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FLANDERS-CHINA CHAMBER OF COMMERCE
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PAST EVENTS

FCCC Meeting Reception in honor of the future Consul General of Belgium in Shanghai, Mrs Cathy Buggenhout, 25 June 2012, KBC, Brussels

The Flanders-China Chamber of Commerce (FCCC) organized a meeting with the future Belgian Consul General of Belgium in Shanghai, Mrs Cathy Buggenhout. The meeting took place on Monday 25 June 2012 at KBC Bank, Grote Markt 17, 1000 Brussels and was attended by over 70 business leaders. Mr Bert De Graeve, Chairman FCCC, introduced the future Consul General. After that, Mrs Buggenhout, gave a short introduction about her past and present postings and her aims for her future posting as Consul General in Shanghai.

This was followed by a networking reception during which the FCCC members introduced their activities to the new Consul General.

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

The Flanders-China Chamber of Commerce (FCCC) and The Conference Board organized a dinner “Fragile China? – Appraising Recent Developments and Future Operating Conditions for MNCs”. This dinner took place at Le Méridien in Brussels and was organized with the support of Flanders Investment & Trade.

Mr Bert De Graeve, CEO of Bekaert NV and Chairman of the Flanders-China Chamber of Commerce welcomed the participants and introduced the guest speaker. Mr David Hoffman, Vice President and Managing Director of The Conference Board China Center for Economics and Business, dimensioned China’s near-term economic outlook and medium term economic challenges. He also outlined the issues, implications and opportunities for MNCs in China that are inherent to the economic transition now underway in China.

This interesting briefing was followed by a dinner, during which the participants were able to discuss and exchange their views.

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 is available to FCCC members.

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

Chinese banks face lower return on equity

Singaporean sovereign wealth fund Temasek says the big Chinese lenders should be able to weather recent rate liberalization but warns that the banks face a lower return on equity. Temasek President Gregory Curl told a conference that the big four Chinese banks should have enough cash flow to handle a fall in return on equity. The loan-to-deposit ratio for Chinese banks was kept under a ceiling of 75%, while U.S. banks had loan-to-deposit ratios of between 75% and 90%, Curl said. Chinese banks were “better run than most people would think”, and their balance sheets more relevant to the country's real economic development, which made them more predictable, he said. Beijing supported economic growth and sent clear signals to its banks, he added. Curl described China Securities and Regulatory Commission Chairman Guo Shuqing as “very smart, very energetic and, most importantly, very stubborn”. He said Guo backed growth in both the equity and bond markets, as well as development of the qualified foreign institutional investor (QFII) scheme. Earlier this month, Temasek applied for a QFII quota of USD700 million to invest in A shares, the yuan-denominated stocks traded on the Shanghai and Shenzhen exchanges. It was granted

USD300 million in QFII quotas between 2005 and 2009.

- The Ministry of Finance signed a memorandum of understanding (MoU) with Hong Kong Exchanges and Clearing on the listing and trading of yuan-denominated sovereign bonds in Hong Kong. These bonds issued by the Ministry may list and trade on HKEx.
- China has offered USD43 billion to the IMF's special reserves to help protect countries from fallout from the eurozone debt crisis. They will be drawn only if they are needed as a second line of defense when other IMF loans have been depleted. The other four BRICS nations also contributed funds but expected their voting quota at the IMF to be raised. China would become the third-largest voting member.
- Yuan funds accumulated from foreign exchange purchases rose by CNY23.4 billion in May, after declining by CNY60.6 billion in April. The trade surplus rose 44% year on year in May to USD18.7 billion and FDI edged up 0.05% to USD9.23 billion, contributing to the inflow of foreign currencies. Li Xunlei, Chief Researcher at Haitong Securities remarked that foreign currencies flowing in through the trade surplus and FDI amounted to more than CNY170 billion while yuan funds increased only CNY23.4 billion. That means about CNY150 billion worth of foreign currencies have been withdrawn from China.
- Beijing has approved the CNY2 trillion mutual fund industry to invest in the newly created high-yield bond market, offering fund managers a new alternative. The China Securities Regulatory Commission (CSRC) issued a circular to asset managers, allowing them to buy bonds offered by small- and medium-sized firms – or junk debt. On June 8, Suzhou Huadong Coating Glass became China's first issuer of high-yield bonds, netting CNY50 million worth of two-year debts at an annualized interest rate of 9.5% on the Shanghai exchange.
- The National Development and Reform Commission (NDRC) has ordered local governments to check on the ability of companies to repay maturing bonds this year and in 2013 to head off defaults. The orders were issued because the risks of defaults were increasing as the bond market expanded. Corporate bond sales have increased 148% this year through June 18 to CNY511 billion as China encouraged companies to raise more funds by selling debt and shares, and to depend less on loans from state-owned banks to finance their operations.
- China started tendering a record CNY23 billion worth of dim sum bonds in Hong Kong, and for the first time, it earmarked CNY2 billion of the sovereign bonds for overseas central banks and monetary authorities, who will be able to buy them through the Hong Kong Monetary Authority (HKMA). Some CNY15.5 billion of the bonds will also be offered to institutional investors.

