hit a loan growth target of about CNY8 trillion this year, as was the case in the past few years, the South China Morning Post reports. The China Banking Regulatory Commission (CBRC) will study the reasons why new lending is volatile at the end of a quarter and the start of a quarter, but it does not plan to make changes to the loan-to-deposit ratio, Vice Chairman Wang Zhaoxing said. Lenders extended CNY681.8 billion worth of new loans in April, down from CNY1.01 trillion in March.

Capital account more and more convertible

China’s currency is just around the corner from being fully convertible and the economy’s capital account is already far more convertible than outside institutions, such as the International Monetary Fund (IMF), give it credit for, said Guo Shuqing, Chairman of the China Securities Regulatory Commission (CSRC). Guo said 16 items in China’s capital account are convertible now, 17 are “basically” convertible and seven are “partially” convertible. “There is no item that is inconvertible," he said. Guo made the remarks at the opening ceremony of the 37th annual conference of the International Organization of Securities Commissions in Beijing. He said China would be careful about the notion of "fully free convertibility", and convertibility under the capital account doesn't mean there will be no capital control. China will gradually relax the limits placed on investments made by qualified foreign institutional investors (QFII) and renminbi qualified foreign institutional investors (RQFII).

- The China Insurance Regulatory Commission (CIRC) will allow insurers to invest in a wider range of corporate bonds and relax limits on equity and real estate investment, granting them greater freedom to seek higher returns and play a stronger role in the financial system. Insurers can now buy unsecured corporate bonds via an underwriters' book-building process. Previously, insurers were restricted to purchasing unsecured bonds issued via open auction.
- Private lending in Wenzhou, Zhejiang province, shrank by 30% compared with August last year after a credit crunch almost crippled the local economy. Courts in Wenzhou have accepted over 22,000 cases of private lending disputes since August. As of late March, over 800 financial intermediaries had closed. More than half of the 2,835 companies surveyed in Zhejiang last year have sought financial help from private creditors. Banks' non-performing loans in Wenzhou reached CNY13 billion in March, a jump of CNY3.6 billion from January, the banking regulator said.
- Beijing has doubled the amount of reserves the Hong Kong Monetary Authority (HKMA) can invest in the mainland interbank market. The Authority was recently granted a new quota of CNY30 billion – up from CNY15 billion – to invest in the mainland interbank bond market traded by institutional investors. Yuan deposits in Hong Kong stood at CNY554.3 billion at the end of March, down from a peak of CNY627.3 billion on November 30.
- A Standard Chartered Bank branch in Guangzhou is offering the children of its VIP clients priority for internships and telling other candidates to deposit a minimum of CNY500,000 if they want an internship. Guangzhou lawyer Liu Jicheng said the bank was suspected of using internships to sell financial products, a practice that violates China's Labor Law. The bank dismissed the claims.
- Chinese companies are operating with "alarming levels" of corporate debt, even though the country's gross debt remains relatively low. "The high level of corporate debt deserves our attention," Li Yang, Vice President of the Chinese Academy of Social Sciences (CASS), said. The debt-to-assets ratio of Chinese enterprises had reached 105.4%, higher than that in the 19 other countries Li's team reviewed in a one-year study of government, corporate and individual debt.
- Bad loans at Chinese banks rose by CNY10.3 billion in the first three months of this year to CNY438.2 billion, the China Banking Regulatory Commission (CBRC) said. But the NPL ratio, the size of bad loans against total lending, fell to 0.9% from 1% in December. Swiss bank UBS estimated that the Chinese lenders' bad loan ratio may rise to 1.05% by the end of this year due to a slowing economy. The CBRC statement said NPLs rose in the transport, mining, agriculture, construction and retail industries.
- Bankers in Hong Kong have urged Beijing to raise the cap that limits Hongkongers to exchanging no more than CNY20,000 per day, and to end the ban on non-Hong Kong residents opening yuan accounts in the city. Bank of China (Hong Kong) Deputy Chief Executive David Wong said these changes would further strengthen the city's role as an offshore center for yuan trade. He said about 10% of all Hong Kong deposits were in yuan.

FOREIGN INVESTMENT

China FDI drops in first four months

China's foreign direct investment (FDI) inflows dropped 2.4% in the first four months of this year versus last year, the longest period of declining inflows since the depths of the global financial crisis and a sign of external economic headwinds. The Commerce Ministry said that the country drew USD37.9 billion in FDI between January and April, down from USD38.8 billion in the same period last year. April's inflow alone was USD8.4 billion, down from USD8.5 billion a year ago.In the first four months, foreign investors set up 7,016 new enterprises in China with a total investment of USD37.8 billion, a reduction of 2.38% compared with a year earlier. “We believe the negative trend reflects concerns over China's lower growth potential, lack of confidence in the global growth outlook, and poorer access to funding from de-leveraging banks,” Dariusz Kowalczyk, Senior Economist and Strategist at Crédit Agricole-CIB in Hong Kong, said. “It is worrying that despite very favorable base effects, foreign direct investment is continuing to shrink,” he said. FDI from the European Union dropped 27.9% year-on-year in the January-April period, while inflows from the United States rose 1.9%. FDI from 10 Asian economies rose 0.6% to USD33.1 billion in the same period, the Ministry said. China drew a record USD116 billion in foreign direct investment last year. The Commerce Ministry aims to attract an average of USD120 billion in each of the next four years.

