法兰德斯中国商会 FCCC VCKK

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

NEWSLETTER | 29 MAY 2012

FCCC ACTIVITIES

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

FCCC Industrial fact-finding trip to Shandong province (20-24 May 2012)

The Flanders-China Chamber of Commerce (FCCC) organized a fact-finding trip to Jinan, Qingdao, Yantai and Weihai in Shandong province from May 20 till 24, 2012 as part of its strategy to give its members a better insight into business opportunities in second- and third-tier cities. Managers of a limited group of companies were offered the opportunity to become better acquainted with the area and meet potential partners and senior officials. H.E. Mr. Patrick Nijs, Ambassador of Belgium in China, accompanied the delegation, assuring that it was received at the highest possible level in all the cities visited.

The mission started on May 20 in **Beijing** with a networking lunch organized by the Benelux Chamber of Commerce in China (BenCham), chaired by Mr. Patrick Vandenbemd, General Manager of BenCham Beijing, where participants to the mission also met FCCC members based in Beijing. Mrs Naomi Sanders, Project Manager of the IPR Helpdesk, gave a presentation on the “Top 5 points you need to know about IP in China”. Mrs Ludmila Hyklova, Advisor at the EU-China SME Center, talked about “Due diligence on investing and exporting to China”, while FCCC member and General Manager of Orientas, Drik Laeremans, talked about different ways to get involved in the Chinese market. The lunch-meeting concluded with a brief introduction of the investment environment in Zhuhai, Guangdong province, by Corinna Wu, Event Manager at the Zhuhai Investment Promotion Bureau. In the evening, Ambassador Nijs welcomed the delegation with a dinner at his residence.

On May 21, the mission traveled by high-speed train to **Jinan**, capital of Shandong province, were a meeting and lunch were organized with the leaders of the Lingang Economic Development Zone, who briefed the delegation on the investment environment in Jinan. Mr. Winston Zhao, Partner at Jones Day Shanghai Office, shared some insights on investing in China. Mr Thierry Schmidt, Chairman of the Board of Esco Couplings (Jinan), offered a testimonial of Belgian investment in Jinan, followed by a visit to the company. The mission also met leaders of the Environmental Protection Bureau of Shandong province and Jinan city. Vice Governor of Shandong province Cai Limin met with the delegation and introduced the economic development of the province. Following a banquet offered by the provincial government, the mission continued the trip by high-speed train to Qingdao.

In **Qingdao** the mission was briefed on the investment environment in the city by Mr Feng Wenqing, Chairman of the Council for the Promotion of International Trade (CCPIT) Qingdao Sub-Council, followed by a meeting with the leaders of the Qingdao Environmental Protection Bureau, who introduced the opportunities for foreign companies active in the environment sector in the Five Year Plan. Qingdao Vice Mayor Liu Mingjun chaired a banquet for the members of the mission. In the afternoon a visit was organized to the Qingdao Economic and Technological Development Zone and to Huber Engineered Materials, a Member of the FCCC, where Plant Manager Zhang Weijia and HR Manager Helen Lu introduced the company and its experience of investing in Qingdao. The mission also visited the huge new Kempinski Hotel of Qingdao, which will cater to conferences and conventions, and is owned by the Qingdao Weiye Group, chaired by Mr.Li Zhongyu. A successful day was concluded with a dinner with the leaders of the Economic and Technological Development Zone.

Wednesday, May 23, started with a breakfast meeting with Andries Verschelden, Partner, and Scott Krivokopich, Manager at Moore Stephens Verschelden, about taxation issues and the results of a survey of Belgian companies investing in China. Mr. Zhan Haiqing introduced the Qingdao Association of Enterprises with Foreign Investment. Following the breakfast meeting, the mission traveled by bus to **Yantai** for a visit to the Yantai Haide Special Vehicle Co, where

Chairman Louis Song and Executive Vice President Maxime de la Morandiere introduced the company. The very brief visit to Yantai was concluded by a meeting with Vice Mayor Song Weining and a dinner attended by leaders of the city. In the evening the mission arrived in its final destination of Weihai.

The first activity in **Weihai** was a meeting with the Municipal Bureau of Commerce and the Weihai-Belgium Cooperation Exchange Meeting with presentations by Mr. Xu Dongming, Director of the Municipal Bureau of Commerce; H.E. Mr. Patrick Nijs, Ambassador of Belgium to the People's Republic of China; Mrs. Gwenn Sonck, Executive Director of the Flanders-China Chamber of Commerce (FCCC); Mr. Juha Ven of the Huiyin Group and Mr. Geert Roelens, CEO of Beaulieu International Group. A welcoming lunch was chaired by Vice Mayor of Weihai Mr.Tian Zhiying. In the afternoon the mission visited Bekaert (Shandong) Tire Cord, where General Manager Julia Zhu led a visit to the plant; the Weiqiao Textile Co; the Weihai Airport Equipment Co and the Shandong New Northern Information Technology Co. The fact-finding mission to Shandong was concluded with a banquet offered by the leaders of Weihai's Huancui district.

The visit to Shandong was organized with the financial support of Flanders Investment & Trade. An extensive report of the mission to Shandong will be made available to FCCC members in about two weeks.

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

Fund management companies' statistics revealed

Fund companies in China made CNY303.4 billion in profits for investors from 2001 to 2011, or about CNY27.6 billion on average every year, according to statistics from Wind Information Co. The companies received about CNY164.6 billion in management fees, meaning the funds provided investors with CNY138.8 billion in net profits. By the end of last year, 41 out of the 64 fund companies that took part in a recent survey said they had managed to make profits for investors since 2001. The fund family China Asset Management Co made about 12% of the industry's total profits from 2001 to 2011. Among the 23 companies that reported losses, China Post Fund performed the worst. Since it began operating in 2006, it lost CNY22.4 billion. Wind's statistics also suggested that 35 of the 41 companies that reported making profits in the past 11 years have seen their profits exceed their management fees. Johnson Chng, Partner at A.T. Kearney Management Consulting Co, said it is very hard to gauge the performance of fund managers in China, where the capital markets operate differently than in other countries. "Funds are charging high management fees in China," Chng said. "Normally, investors should get profits from dividends," he told the China Daily.

Some Hong Kong employees to pay less tax on the mainland

Hongkongers who spend most of their time working on the mainland will see their tax bills reduced thanks to new rules taking effect next month that are aimed at eliminating double taxation. Any resident who spends more than 60 days per year in Hong Kong must pay taxes, even if their work is outside the city, but they can reduce the sum on a pro rata basis if they pay taxes elsewhere. But employees who spend more than 183 days on the mainland are taxed on their entire salary – regardless of how much tax they pay in Hong Kong or any other territory. The changes, announced in a circular issued by the State Administration of Taxation, will see the mainland bring its calculation methods into line with those used in Hong Kong, meaning they will pay taxes based on the days they physically spend on the mainland – although the change will only apply to residents of Hong Kong or Macao working for a company from one of the special administrative regions. Business owners, some of whom paid part of their employees' mainland tax bills, said the change would reduce their financial burden and increase their flexibility in sending Hong Kong employees to work over the border. A tax expert said a Hongkonger on CNY100,000 per month could save up to CNY172,000 in taxes for the year. Stanley Lau of the Federation of Hong Kong Industries said the change would give employers more flexibility in considering whether to send staff to work on the mainland. "It will no longer be necessary for us to count the days to ensure that employees don't work more than 183 days on the mainland." Government statistics show that the number of Hong Kong residents who worked on the mainland fell from 218,000 in the 12 months to September 2008 to 175,000 in the year to September 2010, the last year for which statistics are available.