FOREIGN INVESTMENT

FDI growth picks up in Shanghai

Foreign direct investment (FDI) in Shanghai rose 9.9% on an annual basis to USD1.34 billion in May, stronger than March's 2.7% gain, but slower than the 15.9% jump in April. Contracted FDI in Shanghai surged 27.5% to USD2.04 billion, with USD268 million of that, or 2.5 times the value a year ago, going into the city's manufacturing sector. The service sector in Shanghai absorbed USD1.77 billion worth of contracted FDI, up an annual 19.1%. Shanghai targets to attract at least USD10 billion in FDI annually by 2015.

- Denmark's Arla Foods Amba plans to buy a 6% stake in China Mengniu Dairy Co, China's largest milk producer, and set up a China-Denmark milk technology center.
- Investment contracts worth USD3.4 billion were signed by 85 enterprises from 21 Chinese cities and 20 U.S. cities gathered for the second U.S.-China Cities Forum on Economic Cooperation and Investment. A total of 42 investment projects were involved, covering 21 sectors. The forum was jointly sponsored by Chinese and U.S. finance ministries.The forum was first held in Seattle last year.

FOREIGN TRADE

Government pushes balanced trade

A circular entitled "Advice on Strengthening Imports and Promoting a Balanced Development of Trade" was recently published. China's volume of imports grew at an annual rate of 16.4% on average between 1979 and 2010, 0.8 percentage points lower than the growth rate of exports. The annual growth rate was 20% on average between 2001 and 2010, 0.3 percentage point lower than the growth in exports. The country's foreign trade rose 14.1% year-on-year to about USD343 billion in May, rebounding from 2.7% growth in April, according to the General Administration of Customs. Both imports and exports reached record highs in May. Exports grew 15.3% from a year earlier to USD181 billion and imports increased 12.7% to USD162 billion. The better-than-expected data showed China's foreign trade has recovered, said Huo Jianguo, Director of the Chinese Academy of International Trade and Economic Cooperation under the Ministry of Commerce (MOFCOM). Some analysts warned that the rebound may not be sustainable. Zhang Hanlin, Director of the China Institute for World Trade Organization Studies with the University of International Business and Economics in Beijing, said the risk of a declining economy is increasing. The number of orders at major trade fairs since May has not been good, he said. Zhang said the solid implementation of government policies encouraging imports will speed up their growth and balance the trade volume this year.

- China's massive demand for milk has led to an increase in imports of dairy cattle from Australia, New Zealand and Uruguay, but that trade is expected to slow in five years, according to Li Shengli, Chief Scientist of the National Milk Industry Technology System and Professor at China Agricultural University. China imported nearly 100,000 cattle from the three countries last year. Modern Farming Group Co, Liaoning Huishan Holdings Group and other top milk producers plan to set up dozens of large farms.

MACRO-ECONOMY

Continuing weakness in manufacturing sector

China's manufacturing sector has slowed further in June and a decline in new orders shows that the weakness is likely to drag on, according to the HSBC Flash Purchasing Managers' Index (PMI), which fell to 48.1 in June from 48.4 in May, a seven-month low. Virtually every component of the PMI survey, from manufacturing output to stocks of finished goods, pointed in a negative direction, although not as severe as in late 2008 when the global financial crisis erupted. "We expect more decisive policy stimulus to reverse the growth slowdown," said Qu Hongbin, HSBC Chief Economist for China.

- Hong Kong's wealth gap increased in the decade to 2011. The city's Gini coefficient rose to 0.537 in 2011, from 0.525 in 2001. It was 0.451 in 1981. It is among the highest in the developed world – compared to 0.482 in Singapore and 0.469 in the United States. Statistics showed that the median monthly income for the city's poorest 10%, including those who received social security assistance, dropped from HKD2,250 to HKD2,070 in the past five years while the top 10% of earners made HKD95,000, compared to HKD76,250 five years ago.
- Businesses in the Pearl River Delta say their biggest hurdle isn't slow economic growth but a lack of staff, as the flow of migrants dries up. More than 90% of 167 Hong Kong factory owners polled by the Chinese Manufacturers' Association of Hong Kong said they could not find enough workers. About 10% of factory owners said their staffing was at least 30% less than the level they needed. Factories in the delta said they needed 30,000 more workers – or 14% of the present workforce.
- China's population of those with at least USD1 million to invest rose by 5.2% to 562,400 last year, according to Capgemini and RBC Wealth Management's latest world wealth report.
- China will continue expanding investment in fixed assets in an appropriate way, ensuring investment in critical areas while avoiding excessive capacity, said Du Ying, Vice Chairman of the National Development and Reform Commission (NDRC). "Future investment will tilt toward the western regions," he added. The critical sectors for increasing investment include industrial-upgrading projects; infrastructure projects