China still attractive, says U.S. Chamber

China is still an attractive destination for U.S. investments despite rising labor and raw material costs, according to the U.S. Chamber of Commerce. “Absolutely, China is still an attractive destination for U.S. investment, but increasingly not on a wage basis, as emerging economies like Vietnam and Indonesia have lower wages,” Myron Brilliant, Senior Vice President of the International Division of the Chamber, said. “One of the most attractive points of the country is the size of the economy and the 1.3 billion population. There is a desire (among) U.S. investors to manufacture and produce here and sell to the domestic market,” he said. The first four months saw investments from the US, one of China’s major sources of foreign direct investment (FDI), edge up 1.9% year-on-year, after a full-year decline of 26% in 2011, according to the Ministry of Commerce (MOFCOM).

ODI curb will improve China deals

The central government's plan to slow the growth of overseas direct investment (ODI) will lead to more successful and quality investments, said speakers at the American Chamber of Commerce in Hong Kong's 2012 China Conference. For the 12th Five Year Plan period from 2011 to 2015, the Ministry of Commerce (MOFCOM) has set a target of 17% annual growth of overseas direct investment (ODI) to USD150 billion by 2015. The target rate has been set lower than the 30% in the previous Five Year Plan period of 2006 to 2010. Chinese investments have been made in nearly 200 countries. “If you have a fast rate of growth, you have lots of bad deals. Slower growth rate can give you better quality. I like this cautious approach,” said Zheng Lili, co-leader of Asia Pacific International Core of Excellence of Deloitte. With a slower growth rate in outbound investment, the rate of success of Chinese companies' overseas acquisitions will go up and the rate of failure will go down, said Stanley Jia Tianan, Partner at international law firm Baker & McKenzie.

- “Chongqing will definitely further open up and be more active in terms of its economic development,” Vice Premier and Chongqing Party Secretary Zhang Dejiang told entrepreneurs attending the 2012 Annual Conference of CEC/CEDA and Liangjiang Forum in Chongqing. Before the forum, Mika Vehvilainen, President and CEO of Finnair; David Hsu, Director of Jardine Matheson; and Dr Annie Wu, Chairwoman of Beijing Air Catering, were among those attending a rare high-profile meeting with Zhang.
- China’s outbound non-financial foreign direct investment (FDI) climbed 72.8% to USD23.1 billion in the first four months, up dramatically from last year’s growth of 1.8%. Xu Sitao, Global Forecasting Director for China at the Economist Intelligence Unit (EIU), said the world was set to see more investment from China from both state-owned and private companies.
- The number of foreign SMEs opening offices in Hong Kong is at a record high this year, according to Simon Galpin, Director General of InvestHK, a government-funded organization that provides free services to help overseas firms set up and expand in the city. “Our offices in Brussels and London have already reached their target for this year,” he added. Last year, InvestHK helped 303 companies to set up offices in Hong Kong.
- FDI in Shanghai continued to expand in April, in contrast to the national trend of falling investment from overseas. Shanghai attracted USD2.07 billion of contracted foreign investment last month, up 33.2% from a year earlier, the Shanghai Statistics Bureau said. The pace quickened from the 2.7% rise in March and compared with February’s 29.3%. Actually used foreign investment increased 15.9% to USD1.39 billion last

month, slower than the surge of 46% in March. Shanghai aims to attract at least USD10 billion in foreign direct investment each year till 2015.

- Hong Kong businesses have invested USD910 million in Hebei province in the first four months of the year, up nearly 30% year on year. Hong Kong accounted for more than three-quarters of all foreign investment in the province.

FOREIGN TRADE

MOFCOM gloomy on foreign trade forecast

Jiang Fan, Deputy Director General of the Department of Foreign Trade with the Ministry of Commerce (MOFCOM), has given a gloomy forecast for China's foreign trade amid Europe's ongoing debt crisis and a slowdown in emerging economies that will undercut demand for Chinese products. "Global demand is slack, and there cannot be a change for the better in a short time," he said. From January to April, exports grew just 6.9% to USD593.2 billion. "The figures show there is intense downward pressure on foreign trade," said Jiang. Ministry Spokesman Shen Danyang said that China's foreign trade situation will remain severe in the coming months. China has set a target of 10% growth in its foreign trade this year, and Shen said Chinese officials are "confident of achieving the goal". Growth in China's shipments to the United States slowed to 10% in April from 14% in March, while exports to the EU fell 2.4% in April, following a decline of 3.1% in March. The good thing about the current situation is that China's foreign trade is "turning more balanced", Shen said. In April, exports of high tech and high value-added goods recorded big gains, with exports of automatic data processing equipment, mobile phones and components, and valuable metals growing by 10.6%, 28.3% and 134% year-on-year, while exports of labor-intensive goods dropped.