London expands role in yuan trade

HSBC said it has established itself as the largest yuan foreign exchange house in London, which is now seeking to transform itself into the western world's leading yuan hub. But London's ambition to become an offshore yuan center would complement, rather than compete with, Hong Kong's yuan plans, said HSBC Hong Kong Chief Executive Anita Fung. Her comments came as representatives from the Hong Kong Monetary Authority (HKMA) and seven banks met the British Treasury and other agencies to discuss ways of advancing the internationalization of the yuan. Europe overtook Asia to become the largest yuan payment contributor earlier this year, accounting for about 47% of all yuan payments. London's yuan deposits also reached CNY109 billion by April, according to data from the City of London. 64% of surveyed banks offer corporate accounts in yuan, plus RMB payment and cash management. Last year, London's spot foreign exchange market's daily volume contributed 26% of the global offshore yuan spot market volume, reaching USD680 million, compared to Hong Kong's USD1.5 billion. RMB commercial loans in London reached CNY280 million in 2011, trade services topped CNY88 million, and import and export financing hit CNY16.3 billion. While yuan liquidity in London has been increasing, Hong Kong has experienced a consecutive four-month drop in yuan deposit volume, albeit still boasting the largest yuan liquidity pool outside the mainland. HSBC said it would continue to be an active player in yuan bond issuance both in Hong Kong and London, after becoming the first to issue a yuan bond in London in April.

Private enterprises encouraged to invest in banks

China has leveled the field in the banking industry by allowing private investors to enter and participate in the sector under the same standards as other investors, according to the China Banking Regulatory Commission (CBRC). “The banking regulatory authority shall promote equal competition among different types of investors, and shall not set up restrictions or additional conditions for private capital to enter the banking industry,” a CBRC statement said. Private companies can buy into lenders through private stock placements, new share subscriptions, equity transfers, or mergers and acquisitions (M&As). Some eligible private investors are allowed to own a stake of over 20% in city commercial banks. The minimum shareholding of the main initiator for rural banks is cut to 15% from 20%. Private investors are also allowed to invest in trust, financial leasing and auto-financing companies, the statement said. The new rules aim to encourage and guide private capital into the banking sector, and to strengthen the necessary financing support for private investment, the CBRC said. In March, Wenzhou in Zhejiang province was chosen as a pilot financial reform zone, which allows private lending targeted at cash-strapped small businesses to save them from bankruptcies. The CBRC is the sixth authority that has issued guidelines recently to encourage private capital to enter state-controlled industries as the government tries to sustain growth in the slowing economy, the Shanghai Daily reports.

- The growth in the number of credit cards in circulation in China slowed in the first quarter of this year, while defaults rose slightly, the People's Bank of China (PBOC) said. The number of credit cards in circulation rose to 290 million at the end of March, an increase of 20% year on year. The rise was 5.7 percentage points lower than a year earlier. Defaults of more than half a year rose to CNY12 billion at the end of the first quarter, 9% higher than the end of December.
- The U.S. Treasury Department declined to name China a currency manipulator but said the yuan was still “significantly undervalued”. In its semi-annual report to Congress on exchange-rate policies, it said it would continue to “closely monitor” the pace of yuan appreciation and press for changes that yield greater exchange-rate flexibility. “It is in China's interest to allow the exchange rate to continue to appreciate, both against the dollar and … currencies of its other major trading partners,” it said.
- The euro reached its lowest level against the yuan in a decade last week as concern grew that Greece could leave the eurozone. The People’s Bank of China (PBOC) set the central parity rate at CNY7.998, the first dip below CNY8 since June 24, 2002. The rate was set as high as CNY11.171 in 2008 after China lifted the yuan’s peg to the U.S. dollar.
- China's biggest banks may fall short of loan targets for the first time in at least seven years as an economic slowdown crimps demand for credit, according to three bank officials. A decline in lending in April and May means it is likely the banks' total new loans for 2012 will be about CNY7 trillion, less than an estimated government goal of CNY8 trillion to CNY8.5 trillion. The drying up of loan demand attests to the severity of China's slowdown and may add pressure on Premier Wen Jiabao to cut interest rates and expand stimulus measures.
- The National Development and Reform Commission (NDRC) may approve CNY500 billion in new enterprise bonds this year, twice as much as last year, in an effort to develop the country's fledgling debt markets and wean state-owned firms off excessive reliance on bank lending. The NDRC will give priority in the approval process to bonds used to finance low-cost housing, environmental protection, and small companies. The move signals fresh efforts to increase the flow of credit to the economy as growth slows. Chinese media also reported that China will accelerate approvals for new infrastructure investment.
- Private lenders operating out of pawnshops and credit agencies in Wenzhou charge small businesses three times official bank lending rates. So-called shadow banks demanded 21.6% on loans in April, according to the first private-loan survey published by the People's Bank of China's Wenzhou branch. While that is down from a high of 25.4% in August, it compares with 7.6% on commercial bank loans.
- China Renaissance Partners has launched its first office outside the mainland, opening an office in Hong Kong as the country's largest privately held investment bank braces to expand overseas. Bao Fan, Chief Executive of Beijing-based China Renaissance, said it was time to transform the firm he founded in 2004 as a boutique financial advisory firm into a full-service investment bank to cater to clients' needs.

China's investment banking business has been dominated by big Western banks like Morgan Stanley.

- JPMorgan Chase & Co has injected CNY2.5 billion into its Chinese subsidiary to expand the bank's branch network, develop products, increase corporate lending and recruit employees, said Shao Zili, Chairman and CEO of JPMorgan China. The capital infusion brings the total registered capital of its China unit to CNY6.5 billion. Meanwhile, JPMorgan China has received approval from the China Banking Regulatory Commission (CBRC) to open a new branch in Suzhou, Jiangsu province.

FOREIGN INVESTMENT

Shanghai launches investment promotion partnership

The Shanghai Investment Promotion Partnership was jointly launched by the Shanghai Foreign Investment Development Board and 15 overseas investment-facilitating institutions based in Shanghai, aiming to push the city's participation in global investment activities to a broader and higher level. Overseas institutions involved in the partnership include the United Nations Industrial Development Organization's Shanghai Investment Promotion Center, the American Chamber of Commerce in Shanghai (AmCham), the Japan External Trade Organization, the Korea Trade-Investment Promotion Agency, a unit of German Industry and Commerce, the Canadian Chamber of Commerce and the Australian Trade Commission. The partnership, which has attracted 99 members from 31 countries and regions, will invite members to attend conferences, participate in training programs and take part in fairs to facilitate investment activities. In the first four months of this year, contracted foreign direct investment (FDI) in Shanghai rose 17.2% from a year earlier to USD7.34 billion, bucking the national trend of falling foreign investment.

Sino-Belgian investment fund to avoid Southern Europe

The €250 million private equity fund set up by China's sovereign wealth fund to invest in Europe will shy away from the troubled southern European region and focus on Germany, France and Scandinavia. The fund, set up by the China Investment Corporation (CIC) in partnership with the Belgian Federal Holding and Investment Co and private equity group A Capital, has been backed by Vice Premier Li Keqiang, who appeared at the fund's first-round fundraising ceremony in Brussels. André Loesekrug-Pietri, Chairman of A Capital, said that with the resurgence of regional concerns it was "not a good time" to invest in consumer-driven industries and the financial services sector with heavy exposure to southern European countries like Greece, Italy and Spain. The fund is expected to allocate 30% to 35% of its capital to Germany, 20% to Scandinavia, 20% towards France, and the remainder to Britain, Belgium, the Netherlands, and other European countries. The fund focuses on mid-cap European companies that generate between €300 million and €3 billion in sales annually. Its four investments areas include high-end manufacturing, environmental industries and clean energy, consumer brands and food safety. Loesekrug-Pietri said it might take more time to convince nervous Chinese investors about opportunities in Europe, and added that the fund still attracted Chinese investors who had a good understanding of the diversity of European markets, and who were genuinely interested in foreign investment, the South China Morning Post reports.