in transportation and water conservancy; large projects in agriculture and civil services concerning social security; poverty eradication; and basic education.

MERGERS & ACQUISITIONS

China Pharmaceutical expected to acquire assets from parent

Hebei-based drug maker China Pharmaceutical suspended trading of its shares in Hong Kong pending news of an acquisition. The company produces vitamin C and penicillin. Johnson Sun, Health-care Analyst at Guotai Junan (Hong Kong), said the acquisition might be about a possible asset injection involving non-listed businesses of the Shiyao Group, which is controlled by Lenovo Hony Capital. Besides China Pharmaceutical, Shiyao has three major subsidiaries, manufacturing mainly bulk drugs, generic drugs and cardio-cerebral vascular drugs. China Pharma, which derived nearly half of its revenues from antibiotics sales last year, reported a net loss of HKD85 million for the first quarter this year, compared with a net profit of HKD169 million in the same period a year earlier. It said overcapacity in the market and the limited use of antibiotics caused prices of its products to fall. It expected to report a loss for the first half of this year.

SOEs and global PE firms looking into outbound investments

Chinese state-owned enterprises (SOEs) and global private equity firms are seeking opportunities to collaborate in outbound investments. Gerson Lehrman Group (GLG), a U.S.-based research firm, hosted a summit in Beijing with the research center of the State-owned Assets Supervision and Administration Commission (SASAC), bringing together 300 executives and researchers to “discuss opportunities, challenges and models for co-investment”, Matthew Creedon, Managing Director of GLG in Asia, said. Deputy Commerce Minister Gao Hucheng said that Beijing would act as a matchmaker, helping more Hong Kong and mainland firms form consortiums to invest overseas. New guidelines issued last month allow for equity funds to be set up between private investment entities, or between a private investment entity and an SOE. André Loesekrug-Pietri, managing partner of A Capital, a Europe-China private equity fund, said many SOEs feel more comfortable working alone and acquiring majority stakes, but when expanding abroad, this could be a challenging approach. “Minority transactions may allow them to access better assets, lower downside risk, build upon an existing management team and reduce the risk of political resistance towards a Chinese investor,” he said.

- Citic Securities has received regulatory approval to launch China's first domestic buyout fund. In addition to providing an alternative to bank lending, buyout funds can serve as exits for private-equity firms and can help buy out listed companies that want to go private. The fund is to be managed by a subsidiary called Goldstone Investment.
- State-owned Bright Food is to buy a 70% stake in Bordeaux wine exporter Diva to gain a foothold in the wine-making region. China, the biggest importer of Bordeaux wines, saw wine consumption soar 110% last year. Bright Food will pay an undisclosed sum for its stake in privately-held Diva, which makes 45% of its sales in China and 60% in Asian markets.

PETROCHEMICALS

China's oil imports from Iran on the rise again

China's oil imports from Iran continued to sharply rebound in May to nearly match 2011 levels following a steep drop-off earlier this year. China's General Administration of Customs said crude imports from Iran slipped 2.3% in May compared with a year earlier, to 2.2 million metric tons, or 524,000 barrels a day, allowing Iran to reclaim its spot as China's third-largest supplier after it slipped earlier this year. May data also showed imports rose 38.99% compared with April. Crude imports from Iran were still down nearly 25% in the January-to-May period following commercial disputes between China International United Petroleum & Chemical Co (Unipec) and National Iranian Oil Co. The deadlock was resolved in mid-February, and purchases began recovering in April. Even if China's crude shipments from Iran equal last year's levels for the rest of this year, Beijing's full-year crude imports from Iran would still be 12% lower than in 2011, according to calculations by The Wall Street Journal. The U.S. has so far not exempted China from sanctions it imposed on Iran. The deadline to comply with the sanctions is June 28. Chinese Foreign Ministry Spokesman Hong Lei said China's import of oil from Iran is completely fair and reasonable and does not hurt third parties or the international community. Earlier this month, the White House granted exemptions to seven more countries from the new U.S. sanctions after those countries reduced oil imports from Iran. China's imports from Sudan were halted for a second consecutive month, after South Sudan – where the oil originates – stopped production. Surges in imports from Venezuela, Iraq and Oman helped offset reduced supplies from South Sudan and Iran.

