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

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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

Local governments not allowed to sell bonds

China has decided not to allow local governments to sell bonds directly following a trial program launched last November, on concerns that mounting debts could bring excessive risks. During a draft revision to the budget law, the Standing Committee of the National People’s Congress (NPC) removed an article that would have allowed the authorities to sell bonds within an approved quota. Local governments with fundraising needs will still need to apply to the central government, and the latter will continue to issue bonds on their behalf. Committee Member Hong Hu said strict regulations needed to be applied to local government budgets due to problems and potential risks as the value of local government bonds had surged to more than CNY10 trillion over the past few years. The tightening measure came after a trial program that began in November allowed city governments of Shanghai and Shenzhen and provincial governments of Guangdong and Zhejiang to sell bonds after an amount was approved. The Ministry of Finance (MOF) sold CNY21 billion of five-year bonds on behalf of the Qingdao, Guangxi, Hainan, Chongqing, Shaanxi, Xinjiang and Gansu governments last week. Local governments were banned from issuing bonds in 1994, which led to the creation of more than 10,000 local government financing vehicles (LGFVs), leading to an increase in borrowing. As of the end of 2010 they had debts of CNY10.7 trillion, 27% of China's gross domestic product (GDP), according to a June 2011 official audit. This year so far, the vehicles have sold CNY330 billion of corporate bonds, according to the Beijing-based China International Capital Corp, compared to CNY350 billion for last year and CNY425 billion for 2009. Xu Xiaonian, Professor with the China Europe International Business School, said that the central government issuing bonds on behalf of local governments would conceal risks that should be revealed by the yield offered, the Shanghai Daily reports.

AmCham: Shanghai needs more time to become global financial center

It will take longer than expected for Shanghai to become a global financial center, said the American Chamber of Commerce in Shanghai in a 55-page research report, jointly published with the Brookings Institution. Ben Kinnas, Senior Vice President and General Manager of Wells Fargo Bank and a Member of AmCham's Shanghai Financial Services Committee added that 2020 may be "unrealistically soon" for Shanghai to become a true global financial center rather than a regional hub. The AmCham report gave a list of Shanghai's seven key disadvantages, including regulatory opacity and a limited use of sophisticated financial products. In the report, AmCham recommends that China's stock market transits from an approval-based listing system to a disclosure-based system. Talent is another issue Shanghai needs to deal with to achieve its goal, and lowering the tax rate is essential to attract financial talents who typically get big paychecks. The personal tax rate is substantially higher in China than in other financial centers. High-income individuals could be taxed at a rate of 40% in the mainland, while the ceiling is 15% in Hong Kong and 20% in Singapore. "Income tax issues have to be addressed in order to attract financial service professionals into the country," said Kinnas, as reported by the China Daily.

Sydney vies to be latest off-shore yuan market

Australia is holding preliminary talks with Hong Kong and Beijing about establishing an off-shore yuan market in Sydney to serve the demands of growing Sino-Australia trade and boost the currency's global standing. The move came after London and Singapore announced plans to launch their own yuan trading centers. Australian Deputy Prime Minister Wayne Swan is scheduled to visit Hong Kong in early July for a yuan-related forum where he will meet representatives from Australian banks and companies in Hong Kong to seek their advice on how the currency can play a more important role in bilateral trade. Swan is also expected to visit Beijing to discuss a wider range of issues including the long-awaited Sino-Australia Free Trade Agreement (FTA) negotiations that began in 2005. Although there is no time frame for when a final FTA deal can be reached between the two countries, many financial and political analysts expect that it should not take too long. "Given the close trade relationship between China and Australia and its sophisticated financial infrastructure, Sydney has a natural advantage in becoming an off-shore center for the renminbi business," said Dr Liu Ligang, Chief China Economist for ANZ, Australia's third-largest bank. London has been speeding up efforts primarily to serve the European market, while Singapore is doing the same, but mainly with an eye on yuan trade in Southeast Asia.

National Audit Office reports widespread misuse of funds

The National Audit Office (NAO) says 300 central government officials, including some department chiefs, abused funds totaling almost CNY4.4 billion last year. Several ministries or ministry-level agencies had mis-stated their revenue or violated fiscal regulations, including the Ministry of Finance, which had made an inaccurate report to the NPC in its budget implementation report last year, claiming CNY1.92 billion less in revenue than it actually had.