German Center to be set up in Qingdao

An agreement was signed last week in Jinan to set up a German Center in Qingdao, Shandong province. The center will be located in the Sino-German eco-park in the Qingdao Economic Technological Development Zone and will encompass a total building area of 66,300 square meters. Once in full operation, the German Center Qingdao will offer German enterprises small to large office leases, consultancy services, conference facilities, a business center, and a startup company incubator. It will also serve as a bridge between German enterprises and local communities. The center will attract German investment and introduce more advanced technology and management practices in various sectors such as renewable energy, energy reduction and environmental protection to Qingdao. The German Center Qingdao will be the third one of its kind in China after Beijing and Shanghai. Qingdao remains an appealing destination for German investment, which surged 576% to USD3.2 million in 2011.

- Samsung has chosen Xian as the site for its USD7 billion investment project in China because the local government provided it outstanding support. It is the largest single foreign investment that the western region. In 2011, the GDP of Xian rose by 13.8% to CNY386.4 billion. In 2010 and 2011, FDI surged by 29% and 28% year-on-year. “We saw rapid growth in the city’s FDI in the past two years. Of course, the reference point was low,” said Li Zhijun, Director of the Xian Bureau of Investment Promotion. Xian has many foreign investors in the healthcare and aerospace businesses.
- Western China is surpassing the east coast in investment growth. In 2011, FDI to China as a whole stood at USD116 billion. Only around USD12 billion went to the west, but the west saw a growth rate of 28%, more than four times the rate in the east. A report by the Economist Intelligence Unit (EIU) singled out Chongqing as an example of investment moving inland in China. In FDI terms, it went from 22nd place out of 31 provinces, autonomous regions and municipalities on the mainland in 2007, to overtaking Beijing in 2011, when the western metropolis attracted USD10.8 billion in investment. The trend is expected to continue, with the city set to overtake Tianjin and Shanghai by 2014.

FOREIGN TRADE

Vinexpo Asia-Pacific 2012 opens in Hong Kong

Vinexpo Asia-Pacific 2012 opened at the Hong Kong Convention and Exhibition Center on May 29. The annual event is staged in Bordeaux and Hong Kong in alternate years. The expo is expecting to attract many Chinese wine enthusiasts. “In tier one cities such as Guangzhou, Shanghai and Beijing you're seeing more of a Western wine-drinking influence. It's definitely more evident when you visit those markets,” said Lucy Anderson, the Asia Director for Wine Australia. “The rise in educated wine drinkers over recent years has been clear to us and this will be proven by the large number of mainlanders attending the Vinexpo. There has been a shift in people's knowledge, which has increased exponentially.” The mainland and Hong Kong combined represent the third-largest export market for Australian wine by value, buying more than AUD268 million worth and almost 50 million liters. Visitors to the show – industry professionals, and wine and spirits buyers – are expected to break the attendance record of 12,617 at the last Vinexpo in Hong Kong in 2010. With a record 1,050 exhibitors from 28 countries, organizers predict the three-day trade show will attract more than 14,000 wine buyers from across Asia. The event was booked out six months in advance and exhibition space has been expanded by nearly 25% to 10,500 square meters. Anderson says it is difficult to talk about the wine trade in China as a whole, because it is made up of so many different markets, with big differences between the leading and secondary cities. But the days of mainlanders mixing Coke or Sprite with wine are over, the South China Morning Post reports. At Vinexpo, Dynasty Fine Wines is looking to position itself in the major international wine markets, along with Grace Vineyard and Yantai Changyu Pioneer Wine.

First China International Fair for Trade in Services held

“With an increasing risk of another global downturn, countries are looking for [a] new growth pole, and [the] service trade has drawn much attention,” Qiu Hong, China’s Assistant Commerce Minister, said in Beijing at a news conference for the First China International Fair for Trade in Services held in Beijing this week. “China’s domestic market (for service providers) still has huge potential, even amid global uncertainties ... and development of the service sector is the new opportunity for the Chinese economy,” Qiu said. China ranks fourth globally with a service trade volume of USD419.4 billion in 2011, and the country has been climbing up the table by one notch every year in recent years. “The growth of China’s service trade will continue accelerating,” Qiu said, adding that she was confident in the country achieving its goal to boost the service trade by 11% this year — the sector’s average growth rate over the past five years. The service sector still accounts for a relatively small part of China’s total economic output, only 43% in 2011, compared with an average of 70% in developed economies, as reported by the World Bank. Domestically, there are also large regional disparities. The service sector accounts for 70% of the economy in Beijing, but only 20% to 30% in coastal areas.

It will be the world’s first trade fair to cover all 12 categories of services defined in the General Agreement on Trade in Services, said Zhou Liujun, Director of the Service Trade Department at the Ministry of Commerce (MOFCOM). The event, jointly organized by the Ministry of Commerce and the Beijing municipal government, opened on May 28 and runs through June

1. Ten high-level forums are scheduled for the five-day event, with subjects ranging from cultural trade and business tourism in China to Sino-African trade in services and investment, as well as the WTO and China. Ninety events will be held on 27 topics in the 12 service sectors classified by the WTO. Seven countries — Australia, Israel, Japan, Singapore, the Republic of Korea, Uruguay, and the UK — and Africa will have theme days to showcase their service brands. Provinces and cities that have rapidly developing service industries such as Jiangsu, Zhejiang, Beijing, Tianjin and Shanghai, as well as some state-owned enterprises, will also hold theme day events. The fair, formerly known as the China Trade in Services Congress, was a biennial event first held in 2007. The organizers plan to make the fair an annual event in Beijing, because Beijing is the major services-oriented city in China. In 2011, the service industry generated 75.7% of the GDP of Beijing, well above the national average of 43%. The city's 2011 trade in services hit USD89.5 billion, with both imports and exports accounting for over 20% of the country's total. China's service sector attracted USD55.2 billion in foreign investment in 2011, overtaking the manufacturing industry for the first time.

Chinese Premier Wen Jiabao opened the Fair on May 28. He said there was great potential to develop the trade in services, noting that the target for 2015 was to increase the value of trade in services to USD600 billion. In the coming five years, he said, total imports of services would amount to USD1.25 trillion. China is currently ranked fourth in the world in terms of trade in services, which totaled USD419.1 billion in 2011. But its service trade accounted for just 43% of its total trade – much lower than the average 70% in most developed countries. "Fostering growth in the services sector is the main direction for China's economic transformation and restructuring, as well as an internal call to improve people's living standards," Xinhua quoted Wen as saying. Also at the opening of the trade fair was Pascal Lamy, Director General of the World Trade Organization (WTO). He called on Beijing to further open its fledgling services sector to foreign investment to help sustain its economic rise. "The WTO needs China to take the lead in pursuing greater services opening," Lamy said.