- China National Petroleum Corp (CNPC) has begun operations at the first phase of Iraq's Halfaya oil field, 15 months ahead of schedule. The field, with an initial output of 70,000 barrels a day, will have a production capacity of 5 million tons a year, or about 100,000 barrels a day in the first phase. CNPC has also started preliminary work on the second phase, which will see the capacity double to 200,000 barrels a day. CNPC won the rights to develop the oilfield as part of a consortium, which includes Total and Petronas. CNPC said Halfaya is its largest overseas project as an operator.
- China may open its energy sector to private investors in the fields of oil and gas exploration, coal gas pipelines, and power grids. Participation in oil and gas exploration and the oil and gas pipelines sectors is allowed under the condition that China Petrochemical Corp and China National Petroleum Corp remain the dominant stakeholders.
- China Petroleum & Chemical Corp reduced its crude processing target for June by 8% from its original plan amid weaker fuel demand and a possible price cut in July, according to C1 Energy. The company's refining target will fall by about 1.5 million metric tons.
- Privately-held refineries in Shandong province, also known as “teapot plants”, are increasing their production. Refinery run rates rose to 36.6% of their designed capacity as of June 14, the Shandong-based Oilchem.net said, citing a survey of 32 plants with a combined capacity of 68.9 million metric tons a year. That compares with 41.2% in the same period last year.

REAL ESTATE

Prices drop in record number of cities

A record number of Chinese cities registered year-on-year declines in home prices in May as real estate developers trimmed profits to boost sales, according to the National Bureau of Statistics (NBS). Excluding government-subsidized affordable housing, prices fell last month in 55 of 70 cities tracked by the Bureau, compared with 46 cities that saw year-on-year declines in April. On a month-on-month basis, meanwhile, 43 cities had drops in the price of new residential property in May, while six registered growth and the rest were flat. Sales of new homes dropped 13.5% year on year to 255.52 million square meters across the country between January and May, compared with a 14.9% annual drop recorded during the first four months of this year. By value, they fell 10.6% to CNY1.4 trillion from the same period a year earlier, compared with a yearly decline of 13.5% registered during the January-April period. In Shanghai, Beijing, Guangzhou and Shenzhen, where home purchase restrictions have been vigorously enforced, new home prices lost between 1.6% and 2.3% in May from a year earlier. An index of willingness to purchase real estate assets, compiled every two months by BoCom's economic research center and U.S.-based Nielson, grew to 109 in May, up from March's 106 and January's 103.

Registered house purchases in Beijing in the first half of June reached 10,576, a growth of 46.5% year-on-year, according to the Beijing Housing and Urban-rural Development Bureau. With increased turnover, prices in some cities are on the rise again. Property brokerage 5i5j Real Estate said that in the first half of June, the average residential house price hit CNY21,364 per square meter, up 3.7% over the last month. “It seems that house prices and tightening policies have reached their bottom, so quite a few buyers are starting to panic again,” the People's Daily said in an analytical report.

Greentown sells assets to new JV with Sunac

Debt-laden Greentown China sold part of its assets to a new joint venture with Sunac China to book a one-time gain of CNY232.5 million. The transaction followed a HKD5.1 billion fund-raising effort this month when Greentown offered additional shares and convertible securities to The Wharf (Holdings). Greentown Chairman Song Weiping called the austerity steps taken by the Chinese government “entirely unreasonable”. Nine of Greentown's projects in cities including Shanghai, Suzhou and Wuxi will be injected into the 50-50 venture with Sunac, a Tianjin-based developer. Sunac will pay a combined CNY6.74 billion to complete the deal, with CNY3.4 billion being paid to Greentown and the remainder going into the joint venture. Greentown will use the proceeds of CNY232.5 million to repay loans and replenish working capital. “It's not a cooperation with Sunac,” Song said. “It's a deal under which Sunac gives its full support to Greentown.” He said Greentown would not need fresh funds this year to keep its businesses afloat. It would probably seek more partners, he added. Greentown's nine projects would probably rake in a combined CNY45 billion in sales, Song said. Analysts expect more mainland developers to sell assets cheaply to domestic or overseas investors amid a tough operating environment. “Good partners are those who really understand the value and quality of Greentown's projects.” He said both Sunac and Wharf had made a vote of confidence in Greentown. Deutsche Bank Analyst Tony Tsang said the deal could let Sunac expand its exposure in the Yangtze River Delta. “The venture will bring in Greentown's premium quality and service together with Sunac's advantages in resources management, cost control and sales operations.”