The Auditor General said there was a growing trend of corrupt officials taking bribes through middlemen, such as by requiring individuals or businesses to apply for government approval or bid for tenders through consultancies linked to the officials. The Ministry of Railways (MOR) had illegally shortened the application period for companies bidding on infrastructure projects on the Beijing-Shanghai high-speed railway. The period was cut to 13 hours from at least five days, reducing opportunities for companies to take part in the bidding. The NAO also said serious loopholes existed in the regulation of how public funds were spent on receptions, overseas trips and vehicle use. Income for the central government last year reached CNY5.13 trillion, while it spent CNY5.64 trillion, resulting in a deficit of CNY650 billion, CNY50 billion less than forecast.

Property and export sectors threat to banks

China's property and export-oriented sectors pose the biggest threat to the country's banks in the second half of this year, according to Moody's Investors Service. China's non-performing loan ratio could rise 1 to 2 percentage points this year, said Christine Kuo, Vice President of Moody's Financial Institutions Group. Local government financing vehicles (LGFVs) also continued to remain as lurking risks, Kuo said. “We view a hard landing as one that would be stressful for Chinese banks, requiring significant re-capitalization needs,” Kuo added. Moody's still envisions a soft landing in China, with gross domestic product (GDP) growth slowing to 7.5% this year. While the government wanted to squeeze the bubble out of the property market, Beijing was unlikely to let the whole sector crash, because of its importance to the economy, Moody's said. Housing investment in China accounted for some 8% of GDP and had wide-ranging secondary impacts on commodity demand, said Stephen Green, China Economist at Standard Chartered Bank. Economists generally take the view that China has much space for policy easing. Peng Wensheng, Economist at China International Capital, said he expected one interest rate cut in August, and perhaps another in the fourth quarter, depending on the overall economy.

- Industrial and Commercial Bank of China (ICBC) has agreed its first financing deal for a Russian infrastructure project. The bank will provide USD1 billion of financing for the construction of a new power plant at Yaroslavl on the outskirts of Moscow. The borrower is a joint venture between the Chinese sponsor, Huadian, and Russian power company, Territorial Generation Co, while Chinese power equipment makers will supply the plant with its generation equipment.
- China's outstanding external debts totaled USD751.3 billion by the end of March. Medium and long-term foreign debts totaled USD193.6 billion, while short-term debts stood at USD557.7 billion, according to the State Administration of Foreign Exchange (SAFE). Of the registered external debts of USD480.2 billion, 76.67% were U.S. dollar-denominated debts, while 7.05% and 8.23% were yen- and euro-denominated debts. In the first quarter, China repaid principals totaling USD5.99 billion for medium and long-term debts, up 30.25% year on year. The interest paid during the period totaled USD559 million, up 21.52%.
- The Bank of China (BOC) opened its Taipei branch last week. BOC became the first Chinese mainland bank to start commercial operations in Taiwan. Services available at the branch are mainly those associated with corporate finance. BOC has entered into business cooperation agreements with 10 Taiwanese banks and established corresponding banking relationships with 29 Taiwanese banks.
- Total insurance premiums in China rose 4.6% in the first five months of the year to CNY707.8 billion from a year ago. Total assets in the industry topped CNY6.4 trillion by the end of May, up 20% from a year earlier. The sector's investments rose 15.6% to CNY3.95 trillion, with outstanding bank deposits up 28.3% to CNY1.99 trillion.
- Local governments are turning to ad hoc fees and fines to replenish shortfalls in tax revenues as the economy slows, raising the risk of burdening companies and damaging the economy, government researchers said. The rush by local governments to levy more non-tax revenues could also undermine government plans to increase tax cuts to bolster the slowing economy, they warned. The amount of local non-tax levies had exceeded tax cuts of CNY100 billion, said Gao Peiyong, Tax Expert at the Chinese Academy of Social Sciences (CASS).
- China started issuing CNY23 billion of yuan-backed treasury bonds in Hong Kong, the fourth and the biggest issue following the sale of CNY6 billion in yuan-backed treasury

bonds in 2009, CNY8 billion in 2010 and CNY20 billion in 2011.