- Shanghai's imports of food products rose nearly 35% year on year in the first four months of the year to USD2.45 billion as demand for foreign goods such as baby formula continues to rise because of safety concerns about food produced in China. Imports of a variety of foods in Shanghai have risen for 24 consecutive months and imports in April were up nearly 20% year on year, at USD620 million.
- China filed World Trade Organization (WTO) cases on May 25 challenging U.S. countervailing measures against Chinese exports worth nearly USD7.3 billion. The cases cover U.S. anti-subsidy tariffs on 22 Chinese goods including steel, paper and solar cells. If consultations fail, China can request a ruling by a WTO panel, which can order the U.S. to scrap measures found to violate free-trade commitments, or to pay compensation. Ministry of Commerce Spokesman Shen Danyang said the U.S. acted inconsistently with WTO rules in the countervailing investigations, and continued wrongdoings that had been refuted by the WTO Dispute Settlement Body rulings. The U.S. has 10 days to respond to China's consultation request and 30 days to start negotiations.
- "China needs more balanced economic growth, while the engines of the United States and the European Union become weaker," Gerard Worms, Chairman of the International Chamber of Commerce (ICC) told China Daily. "China needs to increase exports to Asian nations, increase domestic demand, and reduce dependence on the U.S. and the EU," he said. China's exports have been declining since the second half of last year. Officials from the Ministry of Commerce (MOFCOM) said emerging markets will be prioritized this year. In 2011, China's exports to India, Russia and Vietnam grew much more, year-on-year, than the 20.3% rise in overall exports.
- China's General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) said that it will maintain a quarantine on fruit imports from the Philippines. The agency said earlier that harmful insects or bacteria had been found in pineapples, bananas and other fruit imported from the Philippines in the last year.
- China's trade showed signs of recovery in the first 10 days of May, with exports growing 27.3% and imports rising 28% over the same period last year, Vice Commerce Minister Li Jinzao said. In April, China's exports expanded 4.9% and imports edged up a paltry 0.3%. In the first four months, China's trade expanded 6%, falling well short of the 10% target for this year. May's trade data will be officially announced on June 10.

IPR PROTECTION

Fake Chinese parts used by U.S. military

More than a million Chinese counterfeit electronic parts are estimated to be in use in U.S. military aircraft, according to a U.S. Senate report, which added the discovery jeopardizes safety and national security. The Senate Armed Services Committee said its year-long investigation launched by Democratic Chairman Carl Levin and Republican John McCain uncovered 1,800 cases of bogus parts, including on the U.S. Air Force's largest cargo plane, special operations helicopters and Navy surveillance planes. The 112-page report “outlines how this flood of counterfeit parts, overwhelmingly from China, threatens national security, the safety of our troops and American jobs,” Levin said. “It underscores China's failure to police the blatant market in counterfeit parts, a failure China should rectify.” While the Senators lay the blame squarely on China, the report said U.S. authorities and contract companies contributed to the vulnerabilities to the defense supply chain by not detecting the fakes, or routinely failing to report suspected counterfeiting to the military. The report said the Defense Department “lacks knowledge of the scope and impact of counterfeit parts on critical defense systems,” and that the use of unvetted independent distributors for the supply of critical military parts results in unacceptable risks to national security and safety.

MACRO-ECONOMY

Premier Wen calls for faster economic growth

Premier Wen Jiabao called for more priority to be given to ensure “relatively fast” economic growth, after unusually weak industrial activity in April. During an inspection trip to Wuhan, Wen promised to boost domestic consumption and strengthen and improve macro control efforts. Factory output in April fell to the lowest level since the 2008 global financial crisis and consumer spending and home sales were weaker than forecast. That jarred hopes China can achieve a “soft landing,” with growth rebounding next year. Economic growth fell to a nearly three-year low of 8.1% over a year earlier in the first quarter and may fall further. The World Bank and International Monetary Fund (IMF) are forecasting growth this year of 8.2%. Chinese consumer spending is rising but has failed to compensate for the decline in export growth. Lending and purchase curbs imposed to cool surging housing costs have caused a slump in real estate, a key driver of China’s growth, but the government has kept them in place, saying prices still are too high. During the trip, Wen affirmed that message, calling on local authorities to enforce measures meant to cool housing costs and increase supplies of affordable housing for low-income families.

China to encourage private investment in more industries

China is to issue specific guidelines on encouraging private investment in more industries after opening the way for private capital to flow into the railway and health sectors, an official with the National Development and Reform Commission (NDRC) said. Drafting of detailed rules for private investment in the heavily state-controlled and monopolized electricity, oil and natural gas sectors is under way. Government departments responsible for housing and construction, water resources, the securities market and state-owned assets are also writing rules aimed at boosting private investment in those sectors. The Chinese government said in February that encouraging private investment in previously state-controlled sectors would be a priority. The government published policies to support private capital in 2005 and in 2010, but progress has been slow in state-controlled areas such as finance and energy, the Shanghai Daily reports. Current levels of private investment in state-dominated sectors are low – private investment accounts for just 13.6% of fixed-asset investment in the electricity and thermal power sector, and only 9.6% in the financial industry.

Young billionaires list published by Hurun

Up to three-quarters of young Chinese billionaires earned their money from investments or in business rather than inheritance, the Richest Chinese Under Forty List for 2012 of the Hurun Research Institute shows. Of 33 individuals under 40 with at least CNY1 billion in personal assets, only eight inherited from their families. Yang Huiyan, 31, second daughter of real estate tycoon Yang Guoqiang, and biggest shareholder of Country Garden, tops the list with a CNY36 billion fortune. But 25 self-made billionaires made it onto the list, including six of the top 10. “There are actually many rags-to-riches stories,” said Rupert Hoogewerf, Researcher and Publisher of the Hurun Report. Fang Wei, 39, Chairman of Beijing-based China Fangda

Group, led the self-made billionaires with a CNY15 billion fortune, ranking 2nd on the list. Chen Tianqiao, 39, Chairman and CEO of Shenda Interactive Entertainment, was the second richest Chinese entrepreneur with CNY9 billion. Jiang Nanchun, 39, Chairman and CEO of Focus Media, the biggest digital signage company in China, ranked third in the self-made category with CNY8 billion. Basketball star Yao Ming ranked last among self-made billionaires with CNY1 billion. After retiring from the NBA last year, he launched his own winery exclusively for the Chinese market. The entertainment and information technology industry accounts for 15% of both self-made and inherited billionaires, with energy close behind at 13%. The manufacturing sector and the finance and investment industry account for 11% and 9% respectively. Guangdong province holds the lion's share in the billionaires club, boasting six entries this year, the most of all provinces and municipalities in China. Shanghai is home to five listed individuals, followed by Beijing with four and Jiangsu, Sichuan, and Zhejiang provinces each with three. There are eight women on the list, the Shanghai Daily reports.

- Shanghai ranks fourth among 294 Chinese cities on a list rating their competitiveness, according to a report by the Chinese Academy of Social Sciences (CASS). Hong Kong, Taipei and Beijing took the top three places. Of the 50 leading cities, 70% were in China's eastern coastal region, but several western cities displayed tremendous growth. Ordos in Inner Mongolia saw the biggest growth in competitiveness among all Chinese cities during the past 10 years.
- Shanghai aims to raise its gross domestic product (GDP) per capita to USD20,000 in the next five years, up from the current USD12,800. Output of the service industry should constitute more than 65% in the city's total economic output by 2016, up from 57.9% last year. To stimulate innovation, the city plans to spend 3.3% of its GDP in research and development (R&D) in the next five years, compared with the current 2.9%.
- China Mobile was China's most valuable brand, Millward Brown said, appearing in 10th spot in the market researcher's 2012 BrandZ Top 100 list with an estimated value of USD47 billion, while Tencent, worth USD18 billion, was 37th. Oil and gas conglomerate Sinopec was 55th and liquor maker Moutai ranked 69th. The Industrial and Commercial Bank of China (ICBC) was named the world's most valuable financial brand at USD41.5 billion. This year's BrandZ report marks the rapid rise in value of Chinese brands in recent years, from 2006 when only six appeared in the top 100, to a record 13 this year.
- A report by China International Capital Corp, China's largest investment bank, said that China's economic growth may slow down to 6.4% this year, lower than the government's 7.5% target, if the country holds back on stimulus plans. Ma Jun, Chief Economist of Deutsche Bank, said the government may increase lending to infrastructure projects, relax restrictions on lending to developers to build commercial residential projects, and allow banks to offer lower lending rates to lift demand. Economists and banking insiders are expecting the size of stimulus measures this time to be much smaller than the CNY4 trillion investment plan implemented in 2009.
- Chinese employers are under greater pressure this year to retain high-caliber professionals who are asking for a high pay raise, according to a human resources survey of 3,000 Chinese firms in various sectors by Hudson Recruitment. Up to 80% of company managers interviewed say they are afraid of losing their most valuable workers as they can't afford the demand for a high salary increase. "The demand for high-quality professionals is rapidly increasing in China but the pool of available talent fails to grow as quickly," said Cherol Cheuk, General Manager of Hudson's Shanghai branch.
- The HSBC Flash PMI for May fell to 48.7 from 49.3 in April. If the reading is confirmed on June 1, it will be the seventh consecutive month for the country's private manufacturers to report a shrinking output — the longest run of below-50 readings since the 2008 global financial crisis. "Manufacturing activities softened again in May due to the deteriorating export situation," Qu Hongbin, Chief Economist for China at HSBC said. The component indices under the HSBC Flash PMI showed new export orders fell to 47.8 from 50.2, a sign of further weakness in external demand and export growth.
- Thirty of the biggest state-owned businesses – including Sinopec Group, China National Petroleum Corporation and China Mobile – have signed contracts worth about CNY350 billion with Chongqing to bolster confidence in the city formerly run by