Citron Research claims Evergrande is insolvent

Evergrande Real Estate's shares dropped on accusations that it had fabricated its books and asset value. Short-seller Citron Research said the developer was insolvent. Chairman Hui Ka-yan rejected the allegations, but uncertainties remained. Fitch Ratings said the claims did not immediately affect the Guangzhou-based developer's liquidity or broader credit profile. Evergrande reported its equity was CNY35 billion at the end of last year. Citron said Evergrande had invested heavily in unprofitable projects. It had spent at least CNY16.2 billion as of the end of last year on money-losing investments that included a soccer team, a volleyball team, the largest soccer academy in the world and entertainment firms. Evergrande said it would take legal action in order to protect the interest of shareholders. Hui said the firm had sufficient cash flow and more than CNY13 billion on hand. Fitch Ratings believes Evergrande does not need to access offshore capital markets in the near term as the first of its capital market debt maturity is not due until January 2014. It noted the firm had a cash balance of CNY20.1 billion at the end of last year. Deutsche Bank Research Analysts Tong Tsang and Jason Ching said the accusations were not valid. They estimated Evergrande's liquidation value was close to HKD67 billion, the South China Morning Post reports.

- Hu Jun, 46, former Deputy Director of the Shanghai Planning, Land and Resources Administrative Bureau appeared in the Shanghai No 2 Intermediate People’s Court on charges of taking more than CNY7 million in bribes from six companies and individuals when he was in charge of planning in Jing’an District, Chongming County and the Municipal Bureau between March 2002 and last February. Last year, Tao Xiaoxing, another former Deputy Director was sentenced to life imprisonment for taking CNY10.45 million in bribes.
- 20.4% of 20,000 households in 50 cities expect home prices to rise in the coming quarter, according to a survey by the People’s Bank of China (PBOC). Some 15.7% of the respondents said they plan to buy a home in the next three months, 1.6 percentage points higher than in the first quarter.
- Evergrande Real Estate Group, China’s second- biggest developer by sales, has bought a plot of land in Guangzhou for CNY1.3 billion at CNY32,967 per square meter. The price, based on the site’s build area, was a record high for Guangzhou.
- Demand for prime, high-end residential properties in Hong Kong is weakening, forcing landlords to lower their asking rents by as much as 20%. This comes as global financial institutions place their expansion plans on hold and reduce housing allowances for expatriate staff due to the world's grim economic outlook. Property consultants say this trend could worsen in the second half of the year if the crisis shows no sign of improvement.
- The Standing Committee of the Chinese People's Political Consultative Conference (CPPCC) has urged the government to relax curbs on luxury property in first-tier cities in order to maintain strong economic growth. The government introduced the property curbs in early 2010 to cool an overheated market. The curbs eventually led to a drop in home sales and prices, particularly in first-tier cities.

RETAIL

Gome's founder trying to obtain bank loans

Personal representatives of Huang Guangyu, who is still Gome's largest shareholder despite being in jail since 2010, have met senior executives of several international and Chinese banks in Hong Kong to try to obtain loans totaling HKD1 billion. Shares in Gome have lost about 45% of their value on the Hong Kong market since the start of the year, partly due to the company's weak business performance.

- The traditional Chinese medicine seller Tongrentang is aiming to double the number of its retail outlets overseas to 100 by the end of this year. The company, with a 343-year history, will also open museums to showcase the best of traditional Chinese medicine (TCM) and conduct lectures and seminars on traditional medicines.

SCIENCE & TECHNOLOGY

Shenzhou-9 docks with Tiangong-1

The Shenzhou-9 spacecraft docked automatically with the Tiangong (Heavenly Palace) 1 module, a first for Chinese manned spaceflight. A manual docking to perfect the procedure was made on June 24. The crew includes China's first female astronaut, Liu Yang. The 8.5-ton space lab module has traveled around Earth for 263 days since it was launched last September. Two astronauts will live in the module for about six days, conduct medical tests on the effects of weightlessness on the human body, and perform other scientific and engineering tasks on Tiangong-1. Prior to the manual docking, Zhou Jianping, Chief Engineer of China's manned space program, said: "The real test will be the manual docking attempt six days later. A manual docking, if successful, will demonstrate the country's grasp of essential space rendezvous and docking know-how." A manual docking is considered as a major step toward China building a space station around 2020, when the International Space Station will be retired. The manual docking was completed in 7 minutes, 3 minutes faster than automatic docking. This is China's fourth manned space mission. The Shenzhou-9 is due to part from the Tiangong-1 and take the three astronauts back to Earth on June 29.