- Beijing is likely to launch deferred taxation for pension insurance and corporate annuities this year and will probably pick Shanghai for a pilot project in a bid to boost the pension pool. Under the new tax system, insurance premium and annuity outlays for employees will be deducted from their taxable income until retirement but the amount will be taxed after they retire. As retired people are usually subject to lower tax rates, the more people set aside for annuities and pension insurance, the more they will save by way of lower tax payments.
- Macao will help companies from Shanghai to explore the markets in Portuguese-speaking countries. The Shanghai Financial Services Office and the Monetary Authority of Macao signed a financial cooperation memorandum in Shanghai during the Lujiazui Forum.
- Qianhai district in Shenzhen, a 15 square kilometer economic zone dubbed as the Pearl River Delta's "Manhattan", will benefit from a set of new policies to accelerate the yuan's globalization and closer ties with Hong Kong. "Banks in Hong Kong now can directly lend to mainland companies and mainland people, a move that will help deepen the off-shore yuan business and accelerate the yuan's globalization," said Yang Yuting, Economist at Australia & New Zealand Banking Group.
- China will strengthen the measures it uses to recover corrupt officials' illicit assets transferred abroad and demand other countries freeze such assets to cut off the officials' means for living overseas, an official from the Anti-corruption Bureau of the Supreme People's Procuratorate said on the sidelines of the fourth seminar of the International Association of Anti-Corruption Authorities. In 2011, Chinese prosecuting authorities arrested 1,631 corrupt officials who fled to other countries and seized billions in illegal funds.
- The People's Bank of China (PBOC) has ignored calls by senior Hong Kong bankers and left in place the city's daily exchange cap of CNY20,000. "One could exchange up to CNY600,000 a month, which is a lot, and many people do not exchange that much. As such, the PBOC at present has no plan to lift the cap, though we will review it in the long term," said PBOC Deputy Governor Hu Xiaolian. She added the PBOC may soon allow non-Hong Kong residents to open accounts for trading yuan in the city. Other off-shore yuan trading centers such as London and Singapore do not have the exchange cap.

FOREIGN INVESTMENT

Chinese investments abroad face challenges

Chinese firms were expected to invest USD800 billion abroad over the next five years, but their investments were at an immature stage and faced serious challenges, speakers told the China Global Outbound Investment Summit in Beijing. "We anticipate an additional USD800 billion will be invested overseas by Chinese companies from 2012 to 2016," André Loesekrug-Pietri, Chairman of private equity fund A Capital, said. "The growth of Chinese overseas investments will be 17% per year, double its GDP growth." China's appetite for resources pushed its overseas direct investment up by 118% to USD21.4 billion in the first quarter, according to A Capital. Resources accounted for 92% of the first-quarter investment, South America being the biggest recipient with Sinopec's USD4.8 billion investment in a 30% stake in Petrogal Brasil. Foreign direct investment (FDI) in China used to dwarf China's outbound investment (ODI), but in the first quarter, outbound investment was only 26% lower than FDI, according to A Capital. Beijing's goal is for Chinese overseas investment to equal FDI by 2015. "Previously, foreign direct investment was crucial to the success of China. Crucial to the next 10 years is outreach to other countries," said Michel Wormser, Vice President of the World Bank Group's Multilateral Investment Guarantee Agency (MIGA). Mergermarket's Asia Research Manager Shunsuke Okano said that so far this year, China had made 39 mergers and acquisitions (M&A) overseas worth USD16.3 billion. "That is not as high as last year's USD44.2 billion. At this pace, the total [for the whole of this year] won't match last year's," Okano said. Mergermarket's data differ from A Capital's because Mergermarket tracks only M&As, not other forms of investment. China's overseas investment was smaller than the U.S., France and Germany, but was the fastest growing in the world, Loesekrug-Pietri said. Last year, China invested USD68 billion overseas, but the U.S. led with USD328.9 billion, followed by Germany with USD200 billion and France with USD147 billion, according to A Capital. But, China's overseas investment was the fastest growing at an annual rate of 54% from 2000 to