ousted Party Secretary Bo Xilai. The companies signed agreements for a total of 72 projects.

- China's growth is likely to slow to 8.2% this year, its weakest in more than a decade, before government support helps it rebound to 9.3% in 2013, the Organization for Economic Cooperation and Development (OECD) said. The OECD cut its growth forecast for the world's second largest economy from the 8.5% predicted last November.
- The World Bank cut its economic growth forecast for China this year to 8.2% and urged the country to rely on an easier fiscal policy that boosts consumption rather than state investment to lift activity. In its biannual East Asia and Pacific economic update, the World Bank said a slowing China will drag growth in emerging East Asia to two-year lows this year, but warned Europe's seething debt crisis could inflict even bigger damage if it worsens.
- China's industrial companies' profits fell annually in April and in the first four months of this year. Earnings at industrial companies fell 2.2% from a year ago to CNY208 billion last month, the National Bureau of Statistics (NBS) said. That compares with an annual gain of 4.5% in March. Last year, profit climbed 25.4%. For the first four months, industrial profit was about CNY1.5 trillion, down 1.6% from the same period in 2011, compared with a 1.3% drop in the first quarter. In the first four months, China's private businesses recorded CNY425.7 billion in profit, up 20.9% year on year.
- China may pump in as much as CNY2 trillion in investment to boost the economy, half as much as in 2008, a Crédit Suisse report said. The stimulus plan, if carried out at the predicted size, will lift China's economic growth in the second half of this year from a possible dip below 7% this quarter, Crédit Suisse Analyst Tao Dong said. The package this year may also increase subsidies for environmental-protection projects and funding for public housing, Tao said.

PETROCHEMICALS

PetroChina setting up three overseas operation centers

PetroChina Co will focus on storage and refining assets in the Americas this year, as part of its plan to establish three overseas operation centers, said Chairman Jiang Jiemin. Two other foreign operation centers — one for Asia, based in Singapore, and one for Europe, based in London — are taking shape. Jiang also sought to deflect media reports that the company is in talks with Valero Energy Corp to buy the latter's 235,000-barrel-a-day refinery in Aruba. He said that the project is something the company might look at, but he is not aware of any deal. Jiang said PetroChina's trading and refining joint venture with UK-based INEOS Group Holdings is expected to sell about 50 million to 60 million metric tons of oil products this year, strengthening its position in Europe. The company, the world's biggest listed oil producer by crude oil output, recorded an 18.2 % rise last year in net oil and gas output in foreign markets to 120.8 million barrels of oil equivalent (BOE). Overseas output comprised 9.4% of the total. PetroChina overtook ExxonMobil Corp to become the world's biggest oil producer when its annual crude oil production reached 886 million barrels last year, with the majority contributed by domestic production. Crude output in domestic oilfields, expected to surpass 110 million tons (or 14.03 million barrels) a year by the end of 2015, was up 4.6% from last year's level. PetroChina plans to start construction of the third phase of its west-east natural gas pipeline this year, linking Horgos in Xinjiang to Fujian province, the China Daily reports.

- PetroChina will boost its natural gas purchases from Central Asia by as much as half this year even though it is unable to fully pass on import costs to consumers because of state price controls. Imports will rise to up to 25 billion cubic meters (BCM) this year from 15.9 billion BCM last year, Chairman Jiang Jiemin said.
- CNOOC is targeting a net production of between 330 million and 340 million barrels of oil equivalent (BOE) in 2012, about the same as the 331.8 million BOE reached last year. The company's Chief Financial Officer Zhong Hua said the Bohai area will remain its major growth engine in the near term. Five new off-shore discoveries were made in Bohai in the first quarter of this year, including the mid-to-large-sized Kenli 2-1 and the large-sized Penglai 9-1. The company has also started to drill deepwater wells in the South China Sea.
- The Shanghai Futures Exchange aims to launch crude oil contracts within the year

and will gradually allow foreign participation in trading. The contract will help domestic companies hedge against the fluctuations in the global oil markets and improve China's influence over pricing. The proposed contract will be based on sour crude oil, which contains sulfur, and be priced in either the yuan or the U.S. dollar. Delivery will occur at bonded warehouses.

REAL ESTATE

Residential prices continue to fall

Primary residential prices in 20 major Chinese cities continued to fall in the first quarter of this year and the downward trend will probably continue as the government remains unwavering in maintaining curbs on the property market, according to a joint report released by Knight Frank and Beijing Holdways Information & Technology Co. Prices of primary homes fell 3.8% quarter on quarter, taking into account differences in property type, location, fittings and whether they were pre-sale or completed units. There were price declines in 18 out of the 20 cities, with the only exceptions being Tianjin and Ningbo. Taiyuan in Shanxi province and Shanghai, in contrast, registered the largest falls in prices, down 8.5% and 8.1%, respectively, from the October-December period. "China's housing sector is not expected to rebound during the second quarter and inventory levels are likely to stay high," said Thomas Lam, Director of Research at Knight Frank China. Transactions of primary housing in the 20 cities fell 1.8% quarter-on-quarter and 27% year-on-year, during the first three months of this year. Twelve of the 20 cities saw quarterly declines in the transacted area, with Dalian and Shenyang in Liaoning province and Beijing suffering the largest setbacks of 55%, 46% and 27%, respectively, according to the report. Primary residential inventory was 35.7% higher at the end of March compared to the same time a year earlier, though quarter-on-quarter, it fell 4.1% as some developers — including China Merchants, Evergrande and Shimao — adopted a strategy of lowering prices to boost sales volumes. Looking ahead, Knight Frank estimated that more developers are going to lower prices in order to replenish capital, while some others may be forced to transfer ownership of their projects to reduce debt ratios. More mergers and acquisitions among small and medium-sized developers might also be seen in the second half. Jones Lang LaSalle added that luxury residential prices in Shanghai and Beijing fell 1.2% and 2.3% in the first three months of this year from the fourth quarter of 2011, the Shanghai Daily reports.

- Property sales volumes in major cities began to recover in recent weeks after slowing in April. According to CCB International Securities, weekly sales figures for May 7 to May 12 indicate that tier-one cites recorded average sales volume growth of 38.5% week on week, with Shenzhen and Beijing witnessing a strong recovery from previous weeks.
- The total debt maturing this year for the 29 rated developers tracked by Moody's is up 23% from the end of last year, to CNY159 billion. Of those companies, 11 face serious funding constraints, up from only four at the end of last year.
- 207 residential property projects in Shanghai will offer price cuts in June, staying above 200 for the fourth straight month, with more than 20% located in the Pudong New Area. 76% of the price cuts will be offered by developers of projects located beyond the city's Outer Ring Road. Those within the Inner Ring Road will account for less than 5% of the total, Soufun data showed.