- Li & Fung, whose customers include major retailers like Wal-Mart, said the slowdown in China's export growth had not yet affected its business. About 60% of the products handled by the trader are exported to the United States and 20% to Europe, and the company remains upbeat about its prospects despite the global economic gloom. The firm raised USD500 million through a share sale in Hong Kong in March, providing funding for future acquisitions.
- China has opened the door to imports of meat from Britain and the new trade, largely consisting of pig ears and feet, is expected to be worth GBP50 million a year soon.

MACRO-ECONOMY

Higher growth predicted in third quarter

Economists polled by Bloomberg expect third-quarter growth to reach 8.3% from 7.9% this quarter. Analysts forecast a further cut of 100 basis points in reserve ratios this year, while a majority of respondents expect benchmark lending and deposit rates to be unchanged. Even with the pickup next quarter, annual growth is forecast at a 13-year low after April industrial production and trade grew less than forecast. Gross domestic product (GDP) will probably expand 8.2% this year, according to the median forecast of 22 economists in the survey conducted on May 14 and 15. Bank of America Merrill Lynch forecasts China's second-quarter GDP growth rate will drop to 7.6% from the previously expected figure of 8.5%, and the figure for the whole year is likely to be 8%, down from the earlier forecast of 8.6%. The State Information Center predicted second-quarter GDP growth would be 7.5%, a drop from 8.1% in the quarter to March 31.

- China's electricity consumption growth rate in April was 3.7% year-on-year, the slowest in the past 16 months, which indicates a cooling down of the country's economy, analysts said. Power consumption in April was 390 billion kilowatt-hours, 26 billion kWh less compared with March.
- The profits of Chinese state-owned enterprises dropped 8.6% year on year to CNY669 billion in the first four months of 2012 amid China's economic slowdown and weak global markets, the Ministry of Finance said. The SOEs generated total sales of CNY12.7 trillion in the first four months, up an annual 12.4%. Profits in the petrochemical, construction and nonferrous metal industries fell by a bigger margin year on year in the first four months.

- China is expected to resume the expansion of its nuclear power sector next month, with many plans reaching the final approval stage, according to Xu Yuming, Deputy Secretary General of the China Nuclear Energy Association. China approved eight to 10 reactors each year between 2008 and 2010. China had 11.3 GW of nuclear capacity at the end of 2011, with another 26 reactors, or 29 GW, under construction.

MERGERS & ACQUISITIONS

Publicis to buy Chinese advertising company

French advertising group Publicis is pursuing growth in China and said that it would buy the domestic agency Lontuo, Publicis' fourth Chinese acquisition in four months. Longtuo was created in 2000 and employs 200 people in Beijing, Shanghai and Guangzhou who handle "a portfolio of prestigious Chinese clients," a statement said. Longtuo also works for the French automaker Renault and cosmetics group Yves Rocher in China. Publicis Operations Director Jean-Yves Naouri said the purchase of Longtuo would enable Publicis to "offer international clients a very high-level of local savoir-faire [know-how]" in China. In addition, the deal is expected to "open doors to many important clients," and could result in a leap in the group's online activity in China, he said. The sector research group Forrester has estimated that China's online advertising market will be worth USD94.6 billion this year, Naouri noted. It could become the world's leading online market by 2015 if an estimated growth rate of 92% per year holds up, according to eMarketer, another company cited by Publicis.

PETROCHEMICALS

Drill pipe firm Hilong Holding to further expand abroad

Shanghai-based Hilong Holding, the world's second-largest supplier of drill pipes used in oil and gas fields, expects overseas sales to exceed domestic numbers in three to five years as it continues expansion abroad. The company holds the number one position in China with a 34% market share. Hilong has a 13% share of the global drill pipes market, well behind the 47% share held by United States-based National Oilwell Varco, according to industry research house Spears and Associates. In the coating materials production and pipelines coating services business, Hilong has a 72% share of the Chinese market and 14% of the global market. It derived 49% of its sales last year from drill pipes, 28% from coating materials and services, and 23% from oilfield drilling services. Chief Strategy Officer Amy Zhang said it was becoming harder for Hilong to improve its domestic market share, given it was the market leader, but the international market offered room for it to grow. Hilong is building a drill pipe coating plant in Russia and another in Canada, each with an annual capacity of between 600,000 and 800,000 meters, compared with its existing capacity of 2.6 million meters in Shanghai. The Russian plant was expected to enter trial production in the second half of this year, while the Canadian plant would be tested by the end of the year. Hilong planned to maintain its number of drilling rigs at 12 for the rest of the year, after raising it from 9 last year and 7 in 2010. Its rigs all operate overseas, in locations such as Nigeria on a Royal Dutch/Shell project, and in Ecuador with Schlumberger, the world's largest oilfield services firm. The company reported a 69.1% net profit rise last year to CNY301.7 million, the South China Morning Post reports.