- China's state-of-the-art manned submersible, Jiaolong, dived to a depth of 6,965 meters at the Mariana Trench in the western Pacific and returned safely to the surface with samples of water and sea life. The dive mission, which lasted about 10 hours, was aimed at testing Jiaolong's ability to reach 7,000 m. The Jiaolong reached depths of 6,671, 6,965 and 6,963 m in three dives from June 15-22, surpassing the old record of 5,188 m in July last year. The Jiaolong set a new record on June 24, reaching 7,020 meters below sea level during its fourth dive into the Mariana Trench. The submersible will attempt two more dives and is expected to return to China in mid-July.
- Gu Chaohao, 87, Mathematician and winner of China's top science and technology award, has died in Shanghai. He made breakthrough achievements in cutting-edge math research fields, such as differential geometry, partial differential equations and math-physics. He was holder of a PhD degree in math and physics from Moscow State University. He also served as Fudan University's Vice President and President of the University of Science and Technology of China in Hefei.

STOCK MARKETS

CSRC relaxes QFII rules

The China Securities Regulatory Commission (CSRC) has announced it will allow international fund managers with as little as USD500 million under management and two years' operating history to apply for investment licenses. The previous threshold – USD5 billion under management and a five-year record – meant only the largest global fund houses could be admitted to its qualified foreign institutional investor (QFII) program. The scheme has expanded slowly since its launch in 2002, but foreign investors still account for only about 1% of the total free-float market capitalization in China. "This [reform] is the most significant move since the QFII scheme started," said Fraser Howie, co-author of Red Capitalism and an expert on Chinese finance. "It's opened the door for bringing in hundreds more foreign investors." The CSRC, which plans to introduce the reforms as soon as July, also announced that qualified foreign investors would be allowed to invest in index futures and the interbank bond market. In April, the CSRC announced that international fund managers would be allowed to invest a combined USD80 billion in China's onshore capital markets, up from the previous limit of USD30 billion. The CSRC allocates licenses to foreign institutions case by case and the State Administration of Foreign Exchange decides the size of each investment quota. As of the end of May, 170 institutions had been approved to invest a total of USD26 billion under the QFII scheme. The Chinese government also plans to boost the number of international insurance companies in Hong Kong that are allowed to invest in the stock and bond markets. QFIIs will be allowed to hold up to a 30% stake in a listed firm, up from the 20% cap now. The CSRC has quickened QFII approvals recently, granting USD5.62 billion in quotas to 51 QFIIs since December.

Xiao Nan Guo revives IPO, reduces target

Restaurant chain Xiao Nan Guo Restaurants Holdings revived its initial public offering (IPO), saying market sentiment had improved. The fast-growing company has cut its planned fund-raising size by one-fifth to HKD512 million. Chief Executive Kang Jie said he was confident that the IPO would be a success. The group said net profit jumped 10.93% year on year to CNY107 million last year and was up more than half for the first quarter this year due to its rapid expansion. The company opened 23 new restaurants last year, on top of 36 existing ones it had in 2010, bringing the total to 59. It planned to spend up to 85% of its proceeds on opening 22 more shops this year and a further 58 by 2014. Kang dismissed suggestions that the company could be expanding too fast, given slowing economic growth, saying underlying demand was there. “Among the CNY2.5 trillion to CNY3 trillion spent in the mainland's catering industry last year, around two-thirds was spent on Chinese cuisine,” Kang said. “In the Western sector, we've got big players like McDonald's and KFC, but in the Chinese sector, there are very few large-scale chains.”

- Shenyin & Wanguo Securities Co’s board elected Jesse Wang, Executive Vice President of China Investment Corp (CIC), as Chairman. CIC holds a 37.23% stake in Shanghai-based Shenyin & Wanguo through Central Huijin Investment.
- The China Securities Regulatory Commission (CSRC) has reported 704 IPO applications so far this year. Of those, 112 have been approved and are now pending flotation in China’s A-share market. Last year, funds raised in China through 349 IPOs dropped 41% to CNY286.1 billion after hitting a record figure in 2010.
- State-owned insurer PICC Group has secured Hong Kong stock exchange approval for a USD3 billion initial public offering (IPO). PICC plans to raise up to USD6 billion through a dual listing in Hong Kong and Shanghai. If successful, the combined fund-raising has the potential to be Asia's biggest offering. The Hong Kong listing itself has the potential to be the biggest IPO in the city this year.
- Aluminum Corp of China plans to raise as much as USD221 million selling shares in its Hong Kong engineering and construction unit China Aluminum International Engineering Corp (Chalieco). Chalieco suspended its initial public offering (IPO) in March, which was planned to raise as much as USD500 million.
- The Chinese arms of all of the Big Four audit firms have been asked by U.S. regulators to turn over documents related to audits of China-based companies listed in the United States. The U.S. Securities and Exchange Commission (SEC) has already filed an enforcement action against Deloitte's Shanghai arm seeking documents, but has not yet taken action against the Chinese units of the other Big Four firms – Ernst & Young, PwC and KPMG – over Chinese audit papers. One legal expert said that now that the other firms had received formal requests for documents, it could be a matter of time before they were in the same position as Deloitte.
- Funds linked to the Chinese government have been buying shares in Japanese companies. OD05 Omnibus fund is a major shareholder in 174 Japanese firms, including Toyota and Nikon. The value of the fund's investments in Japan are reported to be a record JPY3.58 trillion. Bank of Japan figures show China has also become a major holder of Japanese government and corporate debt, outpacing the U.S. and Britain.