RETAIL

Profit falls 88% as Gome's sales slide

Gome Electrical Appliances saw profits slump nearly 90% in the first three months of this year because of sliding sales and losses from its e-commerce business. Analysts expect its weak performance to continue this year in a cooling appliance market. Sales revenue for the three months to March dropped 28.6% compared to the same quarter in 2011, to CNY9.76 billion. Attributed profit plunged 88% to CNY67 million, down from CNY552 million for the same period last year. Gome's Hong Kong-listed shares have fallen 33% since the beginning of the year, while the benchmark Hang Seng Index has remained flat. Gome, which operates more than 1,000 shops, said its gross profit margin rose 1.34 percentage points to 19.95%. The Ministry of Finance said the central government would earmark CNY22.5 billion this year to boost domestic spending on energy-saving appliances including television sets, air conditioners, refrigerators, washing machines and water heaters. Industry operators said the government would offer subsidies equivalent to 10% of the retail price to consumers who purchased certain types of energy-saving appliances.

- McDonald's started its biggest ever recruitment plan in China. The fast-food chain plans to open 225 to 250 new stores nationwide and hire 70,000 employees this year. McDonald's has more than 1,400 restaurants in China, with more than 80,000 employees. It wants to increase the number of restaurants to 2,000 by 2013.The company expects to interview 30,000 people during the recruitment event.
- Fashion conglomerate Ralph Lauren aims to open about 60 new luxury stores across China over the next three years, after about 95 retail shops were closed in the market as part of a restructuring in the fiscal year to March. Ralph Lauren President and COO Roger Farah said 15 of the planned new stores in China are due to open between October this year and March next year, including in Beijing, Shanghai and Hong Kong.

SCIENCE & TECHNOLOGY

Dispute over visas of teachers at U.S. Confucius Institutes

Chinese teachers with a J-1 visa and teaching at Confucius Institutes (CIs) in the United States will be allowed to stay in China, despite a circular saying they would have to leave the country by June 30 as the State Department said their visas won't be extended. It said the Confucius Institutes are university-based, Chinese sponsored language and cultural centers, which should gain certification from the U.S. government before carrying out teaching activities. Some 51 of the 600 Chinese teachers working in the U.S. were believed to be affected. There are more than 350 Confucius Institutes and 500 Confucius Classrooms around the world, including 81 institutes and 299 classrooms in the U.S. After consultations between the two sides, State Department Spokeswoman Victoria Nuland said officials were confident they could prevent the deportation of dozens of instructors working at branches of the Confucius Institute on U.S. university campuses. "Nobody's going to have to leave the country," Nuland said in Washington. "It's all going to get cleared up." Professor Joseph Cheng of City University of Hong Kong said he did not think the row would damage Sino-U.S. ties. "But it requires careful handling from both sides," Cheng said. "It can easily provoke a backlash among mainland netizens. And China may retaliate under domestic pressure." "The original directive that we issued a couple of days ago was, frankly, sloppy and not complete," Nuland added. "That's what caused all this confusion. So we now have a new directive."

- About 55,000 people in Shanghai have applied to sit for the national college entrance exam to be held in June, 6,000 fewer than last year. The number of test takers has been cut by almost half in the past six years, mainly caused by a demographic change resulting in fewer high school graduates. Meanwhile, increasing numbers of graduates are studying abroad, contributing to the drop in test takers.
- Thousands of words used in Traditional Chinese medicine (TCM) are being translated for the World Health Organization's International Classification of Traditional Medicine project. The translation team is led by Li Zhaoguo, Deputy Dean of the Foreign Languages College of Shanghai Normal University.
- Three months after Chinese architect Wang Shu was named the country's first Pritzker Architecture Prize laureate, he formally received the award from Vice Premier Li Keqiang at the Great Hall of the People in Beijing. It was the first time that the award, often referred to as "architecture's Nobel Prize", was presented in China. Founded by the Hyatt Foundation in 1979, the Pritzker Architecture Prize is awarded each year to a living architect whose architectural work demonstrates a combination of talent, vision and commitment.

STOCK MARKETS

Details of insider trading case revealed

Supreme People's Court Spokesman Sun Jungong told a press conference that Gome founder Huang Guangyu had committed securities fraud before being jailed. As the major shareholder of Shenzhen-listed Beijing Centergate Technologies (Holding) Co, he had instructed accomplices to open 79 dummy trading accounts and to buy the company's stock before statements of major transactions and corporate restructuring were issued. In three such insider deals, Huang acquired more than 140 million shares with a value of CNY1.8 billion and profited more than CNY306 million. The court revealed the details as it announced moves to step up the fight against insider trading and corporate bribery. China is to introduce a new judicial interpretation on June 1 to clarify the rules in handling insider trading cases, Sun said. Huang was jailed for 14 years in 2010 for insider trading and other charges including illegal business dealings and corporate bribery. He was also fined CNY600 million and CNY200 million of his personal assets were forfeited. The number of insider trading cases rose to 11 in 2011 from only one in 2007, Sun said. By the end of last year, courts in the country had dealt with a total of 22 insider trading cases. The new judicial interpretation clarifies the definition of an insider. In addition, the interpretation explains that an insider securities transaction with a value of more CNY500,000 constitutes a grave crime.

NYSE Euronext optimistic about China IPOs

China's stock market has great growth potential as small companies seek to raise funds, providing more opportunities for foreign exchanges to cooperate with local ones, Duncan Niederauer, CEO and Director of NYSE Euronext, said. "In the next decade, more than 5,000 Chinese companies are likely to go public, creating more job opportunities and boosting economic growth," said Niederauer. In 2010, 22 Chinese companies went public on the NYSE Euronext's exchanges. Last year, however, only seven went public on the exchanges, raising a total of USD1.49 billion. There are 104 Chinese companies listed on the NYSE Euronext's exchanges: 81 companies on the NYSE, 20 on the Amex and three on Alternext. The Vipshop, an online seller of luxury goods, was the first Chinese IPO on the NYSE this year, raising USD71.5 million in gross proceeds. Niederauer predicted that Shanghai may become one of the top three global financial centers in 10 years, with London and New York, as China's economy is still on a fast growth track. The New York-based group of exchanges is willing to cooperate with stock exchanges in Shanghai, Shenzhen and Hong Kong to help more Chinese companies raise funds in the primary market. The company and the China Financial Futures Exchange signed a memorandum of understanding on May 16 to promote a bilateral partnership to support the development of the exchanges' futures and options markets. It also reached agreements with other Chinese exchanges, including the Dalian Commodity Exchange and Zhengzhou Commodity Exchange, to explore opportunities for information sharing, exchanging and training, as well as researching strategies for the derivatives market, the China Daily reports.