Deepwater pipe laying vessel bound for South China Sea

China's first deepwater pipe laying crane vessel set off from the coastal city of Qingdao, bound for the South China Sea, for trial operations. The new CNY2.8-billion vessel, which can lay pipes at depths of 3,000 meters and lift 4,000 metric tons, will operate at the South China Sea's Liwan 3-1 gas field, which has water depths of 1,500 meters. Liwan 3-1 is the country's first deepwater natural gas field, and was discovered by Husky Energy in 2006. It is set to start commercial production next year to supply gas to Zhuhai in Guangdong province. The vessel, known as Hai Yang Shi You 201, which started undergoing construction in September 2009, is part of CNOOC's deepwater fleet.

PetroChina joins LNG project in Canada

PetroChina plans to jointly develop a proposed liquefied natural gas (LNG) export facility in Canada with Shell Canada, Korea Gas Corp (KOGAS) and Mitsubishi Corp. The proposed

LNG Canada project located near Kitimat, British Columbia, will initially consist of two LNG processing units, each with the capacity to produce 6 million metric tons of LNG annually, with an option to expand the project to a total of 24 million tons per year. Shell holds a 40% working interest, with KOGAS, Mitsubishi and PetroChina each holding a 20% stake. Development will start this year and the project is likely to become operational around 2020, pending regulatory approval and investment decisions. The LNG Canada project would include the design, construction and operation of a gas liquefaction plant and facilities for the storage and export of LNG. According to the China Industrial Gas Association, China will complete the construction of 17 LNG terminals during the 12th Five Year Plan (2011-15), with an annual capacity of 65 million tons. China's annual natural gas consumption will reach 260 billion cubic meters by the end of 2015. The nation's natural gas consumption increased 20.6% to 129 billion cu m in 2011, accounting for 4% of total energy consumption. By the end of 2015, China will have to produce 170 billion cu m of natural gas and import 90 billion cu m per year to meet domestic demand.

- China Resources Gas (CR Gas) has agreed to pay about USD237.71 million for a portfolio of gas projects on the mainland from United States' AEI Energy. It would take over 28 city piped-gas projects, eight liquified petroleum gas stations and four mid-stream gas transmission pipeline projects in 11 provinces. Houston-based AEI has been divesting electricity generation and gas distribution and transmission assets in emerging markets since the beginning of last year in an asset reorganization.
- Investment holding company Swire Pacific will spend USD1.2 billion over the next few years buying more than 20 new offshore support vessels to expand and upgrade its existing fleet of 77 ships.

REAL ESTATE

85% of Chinese families said to own accommodation

85.4% of Chinese families own their houses or flats, a figure much higher than the world level, which stands at about 60%, according to a report issued by Southwestern University of Finance and Economics and the People's Bank of China (PBOC). According to interviews with nearly 4,000 urban families, 85.4% of them own their homes. The rate of home ownership is even higher in rural areas, reaching 94.6%, according to the report. Some doubted the findings. "I find the term 'family' tricky. How do you define a 'family'? A Chinese family may consist of 12 members, but owns only one house. A family also can be a couple with several houses. So I feel the report is meaningless," said Wang Xia, 28, who has worked in Shanghai as an accountant for five years but still cannot afford the down payment on an apartment. According to statistics from the Shanghai Statistics Bureau, the average per capita living space in Shanghai reached 17 square meters in 2011, up from 15.5 sq m in 2004.

Home prices fall in more cities

The number of Chinese cities recording decreases in new home values from a year earlier rose to the highest level yet in April. Prices fell last month in 46 of the 70 cities tracked by the National Bureau of Statistics (NBS), compared to 38 cities that saw year-on-year declines in March. On a month-on-month basis, 43 cities witnessed drops, while three registered growth and the rest stayed flat. In Shanghai, Beijing, Guangzhou and Shenzhen, where house purchase restrictions have been vigorously enforced, new home prices lost between 1.2% and 1.7% in April from a year earlier. That compared to a retreat of between 0.3% and 1.1% in March. New home prices in Wenzhou, Zhejiang province, dropped 13% from a year earlier and lost 3.9% from March, leading all decliners on both a year-on-year and month-on-month basis. Prices for previously occupied homes fell in 56 cities last month from a year earlier, an increase of seven from March. They were unchanged in two cities while the remaining 12 saw gains of no more than 3.2%. An earlier survey by the China Index Academy, which monitored 100 cities across the country, showed home prices fell by an average of 0.34% in April, losing momentum for the eighth straight month. Prices dropped in 71 cities, compared to 66 in March, with 14 seeing falls of more than 1%. Sales of new homes dropped 14.9% year on year to 190.12 million square meters between January and April while by value, they fell 13.5% to CNY1.03 trillion from the same period a year earlier, the Shanghai Daily reports.