2010, the South China Morning Post reports. “Ninety-nine per cent of Chinese companies are not ready to invest abroad … I'm talking about culture and understanding of the world,” said Liu Shaohua, Executive President of the Reignwood Group, a private Chinese conglomerate. “Sometimes, if you acquire a foreign company, you have a grand signing ceremony, then your nightmare begins,” he added. One problem is Chinese companies and their foreign counterparts view contracts differently. Dirk Walker, Partner at China-based law firm King & Wood Mallesons, said that “often the Chinese investor will find the contract an ancillary aspect of the relationship, but the foreign side sees the contract as the entire relationship”. “The Chinese party may misinterpret this as the foreign party not trusting him. The foreign party can misinterpret Chinese post-contract negotiations as reneging on the contract,” Walker said.

- China’s outbound direct investment (ODI) in non-financial sectors surged 40.2% year on year to USD28.5 billion during the first five months. About 39.3%, or USD11.2 billion, went into mergers and acquisitions (M&As). Chinese invested in 1,709 companies based in 115 countries and regions. The flow of ODI into Hong Kong, the U.S. and the European Union sharply jumped 50.9%, 45.9% and 23.6%, respectively. As of the end of May, China’s non-financial ODI totaled USD350.6 billion.

FOREIGN TRADE

MOFCOM optimistic about foreign trade growth

Despite euro-zone woes and a weak U.S. economy, the Ministry of Commerce (MOFCOM) forecasts that China's international trade will grow at a moderate pace. “If the world economy does not worsen and global demand does not suffer a major reversal, our objective of 10% growth in imports and exports for the year can be achieved,” Ministry Spokesman Shen Danyang said. In May, China's exports soared 15.3% and its imports surged 12.7%, well up on the 4.9% increase in exports and 0.3% growth in imports in April. In the first five months of this year, China's trade rose 24.4% with Russia, 10.9% with Brazil, and 9.2% with the Association of Southeast Asian Nations' economies. By contrast, China's trade grew only 1.3% with Europe and 0.4% with Japan over the same period. The HSBC Trade Confidence Index rebounded from 95 in the second half of last year to 103 in the first half. The index is based on surveys of 5,800 traders around the world, with a rating above 100 indicating confidence and below 100 pessimism. China's foreign trade gained 7.7% year on year in the first five months to USD1.5 trillion, giving a trade surplus of USD37.9 billion, lower than the goal of 10% for this year.

- China will cut red tape and speed up tax rebates to exporters nationwide, the State Administration of Foreign Exchange (SAFE) said. Procedures for customs declaration and tax rebates will be simplified, eliminating the need for foreign currency verification notes to accompany all export bills, starting from August 1. That expands a trial program begun in December 2011 in seven major exporting provinces and cities including Jiangsu and Shandong.
- United Technologies pleaded guilty to violating the U.S. Arms Export Control Act and making false statements in connection with exports of software that China used to develop its first attack helicopter. The company’s Pratt & Whitney Canada unit and its U.S.-based Hamilton Sundstrand unit will pay more than USD75 million as part of a settlement with the U.S. Justice and State Departments. The U.S. has prohibited exports of U.S. defense articles and associated technical data to China since 1989.
- China’s exports of active pharmaceutical ingredients increased 4.9% year-on-year to USD9.86 billion during the first five months of this year, according to the China Chamber of Commerce for Import & Export of Medicines & Health Products. The export volume dropped 1.58% year-on-year, while the unit price jumped 6.58% on average, which indicated quality improvement of the sector. China and India are currently the world’s two largest active pharmaceutical ingredients exporters by volume.
- The European Union requested the establishment of a dispute-settlement panel at the World Trade Organization (WTO) on China’s export restrictions on rare earths, tungsten and molybdenum. “Despite the very clear WTO ruling earlier this year in the first raw materials case, Beijing has not taken steps to remove these export restrictions. We regret that we are left with no other choice but to solve this through

litigation," EU Trade Commissioner Karel De Gucht said.