Jeweler Graff launches USD1 billion IPO in HK

High-end London-based jeweler Graff Diamonds launched the roadshow for its reported USD1 billion initial public offering (IPO) in Hong Kong, one of the biggest this year. In a filing to the Hong Kong stock exchange, the company said it made USD623.5 million in retail sales last year compared with USD454.3 million the year before, as revenue growth rebounded from a slump induced by the 2008 financial crisis. Britain accounted for more than half of total retail revenues, but Asia's contribution more than doubled to USD120 million, it said, adding that net profit grew more than 15% to USD120.1 million. The company planned to open five more directly operated stores selling jewelery and watches in Asia this year, in addition to the 18 it already operates around the world. Expansion of the Asian retail network, development of Graff as an "iconic brand" and developing the watch business were central to the company's strategy. Among the risks for investors, the company cited the importance of a tiny group of 20 top customers, who had accounted for more than 40% of group revenue for the past three years. The roadshow is due to continue until May 31 when the IPO will be priced. The IPO is set to be one of this year's biggest share sales after China's second largest brokerage Haitong Securities last month raised USD1.68 billion from its Hong Kong IPO. The listing will enable Graff to raise its profile in Asia and tap the fast-growing luxury goods market in China. Graff's presence in Asia includes boutiques in Hong Kong, Shanghai, Beijing, Tokyo and Taipei. It is planning to open three flagship stores in Hangzhou, Macao and Dubai this year, the South China Morning Post reports. After the listing, the Graff family will still hold about 70% of the shares, with Laurence Graff the controlling shareholder to hold 43.2%. His wife, Anne-Marie Graff, will be the second-largest shareholder holding 25.5% and other family members will have 1.4%. The shares are expected to make their debut on June 7. Graff, now 73, said succession planning was on track, and his 48-year old son, François, had worked at the company for 25 years and been Chief Executive since 2004.

CSRC allows pricing of IPOs by issuers

The China Securities Regulatory Commission (CSRC) has for the first time allowed companies and underwriters to price initial public offering shares on their own, taking a bold step in further reforming the market. However, analysts warn the move is a risky one since granting a bigger say in the pricing process to issuers is likely to result in more elevated IPO prices that could hurt small investors. Presently, issuers and underwriters cannot set IPO prices unless they consult with institutional investors under the “off-line subscription system”. The regulator has not phased out the mechanism of pricing shares via consultations, but issuers and underwriters now have the option of setting their own prices. China's IPO market, the world's largest over the past two years, soaked up massive funds due to the elevated prices, causing the key indicator to slump 14.3% in 2010 before diving another 21.7% last year. Retail investors who subscribed to the new shares suffered losses when the newly listed stocks fell sharply after their trading debuts. IPOs priced 25% above the average price/earnings ratio of their peers are now required to be closely monitored.

- Yang Zhishan, a former independent Director of a publicly listed power company, Shanxi Zhangze Electric Power, has been detained for alleged insider trading. He resigned from the company late last year, and is accused of instructing a friend to buy 2.68 million of the company's shares on two occasions in April last year after he learned of an impending merger with a state coal company in Shanxi.
- George Stairs, a former Fund Manager at Boston-based Fidelity Management & Research, who used inside information to trade in shares of Chaoda Modern Agriculture three years ago, has been banned by Hong Kong's Market Misconduct Tribunal from trading on the Hong Kong bourse for two years. He was also ordered to pay almost HKD860,000 to the government and the Securities and Futures Commission (SFC) toward the cost of proceedings. Stairs sold 374,000 shares in Chaoda, a Hong Kong-listed farming firm, on behalf of the fund that he managed on June 16, 2009, one day after he was notified of the company's plan to launch a share placement.
- A sell-off of Shanghai Pharmaceuticals' stocks showed signs of abating after management denied it was being investigated by the China Securities Regulatory Commission (CSRC) and the Hong Kong Stock Exchange over alleged accounting fraud connected to three acquisitions – Shanghai New Asiatic, Kony Pharma and Shanghai Asia Pioneer. Shanghai Pharmaceuticals' major shareholders, including Temasek Holdings, National Social Security Fund, JPMorgan Chase and Morgan Stanley, have suffered huge losses on their investment in the company as the stock has dropped more than 60% from its debut in May last year.
- Chinese shares ended down 0.7% on May 25 at a one-and-a-half month low, bogged down by worries over Europe's debt problems and signs of slowing growth in the domestic economy. Chinese railway stocks rose on hopes the sector will benefit from a spurt in fixed asset investment. China Railway jumped a maximum 10%, while China Railway Group gained 1.8%, and CRCC rose 1.8%.
- The Ontario Securities Commission (OSC) charged Sino-Forest and some of the Chinese forestry company's former executives with fraud, nearly a year after the allegations surfaced and its stock imploded. It said Sino-Forest engaged in numerous “deceitful and dishonest” actions connected with its purported purchase and sale of timber in China.
- The Shenzhen Stock Exchange has changed the rule governing newly listed stocks' first-day trading. From now on, stocks making debuts will be suspended from trading for an hour if their prices climb or slump by 10% or more from opening prices. The latest rule also stipulates that trading will be suspended until 2.57 pm if debuting shares soar or plunge by more than 20% from opening prices.

TRAVEL

Vehicle camping grounds to be set up in Yangtze River Delta

Some 400 to 500 recreational vehicle (RV) camping grounds will be built in Shanghai and the other 20-plus cities in the Yangtze River Delta Region by the end of 2020, according to a tourism development plan. It has passed experts' review and is expected to be officially launched in the second half of this year. About 20 of the campgrounds will be in Shanghai, mostly in suburban areas like Songjiang, Qingpu and Jinshan districts as well as near the future Shanghai Disneyland in the Pudong New Area. Authorities estimate that an RV tour market valued at more than CNY10 billion will gradually form in China over the next decade, including 3 million to 5.5 million consumers in the Yangtze River Delta Region.

Bidding process for railway projects reformed

Bids for railway contracts in China will be made on the open market in the future, according to a document by the Ministry of Railways (MOR). Current railway project transaction centers, under the Ministry and 18 Railway Bureaus, where bids were traded, are to be closed. The document described the move as “a significant transformation for China’s railway projects’ bidding management.” Efforts should be made to “prevent officials’ meddling in project bidding, collusion and trading power for money,” the document said. “Generally speaking, people are interested in investing in railway programs,” said Zhou Dewen, Chairman of the Wenzhou Small and Medium-sized Enterprises Development Association. “The problem lies in the profits.” The railway authority in Wenzhou, he said, has been negotiating with entrepreneurs but so far the government is offering just 8% of the profits. “Eight percent is not attractive,” he said. Railway programs require huge investment, the sector has suffered losses and entrepreneurs are cautious, he said. Fixed investment in railways in the first quarter was CNY89.6 billion, 48.3% less than the same period last year. “More private capital will be encouraged for infrastructure projects, such as highway and railway construction,” said Bao Yujun, President of the All-China Private Enterprise Federation. However, he warned that it will not be easy to attract private investors into industries that are no longer profitable. Huang Zhilong, Researcher at the China Center for International Economic Exchanges, said private investors may not be very positive about railways because of the high capital threshold, long investment cycle and low profits.

Wealthy Chinese tourists prefer destinations close to China

Japan, Hong Kong and Singapore are among the most popular destinations for wealthy Chinese tourists, who remain less interested in Europe and North America, according to a survey by CAP Strategic Research that polled 300 affluent travelers at Beijing, Shanghai and Guangzhou airports in February. The firm defines affluent consumers as those who earn at least USD67,000 per month. “Chinese travelers are not sure that the U.S. and Europe can meet their needs,” said Roger Thomas, Managing Director of CAP. Respondents were also asked to rate airlines. Singapore Airlines was the most well regarded, with a score of 75.9 out of 100, followed by Dragonair with 71.1 and Cathay Pacific Airways at 68.7. China Southern Airlines, which uses Airbus 380s on domestic routes, was ranked fourth, followed by All Nippon Airways and Air China. About 45% of the respondents bought their plane tickets online, while 35% used traditional travel agents. In April, international traffic was up 21% year on year. Growth in domestic traffic has weakened for three straight months, and rose only 6% year on year in April.