- China will increase residential land supplies by 21.3% this year to 172,600 hectares to check property prices, the Ministry of Land and Resources said.

- China Vanke will pay HKD1.08 billion for 74% of Hong Kong-traded Winsor Properties. Controlled by Wing Tai Properties, Winsor will retain as its sole asset after restructuring a 657,000 square foot commercial building in Hong Kong's New Territories. Winsor's restructuring awaits regulatory approval.
- Pudong's Lujiazui financial area is preparing to expand and raise its office space by one-third. The zone will erect 45 new office buildings covering 3.5 square kilometers of floor area. The zone now has 200-plus buildings with about 10 sq km of floor space. The administration plans to enlarge the 1.7 sq km core Lujiazui zone, extending it much farther east along Century Avenue.
- The central government has approved more than 80% of the housing-purchase policies that have been proposed in 33 Chinese cities since August last year. Five cities – Wuhu, Shanghai, Foshan, Chongqing and Chengdu – have seen policies aimed at controlling housing purchases suspended or canceled after those measures were found to conflict with the central government's plans to curb increases in housing prices. Many of the approved policies involve adjusting the interest rates charged on mortgage loans, lowering housing prices, changing the qualifications people must meet to buy houses and offering stipends to home buyers.
- The number of Chinese buying second-hand luxury homes in Hong Kong dropped to the lowest level in two years between January and March. Data from Centaline Property Agency showed mainlanders accounted for 17% of purchases, down from 27.2% in the fourth quarter of last year. In terms of the total value of the market, mainland buyers accounted for 18.4%, far below the peak of 31.7% which was recorded in the fourth quarter of last year. Centaline's research said about 46.8% of all new luxury flats were bought by mainlanders in the first quarter, up from 42.1% in the fourth quarter of last year. About 47.9% of the total transaction amount was paid by mainlanders.
- Prices of used homes in Hong Kong are the highest they've ever been, on strong demand from local buyers, figures from Centaline Property Agency show. The Centa-City Leading Index, which tracks secondary market home prices – with the level in July 1997 set at 100 – shows flat prices in the city rose to an index level of 103.35 during the week of May 7. This surpassed the previous record of 102.93 in October 1997.
- The total value of land purchases by the top 10 property developers in the first four months reached CNY18.9 billion, a year-on-year decline of 63%, according to a report by Centaline Group. The level of land purchases is the lowest since 2008. Major real estate developers including R&F Properties and China Resources have not bought any new land for four consecutive months, the report said. Major developers have bought enough land for at least seven years of development, Centaline group said.

RETAIL

China Resources Enterprise's net profit falls 15% in first quarter

China Resources Enterprise, which runs 4,000 supermarkets and breweries in China, warned of a challenging outlook after reporting dismal quarterly results. Net profit fell 15.2% to HKD560 million. In the first three months of this year, the retail portfolio, which consists of CR Vanguard and Suguo supermarkets, and Pacific Coffee and Vivo beauty and healthcare stores, saw underlying profit rise 5.3% to HKD560 million, or 95% of the group's total. The retail operations saw a 27% rise in turnover to HKD24.15 billion. Higher labor costs eroded the net profit margin to 2.31% from the earlier 2.79%. China Resources Enterprise Chief Executive Chen Lang said food prices remained high and consumer sentiment was weak despite a slight decline in inflation. The beer division, which produces the Snow brand, plunged into a HKD33 million loss from a HKD20 million profit as a result of higher wages and marketing expenses, and punishing competition. Chen said the beer division was seeking acquisitions to expand its market share. The net profit margin of CRE's food division, known as CR Ng Fung, was hit hardest – down to 2.2% from 5.03% in the same quarter last year. Profit, excluding non-recurring items, dropped by half to HKD57 million as turnover fell 14% to HKD2.58 billion.

Chinese confident, but loath to spend

Chinese consumers have signaled stronger confidence in the economy but still remain cautious about their spending, according to a Nielsen survey. Consumer confidence rose to a seven-year high in the first quarter, making the country the fourth most optimistic nation among the 56 markets surveyed. But willingness to spend remained flat and Chinese consumers still prefer to put their money in banks or save for their children's education. Willingness to spend on clothes, food, entertainment and holidays dropped compared with the previous quarter, although it was higher than the first quarter of last year. Retail sales growth slowed to 14.1% in April, the lowest in 14 months. Many economists believe domestic consumption will rebound in the second half, with inflation stabilizing and the macro-economic environment improving. The country's inflation in April eased to 3.4% year-on-year, from a three-year peak of 6.5% in July last year. Compared to people elsewhere, Chinese consumers were more optimistic about the economy, job prospects and personal finances. The Nielsen survey of 3,500 people showed that consumers in rural areas were the most confident, largely because the central government has launched a series of support measures to encourage development in these areas. By contrast, confidence in the wealthiest cities, provincial centers and county seats remained lackluster.