TRAVEL

Marriott to double number of hotels in China

U.S.-based Marriott International plans to almost double the number of its hotels in China to more than 100 by 2014, said Arne Sorenson, President and CEO. “On average, we expect to open a hotel a month in this country over the next three years,” he said. The company has 60 properties in China, spanning six brands including luxury hotels such as The Ritz-Carlton and JW Marriott Hotels & Resorts and the upper-middle range Courtyard by Marriott. About 50 hotels are in the pipeline. Among the leading international brands operating in China, Marriott accounts for 15% of hotel supply and 23% of revenue. Of the new rooms in the pipeline — between 90,000 and 105,000 worldwide — in the next three years, about 14% will be in China, said Anthony Capuano, Executive Vice Present of Global Development Marriott. Sorenson said the lodging industry in China will continue to show double-digit growth over many years as the Chinese tourism market is booming to equal that of the United States in the next 20 years. “There are 1 million rooms in China so far but 5 million in the United States,” he said. China is becoming the world’s largest domestic travel market, with about 2.6 billion trips made last year. As of the end of 2010, nearly 70 international hospitality brands from 41 countries were present in China, managing about 20% of the country’s top-end hotels, according to the China Hotel Development Report by the China Tourism Academy.

China's air transport continues growing

China's air passenger volume hit 300 million last year, more than tripling over the past decade, and Chinese airlines nearly tripled the size of their combined fleets, from 602 aircraft in 2002 to 1,764 at the end of last year. By 2015, passenger volume is projected to reach 450 million while the commercial aircraft fleet is expected to number 2,750. That would make China the biggest inbound tour market and fourth-largest outbound market in the world. The number of aircraft operated by Chinese airlines will reach somewhere near 9,000 by 2030, based on the projected air traffic growth calculated by the Civil Aviation Administration of China (CAAC). The number of air passengers will reach 700 million in 2020 before doubling to 1.5 billion in 2030. To cater for this growth, the CAAC has earmarked CNY425 billion for airport expansion in the five years to 2015, including building 56 new airports, relocating 16 and expanding 91. The expansion plans include building a second airport in Beijing, and fourth and fifth runways at Shanghai Pudong International Airport. Around 70% of the existing 175 airports run at a loss, making banks wary of approving fresh loans, an airport consultant said. Many airports are also underutilized, leading to poor returns on investment, according to Eric Wong, former Chief Executive of Hangzhou Xiaoshan International Airport. He said there weren't enough small aircraft – those with seats under 100 – to cater for small airports, leading to the low utilization rate. Smaller aircraft could effectively tap passenger demand because they enabled airlines to fly more often and provide more choice, Wong said. Only 53 of the 175 airports on the mainland get more than 1 million passengers a year, the South China Morning Post reports.

- Harbin was ranked first in MasterCard’s survey of 132 tourist destinations growing in popularity. Harbin, Xian, Guangzhou and Chengdu, make up four of the 10 fastest-growing vacation destinations by traveler spending. Tourism receipts in Harbin are projected to rise 53% this year. Guangzhou and Qingdao also made the Top 20.
- The central government is considering legislation that would make China's railway system safer, in part by banning the hasty completion of high-speed lines. The drafted legislation comes as the national auditor issued its latest findings of financial irregularities in rushed high-speed rail projects. The draft calls for a ban on contractors rushing to finish high-speed rail projects early, as well as from taking actions that would undermine construction quality. If approved, the requirements would be implemented in all ongoing and future projects. China has built the world's largest high-speed railway network, spanning more than 8,000 km. It is expected to exceed 13,000 km by the end of next year.
- The Ministry of Railways said 5.9 million people travelled on trains on June 21, the first day of the four-day travel rush for the Dragon Boat Festival holiday. It was a jump of nearly a million passengers from the previous day, and a 5.3% increase from last year.
- Skyteam, one of the world’s three largest airline alliances, signed a cooperation agreement with Beijing Capital International Airport to provide better services to its passengers. Skyteam’s 16 members worldwide include China Eastern Airlines and China Southern Airlines. The agreement is the third of its kind that Skyteam signed

with airports in China, following Guangzhou Baiyun International Airport and Shanghai Pudong International Airport. Statistics show that every year there are about 140 million Skyteam member passengers who board flights in Beijing.