- The U.S. said China and Singapore have "significantly reduced" their purchases of Iranian oil, earning exemptions from U.S. financial sanctions. China was the biggest importer of Iranian crude last year, and Singapore is Asia's oil trading and refining hub. A total of 20 economies have now qualified for an exception. China made substantial reductions in imports in the past six months because of a pricing dispute with Iran early in the year.

IPR PROTECTION

Companies with copyrights become more important

Copyright-based industries are powering a greater portion of China's economy, according to studies released by the National Administration of Copyright (NAC) in Beijing. The value generated by companies with copyrights increased from 4.94% of the country's GDP in 2004 to 6.55% in 2009. China's exports from core copyright industries continues to lag, though it grew slightly over the six-year period to generate USD8.75 billion in revenues in 2009, just 0.66% of total exports. China's combined copyright-based industries generated about CNY2.2 trillion in yearly production value in 2009, less than one-fourth of the U.S. figure. More than 10.8 million U.S. residents worked in copyright industries in 2009, while in China the industries created jobs for 9.9 million people. The report on copyright-based industries is the result of research by the Chinese Academy of Press and Publication, authorized by the NAC. Since 2007, the Academy has made three surveys of the sector. The results are now included in WIPO publications.

MACRO-ECONOMY

Profit drops at China's industrial companies

Profit of Chinese industrial companies fell by the biggest pace this year in May. Net earnings among Chinese manufacturers dropped 5.3% from a year earlier to CNY390.9 billion last month, the biggest slump this year compared with the 2.2% decline in April, the National Bureau of Statistics (NBS) said. In the first five months, earnings fell 2.4% to CNY1.84 trillion, a sharp drop from last year's increase of 25.4%. "Higher production costs, a stronger yuan, as well as sluggish sales growth in both external and internal markets led to deteriorating profit among Chinese manufacturers," the Bureau said in a statement. Li Maoyu, Analyst at Changjiang Securities Co, said the worse-than-expected data indicated more stimulus measures were needed to sustain growth. "Manufacturing remains a vital sector in China's economy although the development of the service industry is encouraged in many regions right now," Li said. "Less profit for industrial companies will dent people's confidence and drive small players elsewhere to seek better returns." A number of private companies in Zhejiang and Jiangsu provinces have been forced out of the market or are struggling on the edge of bankruptcy with a less than 5% profit margin amid rising labor costs and a stronger yuan. Of 41 industries tracked by the Bureau, 26 saw profit growth, 13 experienced declines, one changed from profit to loss; and another from a loss to a profit. Among the gainers, profit rose 4% in the oil and gas production sector, compared with 16.7% for the agricultural and food processing sector, and 22.2% for electricity and heat generators. The losers included chemicals producers, which showed a 23% profit decline, compared with a 56.9% fall for steel smelting and processors, and a 16.5% decrease for makers of computers and telecom equipment.

PMI on downward trend, but avoids contraction

Growth in manufacturing activity slowed to a six-month low in June as domestic and export demand fell, but analysts say it could pick up in the second half. The purchasing managers' index (PMI) edged down to 50.2 in June, from 50.4 in May, according to the National Bureau of Statistics (NBS) and the China Federation of Logistics and Purchasing. Respondents reported that both output and stocks of finished goods expanded in June, but new domestic and export orders as well as employment contracted. Although the PMI was down, it was higher than a market consensus forecast of 49.9, and Liu Ligang at Greater China Research for ANZ Bank, expected faster manufacturing growth this month. A report in the New York Times claimed that China had falsified data to understate the severity of the downturn. Economists at major investment banks said the June 22 report generated a flood of questions from concerned investors, but some still forecast that the slump in China's economy would bottom out from the third quarter. Official power data showed growth in electricity consumption picked up to 5.2% year-on-year in May from 3.7% in April, and some economists claimed the data were inflated by local authorities. Others argue this is unlikely as the central government has imposed strict targets for reducing energy consumption. The power production number is difficult to falsify, said JPMorgan Chase Economist Zhu Haibin. “It is possible that the official statistics overstate economic activity, particularly during an economic downturn. But there is evidence – including 'green shoots' in infrastructure spending – pointing to a recovery ahead,” Barclays Capital Economist Huang Yiping said.