- A 60,000-square-meter shopping mall featuring European products will be built in Chongqing's Liangjiang New Area. More than 100 top international brands would open shops in the mall, and their goods were expected to cost up to 40% less than in ordinary mainland malls, partially because the stores' warehouses will be in the municipality's tariff-free port. A major portion of the mall will open this year.
- McDonald's Corp has raised the prices of some items for the second time this year in China to off-set higher operating costs, adding CNY1 to the prices of four of its breakfast and lunch set menus. The company has opened about 1,400 stores across the country, and aims to open 225 to 250 new stores this year.
- Graff Diamonds, the London jewelry retailer that is planning a USD1 billion Hong Kong initial public offering (IPO), plans to add new stores in Shanghai, Hangzhou, Hong Kong and Tokyo. It already opened a store in Beijing last year.

SCIENCE & TECHNOLOGY

Many alumni donate funds to Tsinghua University

More than 30% of Tsinghua University alumni gave money to their alma mater in the 2010-2011 academic year, higher than the donation rate of any other Chinese university, according to 2012 data from cuaa.net, an independent Chinese website focusing on alumni affairs. In terms of total donations over the past 20 years, the report also showed that Peking University, which received CNY1.2 billion, ranked first, while Tsinghua ranked second with nearly CNY1.1 billion. Wang Jiwu, CEO of China Private Ventures and a Tsinghua graduate, has donated CNY10.5 million to the university since he graduated in 1999. China's top colleges have become a breeding ground for the wealthy. The website cuaa.net ranked universities according to the number of their graduates who have become billionaires, top scientists, political leaders, and other prominent figures. Tsinghua University won the title of "the cradle of billionaires", with 84 super rich who studied there — and who have a combined wealth of CNY300 billion. Besides rich people, Tsinghua produced 49 political leaders, the highest number among the 30 universities on the list. Peking University ranked first because it fostered 182 social scientists and 144 members of the Chinese Academy of Sciences (CAS) or the Chinese Academy of Engineering (CAE), compared with Tsinghua's 18 social scientists and 141 academy members.

- A new type of company that assists students in how to select universities and majors has emerged in Beijing as the annual college entrance examinations approach. A "college planning guidance expert" at one such company was quoted as saying that the consultancy fee for one student is nearly CNY20,000, and business has been thriving.

STOCK MARKETS

Many listed companies expecting drop in profits or losses

Almost half of the companies listed on China's two bourses that have so far released financial forecasts for the first six months of the year expect to see a decline in earnings or to fall into the red, primarily due to falling demand amid an economic slowdown. According to Wind Information Co, 845 companies listed on the Shenzhen and Shanghai stock exchanges had released January-June financial performance forecasts as of May 13. A total of 384 companies forecast a slump in their net profit or a loss, accounting for 45.4%. Twenty-three listed property developers have announced their first-half performance forecast, with 16 of them expecting to see a slump in net profit or even suffer a loss, accounting for 69.6% of the total. In the manufacturing sector, out of 618 companies that have released a forecast, 264 reported a decline or a loss in earnings and 50 reported losses for the first time, while 29 continued to suffer a loss. Only 10 manufacturing companies expected to return to the black, according to Wind's statistics.

- The China Securities Regulatory Commission (CSRC) has proposed allowing China's 100-odd brokerages to raise loans from commercial banks – a move aimed at helping them expand their services. CSRC Chairman Guo Shuqing wants to reform China's equity market to pave the way for the emergence of China's own Morgan Stanley or Goldman Sachs. Presently, Chinese brokerages can borrow money on the interbank market or use shares they own for proprietary trading as collateral to secure bank loans.
- The China Securities Regulatory Commission (CSRC) is facing a reshuffle, as three senior members have either left or will leave soon. Assistant Chairman Zhu Congjiu is set to be promoted to Vice Governor of Zhejiang province. Gui Minjie, a former CSRC Vice Chairman, was appointed Chairman of the Shanghai Stock Exchange last month. Liu Xinhua, another Vice Chairman, is expected to move to the Shenzhen Stock Exchange as its Chairman. It is unknown who will fill the vacancies, but the new members could be bolder and more aggressive in mapping out major policy shifts.
- The People's Insurance Company of China (PICC) has revived its plan for a dual listing in Hong Kong and Shanghai. It aims to raise USD5 billion to strengthen its ability to settle claims. The insurer failed in its attempt at a Hong Kong-Shanghai initial public offering (IPO) last year. In December, rival New China Life Insurance completed a USD1.9 billion dual Hong Kong-Shanghai IPO.