VIP VISITS

Premier Wen Jiabao attends Rio+20 Summit

Chinese Premier Wen Jiabao attended the Rio+20 Summit on sustainable development in Rio de Janeiro, Brazil, before embarking on visits to Brazil, Uruguay, Argentina and Chile. China published a report on its sustainable development records over the past 20 years, titled “China Going Green: A Civil Society Review of 20 Years of Sustainable Development”. China and Brazil signed agreements aimed at boosting investment and trade in the coming decade, at a time when economic growth in both countries is losing momentum. Relations between the two nations will rise to the status of a “global strategic partnership”. Brazilian President Dilma Rousseff and visiting Chinese Premier Wen Jiabao also agreed on a common agenda of investments in the mining, industrial, aviation and infrastructure sectors. Both countries signed a deal to set up local currency swaps of up to CNY190 billion and BRL60 billion (Brazilian real). Bilateral trade between China and Brazil grew 35% in 2011 compared to 2010 and reached USD84 billion. Premier Wen Jiabao has signed five agreements on telecommunications, the environment, and economic and technology cooperation with Uruguay, his first stop on a multi-nation visit to South America, following the Rio+20 Summit in Brazil. Uruguay hopes Chinese companies would consider investing in a deep-water port project in Rocha. Upon his arrival in Uruguay, the first time a Chinese Premier has visited the country since diplomatic ties were established in 1988, Wen noted the “substantial advances” in bilateral relations during that near quarter-century. China is Uruguay's second-largest trading partner after Brazil.

- Chinese President Hu Jintao met his American counterpart Barack Obama and other leaders at the G20 Summit in Los Cabos, Mexico. It was the second meeting between the U.S. and Chinese Presidents this year and the 12th in three years. Both leaders commented positively on ties but emphasized that more needs to be done to enhance trust. Hu said that as China and the U.S. are the world’s two largest economies, maintaining robust trade relations is of great significance. Trade between China and the U.S., each the second-largest trade partner of the other, reached USD446.6 billion last year.
- China and Bhutan have agreed to push for establishing diplomatic relations and resolve a long-standing border dispute. Premier Wen Jiabao held talks with his Bhutanese counterpart Jigmi Thinley on the sidelines of the UN Conference on Sustainable Development in Rio de Janeiro.

ONE-LINE NEWS

- Embezzlement involving a total of CNY365 million and other irregularities were found in 133 projects partly financed by foreign loans or donations, the National Audit Office (NAO) said. The auditor said the problems mainly fell in three categories — misuse of funds, loopholes in project management and irregularities in bookkeeping.
- Liang Daoxing, 63, Director General of the 2011 Universiade Games and a former Deputy Mayor of Shenzhen, is being investigated for corruption, days after Xie Pengfei, a former Deputy Secretary General with the Guangdong provincial government, and Wei Jinfeng, Deputy Director of the provincial Financial Administration, were also detained by the Communist Party's Central Commission for Discipline Inspection (CCDI). More than a thousand party cadres and civil servants across the province are under investigation.
- Shanghai has begun a campaign to combat the increasing number of illegal removal companies in the city. There are estimated to be more than 3,000 unauthorized companies in Shanghai and there have been many complaints about scams.

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Canton Fair – Encouraging Growth at a Difficult Time

Canton Fair--Encouraging Growth at a Difficult Time
China's Largest Trade Show register more buyer attendance

The 111th Canton Fair concluded early this May, attracted 210,000 buyers from 213 countries and regions. The buyer attendance increased 0.23% over the 110th session.

Though trade volume with Europe and USA went down, export deals with emerging markets such as India, Brazil, Russia and Africa displayed an encouraging 4.1% increase. The experience of those who visited the Fair was also overwhelmingly positive.

A first-time visitor to the Fair, Kristrian Holmqvist from Finland, said the Canton Fair "does provide better ideas on doing trade business and make us to be more competitive".

The 112th Canton Fair will be held from October 15th to November 4th in Guangzhou, China. For more information, please visit **http://www.cantonfair.org.cn**

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