- Wenzhou is planning to allow individuals to invest in the city’s light rail construction as part of the city’s trial to reform private lending. The city is planning to raise half of the funds needed for the rail construction by selling bonds to residents at an annual yield of 6.68%. Wenzhou’s experiment is viewed as a test bed for private investment in rail construction.
- The speeds of trains on the Beijing-Shanghai high-speed railway could be raised to 350-380 kilometers per hour, according to Zhao Xiaogang, Chairman of CSR Corp. The train collision in Wenzhou, Zhejiang province last year that killed more than 40 people had prompted the Ministry of Railways to order trains to run at slower speeds. Trains on the Beijing-Shanghai rail line now travel at speeds of 250 km/h to 300 km/h.
- The new airport in Yibin, Sichuan province, is to be named “Wuliangye”, the brand name of one of the two most famous Chinese distilled liquors, triggering a controversy about product placement and fees for naming rights. An airport in neighboring Guizhou province, where construction will start this year, will be denominated “Kweichow Moutai”.
- The International Air Transport Association (IATA) has urged Beijing to tackle the problem of flight delays and expand the capital's existing airport rather than build a new one. The global airline body also called for more flexibility in the way the civil aviation sector shares air space with the military.

- Chinese airlines plan to buy more than 2,500 commercial aircraft by 2015, bringing the total fleet to more than 4,500, according to Li Jiaxiang, Director of the Civil Aviation Administration of China (CAAC).
- Beijing is developing a real-time database for roadside parking to allow drivers to search online for available parking spaces. The Beijing Traffic Operation Coordination Center will install magnetic sensors at 55,000 roadside parking spaces by year's end.
- Sanya authorities plan to introduce an online pricing-regulation system next month to monitor food prices at seafood restaurants, in an attempt to crack down on price-gouging. Diners will order their dishes on internet-connected iPads or similar devices that will alert authorities if prices exceed a government-ordered cap.
- Shanghai police estimate that there are about 5,000 illegal taxis on Shanghai's streets, compared to 50,000 legal ones. Local commuters have recently reported being robbed by bogus taxi operators of money, public transport cards and cell phones. Electronic tags have been introduced on licensed taxis to allow for instant identification.
- The central government is against high entry fees for tourist attractions and bans redundant ticket charges, Wu Wenxue, Director of the Planning, Development and Finance Department of China's National Tourism Administration (NTA), said. He added that excessive price increases should be banned. The entrance fee to Lhasa's Potala Palace for example has been doubled to CNY200 from May till October 31, the peak tourist season. Admission to Zhangjiajie, a famous scenic attraction in Hunan province, is three times that of the Louvre Museum in France. China Tourism Day was held on May 19.
- Chinese travelers have been scared away from the UK by high costs during the upcoming London Olympic Games. Major travel agencies in Beijing and Shanghai were dropping plans to take tourists to the Games. Instead, they encouraged travelers to postpone the trip to London until the end of the Games (July 27 to Aug 12) due to cost concerns. An average traveler is expected to pay an extra CNY3,000 to CNY4,000 on a 10-day trip to the UK during the Olympics compared with last summer, according to Gu Chao from Shanghai's travel agency SAL Tour.
- China's first passenger jetliner, the 90-seat ARJ21, is unlikely to get regulatory approval before next year, putting the program about five years behind schedule. The delay could also disrupt the completion of a more ambitious effort to develop the 168-seat C919 jetliner. Tian Min, CFO of the Commercial Aircraft Corp of China (Comac), said the bigger aircraft was on track for a 2014 maiden flight and should get airworthiness approval from the Civil Aviation Administration of China (CAAC), as scheduled, by 2016. The ARJ21 is key to China's bid to develop an aerospace industry that can compete globally.
- Beijing police will soon launch a new policy to allow 72-hour non-visa entry for foreign business travelers in an effort to facilitate their travel.

VIP VISITS

NPC Chairman Wu Bangguo visits Luxembourg and Spain

Chairman of the National People's Congress (NPC) Wu Bangguo arrived in Madrid on May 23 for a six-day goodwill visit to Spain. Wu met King Juan Carlos, Prime Minister Mariano Rajoy and other Spanish leaders. Sino-Spanish trade reached USD27.3 billion in 2011, up 11.7% from 2010. In 2011, the two countries signed 15 government agreements and economic and commercial contracts worth USD7.5 billion. Spain was the last stop on Wu's four nation European tour. He also visited the Netherlands, Croatia and Luxembourg. Trade relations between China and Luxembourg have flourished in the past decade, with bilateral trade volume up from around USD100 million before 2002 to nearly USD3.3 billion in 2009. Wu said the remedy of the debt crisis lies in regional perseverance to restore a dynamic and sustainable economy, rather than in outside support. "China is willing to import more goods from Europe to help balance the trade deficit, and in turn, we hope that Europe can recognize China's market economy (status) as soon as possible," he said.

- Vice President Xi Jinping met visiting Israeli Defense Forces (IDF) Chief of Staff Lieutenant General Benny Gantz, calling on the militaries of both countries to boost cooperation and promote bilateral relations. Israeli Prime Minister Benjamin

Netanyahu is expected to travel to Beijing in the coming weeks.

ONE-LINE NEWS

- Positive perceptions of China increased to 50% from 46% last year, allowing it to overtake both the European Union and the United States in worldwide popularity, according to the 2012 Country Ratings Poll, for which more than 24,000 citizens in 22 countries were interviewed. China came in fifth place, following Japan, Germany, Canada and the UK. The U.S. ranked eighth this year with 47% positive views.
- Ying Guoquan, 58, former Chairman of the Wenzhou Vegetable Basket Group, a state-owned food enterprise, was sentenced to death with a two-year reprieve in a case involving bribes and embezzlement of state-owned assets totaling more than CNY370 million. He was also deprived of his political rights for life, and his personal assets were confiscated. 15 other former senior officials also received jail terms.
- Hong Kong Exchanges and Clearing Chairman Chow Chung-kong has been elected Chairman of the Hong Kong General Chamber of Commerce. Jardine Matheson Director Y.K. Pang has been elected to succeed Chow as Deputy Chairman of the Chamber.
- Condiment producer Weiji Food Seasonings Co in Foshan, Guangdong province is being investigated over claims it used illegal industrial salt, which can cause cancer, in its mushroom soy sauce to cut costs. Foshan food safety officials said seized products had been tested and met quality standards, but the company’s use of industrial salt was still illegal. Products produced by the Foshan Haday Flavoring & Food Co and branded “Weiji,” have no connection with the industrial salt investigation.
- Yu Zhengsheng was re-elected Shanghai Communist Party Secretary at the local Party Congress. He is expected to join the supreme nine-member Standing Committee after the 18^{th} National Party Congress later this year. All but one of all Shanghai Party Secretaries since 1989 have been promoted to the Standing Committee. Chen Liangyu was sacked and jailed following the city's pension fund scandal in 2006.
- Li Ka-shing, who will turn 84 next month and is Asia's richest man, spelled out a succession plan to split his business empire between his two sons in a way he said would ensure no conflict between them. Elder son Victor Li would take the helm of property group Cheung Kong (Holdings) and conglomerate Hutchison Whampoa. Richard Li already owned several sizable companies in other sectors. He is Chairman of PCCW, the biggest telecommunications company in Hong Kong. Li Ka-shing said he had “no plans” to retire, but had thought out the succession plan for a long time.
- Tingyi Holding, owner of the Master Kong brand of instant noodles, announced at the 8^{th} World Instant Noodles Summit in Tianjin, that Chairman Wei Ing-chou has taken on the post of Director General of the World Instant Noodles Association. Chinese consumers last year ate 42.5 billion packets of instant noodles, around 43% of total world consumption, but per capita consumption of instant noodles in China was only 32 packets a year, lower than in South Korea, Indonesia, Japan and Hong Kong.
- China's former Railway Minister Liu Zhijun was expelled from the Communist Party of China after being found guilty of corruption, the Party’s Central Commission for Discipline Inspection (CCDI) announced. “Liu should hold most of the responsibility for corruption in the railway system,” according to the CCDI. Liu’s case will now be handed over to prosecutors. He had been under investigation since February 2011.

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