TRAVEL

Ministry of Railway's massive debt expected to get worse

The Ministry of Railways' huge debt will continue to increase, and rising costs will hurt its profitability, state credit rating agency Dagong Global Credit Rating warned. "Rail construction projects will still need debt financing," it said in its report on the Ministry's first short-term bond issue this year. The CNY20 billion in one-year bonds will finance rail construction and buying rolling stock, the prospectus says. The Ministry's gearing ratio rose to 60.62% at the end of March from 53.06% at the end of 2009. Its debt nearly doubled to CNY2.4 trillion at the end of March from CNY1.3 trillion at the end of 2009. Dagong credited the Ministry with a strong ability to repay its debt, but MasterLink Securities Analyst James Chung called the size of the debt "rather dangerous". The Ministry's interest payments jumped 559% to CNY275 billion last year from CNY41.8 billion in 2008, a report by Chung said. "The Railways Ministry's debt is so large that the likelihood of accelerating rail construction is low," it said. "Such a massive debt has caused interest payments to account for one-third of the Ministry's expenditure, which is shrinking its profitability," the report added. MOR posted an after-tax loss of CNY6.98 billion in the first quarter and after-tax profit of CNY31 million last year, and CNY15 million in 2010, a sharp decline from its after-tax profit of CNY2.74 billion in 2009. Last year, the Ministry's total revenue rose 19.5% to CNY819.7 billion. Passenger revenue increased 19.5% to CNY160.7 billion and freight revenue rose 10.7% to CNY221.1 billion. The 93,000 kilometers of railway lines at the end of last year should be expanded to 120,000 km in 2015, the South China Morning Post reports. Last year, 2,167 km of new railway lines were completed, of which 1,421 km were high-speed lines, the prospectus says. The length of rail lines built last year was far less than the 5,661 km built in 2010.

World's luxury cruise ships anchor at Shanghai's Cruise Port

The world-famous Costa Victoria cruise ship completed its first voyage to China after arriving at the Shanghai Wusongkou International Cruise Port. The Costa Victoria selected Shanghai to be the homeport for its Asian route. This year, a total of 62 international cruise liners, including the Voyager of the Seas from Royal Caribbean Cruises, will arrive at Shanghai's specialized port for luxury cruise ships, which opened in October last year, and more than 150 will arrive in 2013. "The Chinese cities, especially Shanghai, can never be overlooked. Top groups in the trade all have high hopes for the potential of the market," said Cheng Juehao, Deputy Director of the Research Institute of Cruise Economy under the Shanghai International Shipping Institute. The number of cruise ships received at ports on the Chinese mainland saw an increase from 223 in 2010 to 262 in 2011, according to statistics from the China Cruise and Yacht Industry Association (CCYIA). The world's four leading cruise companies have established China-based routes. "A cruise market in the country has taken shape due to the emergence of groups with considerably high incomes and a mature concept of cruise holidays in coastal areas," said Zheng Weihang, Executive Vice President of CCYIA. Several cities, including Shanghai, Tianjin, Xiamen and Qingdao, have been equipped with international homeports to attract major cruise liners to set up shop there for the long term. Tianjin, a center for cruise travel in North China, will receive nearly 40 luxury cruise liners this year and will establish new routes to Thailand and Singapore in addition to the existing ones to Japan and Korea. Baoshan International Cruiser Homeport, another port in Shanghai, will be completed in 2015, and more than 200 voyages will be received annually after that time. The country is expected to have its own cruise companies in three to five years, Cheng estimated, as reported by the China Daily.

Airbus and Boeing looking for Chinese buyers

Airbus and Boeing are working to find Chinese buyers for their newest planes, the Airbus' A320neo and the Boeing 737 MAX respectively. According to a Boeing market analysis, China will need 3,550 single-aisle aircraft by 2030, of which only 20% will be used as replacements. Airbus also forecast in February that the Asia-Pacific region will need 5,720 single-aisle aircraft in the next 20 years and that China will be one of the main markets. The current single-aisle models produced by Boeing and Airbus were all introduced in the 1990s. Both new aircraft will consume less fuel. The first A320neo will be delivered in 2015, two years before the first 737 MAX. Xiamen Airlines, which has a fleet composed completely of Boeing aircraft, may be the first Chinese customer to buy the 737 MAX. Meanwhile, Airbus introduced the A320neo to Sichuan Airlines, which has an all Airbus-aircraft fleet, in April.

- Cathay Pacific Airways said that it had cut economy class fares 8% to 10% this year after a slowdown in demand. Cathay and subsidiary Dragonair flew 7.02 million passengers in the first three months of this year, up 9% year on year. "Cathay's outlook is more negative than its peers," said Kelvin Lau, Transport Analyst for Daiwa Capital Markets. Cathay issued a profit warning for the first half and announced cost-saving plans by freezing the headcount of ground staff, cutting capacity and offering unpaid leave to cabin crew.

VIP VISITS

Three-nation Summit agrees to launch FTA negotiations

China, Japan and South Korea agreed to launch negotiations this year for a three-way free trade agreement (FTA) following a summit in Beijing with Chinese Premier Wen Jiabao Japanese Prime Minister Yoshihiko Noda and South Korean President Lee Myung-bak. The three nations together accounted for 19.6% of global gross domestic product (GDP) and 18.5% of exports in 2010. Calling the agreement "an important strategic decision," Wen said the three nations should make concerted efforts for the early establishment of the FTA. A free trade treaty could lift China's GDP by up to 2.9%, Japan's by 0.5%, and South Korea's by 3.1%. Trade ministers from the three countries already signed a promotion, facilitation and protection of investment agreement. China and South Korea are not part of negotiations for the Trans-Pacific Partnership, a trade liberalization initiative that has drawn in nine countries, and is promoted by the United States. China acknowledged that negotiations on a three-way trade agreement won't be easy. Meanwhile, the three nations agreed to deepen fiscal and financial cooperation and promote the development of Asian bond markets. The three countries will also expand cooperation in the field of sustainable development while accelerating the construction of pilot bases for the recycling economy, Premier Wen Jiabao said. China has proposed setting up a pilot zone for economic cooperation between the three countries in Shandong province.

NPC Chairman Wu Bangguo visits the Netherlands

China regards the Netherlands as an important partner in Europe, said National People's Congress (NPC) Chairman Wu Bangguo while meeting with Queen Beatrix of the Netherlands. This year marks the 40th anniversary of diplomatic ties between the two countries, and the development of bilateral relations is at a new starting point, said Wu. He also met Mark Rutte, the caretaker Dutch Prime Minister. It is the third time in one month that a member of China's top leadership has visited Europe. Wu's visit can help remove any uncertainty around Sino-European ties, said Zhao Junjie, Expert on European studies with the Chinese Academy of Social Sciences (CASS). Wu's visit again demonstrates Chinese support for European countries, which are in the throes of a fiscal crisis, said Shan Yannan, Expert on European studies with the Chinese Association for European Studies. The Netherlands is China's second-largest trade partner and export market in the European Union. It is also China's third-largest source country of foreign capital, with an estimated USD11.9 billion in more than 2,600 projects across China, including petrochemical processing, manufacturing, finance and logistics. Sino-Dutch trade reached USD68.2 billion in 2011, a 21% increase, according to China's Ministry of Commerce (MOFCOM). The year 2011 saw China become the second-largest source of investment in the Netherlands, next only to the United States, with a 62% increase in direct investment. The Netherlands is the first stop of Wu's four-nation tour. He also visited Croatia, Luxemburg and Spain, the China Daily reports.

- Australian Foreign Minister Bob Carr visited to China, where talks were dominated by concerns over Canberra's ties to Washington with Beijing criticizing their close military alliance. The first batch of 2,500 U.S. Marines to be deployed in the country arrived in the northern city of Darwin in April in a move China said was proof of a "cold war mentality". Carr said he was also keen on closer military cooperation with China.

ONE-LINE NEWS

- The Beijing Public Security Bureau (PBS) has launched a 100-day crackdown targeting foreigners who have entered the country illegally, stayed longer than allowed or who are working in the capital illegally. Official data show that there are about 200,000 foreigners in Beijing on any given day, including 120,000 who live in the capital but who might not have a job or work legally. Foreigners could face fines of up to CNY10,000 or three to 10 days' detention for entering the country illegally.
- China is set to enforce an annual fishing ban it imposes in the South China Sea, but the Philippines says it will not recognize the ban in waters both countries claim. The ban that began on May 16 is designed to conserve marine resources and curb overfishing. China's enforcement of the ban has previously sparked tensions with Vietnam.
- An increasing number of people in Western countries view China's influence in a favorable light, according to a BBC World Service poll. The percentage of people in the United Kingdom who view China's influence as positive grew from 38% in 2011 to 57% in 2012. Similar increases were reported in Australia (43% to 61%), Canada (35% to 53%), Germany (24% to 42%) and the U.S (42% to 46%). 50% of the people interviewed for the poll regard China as having a positive influence on the world, up 6 percentage points from 2011. A total of 24,090 people from 22 countries were interviewed.
- Lai Changxing, once China's No 1 fugitive at the center of the nation's biggest smuggling and corruption scandal was sentenced to life imprisonment by the Intermediate People's Court of Xiamen. The court also confiscated all his personal assets and illegal income. From December 1995 to May 1999, Lai's syndicate smuggled cigarettes, cars, refined oil, vegetable oil, chemicals, textiles and other commodities worth CNY27.4 billion and evaded duties of CNY14 billion. 14 persons involved in the case had already been given the death penalty.
- Sotheby's reported a sharp drop in mainland Chinese participation in its Hong Kong auctions. Chinese buyers accounted for only 20% to 25% of the USD316 million sales

from last month's spring auctions, which the company blamed on the country's moves to tighten access to credit. Just six months ago, mainland buyers accounted for 44% of the USD411 million sales recorded in Sotheby's autumn auctions in Hong Kong.

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