- Multinational companies in Shanghai offer a monthly salary of CNY3,662 to university graduates this year, a 13% increase over last year. Half of the employers decided to raise the salary of the university graduates employed last year by 8% on average, according to survey of nearly 100 multinationals. About 40% of Fudan University’s students who graduate this year had landed a job before the Chinese Lunar New Year, which fell on January 23. It is expected that it will be more difficult next year for university students to find a job.
- Nearly half of university graduates in China see state-owned companies and government agencies as ideal places to work because they provide better fringe benefits and more job security, a survey, conducted by Tsinghua University's China Data Center and the university's Institute of Education, found, even though they could earn 20% to 30% more working at foreign enterprises. The survey of 6,059 graduates from 19 Chinese universities in 2010 found they earned an average of CNY2,153 a month, with those who worked for a foreign-funded company getting an average of CNY2,741 a month and those with state-owned firms and government agencies earning between CNY2,238 and CNY2,112 a month.
- The Jiangxi Personnel and Human Resources Administration recommended a maximum 18% and minimum 6% increase in employees' wages. The Administration said employees at state-owned enterprises, who receive a higher salary, should also have their pay boosted by 6%.
- Six Chinese cities are among the 100 most competitive in the world, with Shanghai ranking the highest of all those in China, according to a Chinese Academy of Social Sciences (CASS) survey. New York is the world’s most competitive of 500 cities. Shanghai ranks 36th, following Hong Kong (9) and Taipei (32). Beijing (55), Shenzhen (67) and Macao (79) are the other Chinese cities in the top 100. Shanghai rose one place compared to the previous year, while Beijing went up five places.
- China and Hong Kong signed the ninth supplement to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), providing for a total of 43 measures for services liberalization and trade and investment facilitation, covering 22 service sectors such as education, medical treatment, banking, brokerage and tourism. The new supplement will take effect from January.
- China’s economic growth in the second quarter will decline to 7.8% from a year earlier, the slowest expansion in more than three years, according to the median forecast of 15 economists in a Bloomberg survey. Bank of China (BOC) forecast a growth rate of 7.6%.

MERGERS & ACQUISITIONS

Actis has problems selling Xiabu Xiabu stake

British private equity house Actis wants to sell its majority stake in Xiabu Xiabu Catering Management, a popular hotpot chain restaurant, but more than two months after it said it wanted to sell the stake, the proposed sale has stalled. Actis, a spin-off of the British government's investment agency Commonwealth Development Corporation, invested USD50 million in Xiabu Xiabu in 2008 for a 51% stake. The rest is held by the founding family of the restaurant chain. Actis and the Taiwanese He family differ on whom to sell the stake to. Xiabu Xiabu was founded in Beijing in 1998 and has expanded aggressively in the past few years. The company runs a chain of more than 240 restaurants around the country. Sources said Actis was trying to sell its stake in Xiabu Xiabu for more than USD150 million, at least three times the amount it paid for its original investment. The restaurant chain's management was reluctant to open the accounts to potential investors to allow them do the required due diligence, sources said. The preferred buyer introduced by the founding family might not be willing to pay as high a price for the stake. “Despite having majority control on paper, private equity firms should still adopt a partnership approach with Chinese entrepreneurs, as enforceability of the terms in China is sometimes questionable,” said Joe Chang of SCM Strategic Capital Management. Chang suggested private equity investors should negotiate hard for the right to appoint an external and credible person to be Chief Finance Officer at the companies they invest in so they can safeguard their rights and capital. “Exit structures needs to be carefully thought out at entry. For example, the place of company incorporation can determine the exit route, whether off-shore or on-shore structure,” Chang added, as reported by the South China Morning Post.

- State-owned Beijing Enterprises Group has further raised its stake in takeover target China Gas Holdings to 17.96% from 14.945 and become its largest shareholder. The move dooms the takeover bid by a rival consortium formed by ENN Energy and China Petroleum & Chemical (Sinopec) to failure unless the bid price is significantly raised. An alliance between London-listed oil and gas supplier Fortune Oil and ousted China Gas Managing Director Liu Minghui raised its combined stake in China Gas to 17.67% from 17.65%. SK E&S and SK Gas together have 15.34%. Beijing Enterprises Group, the Fortune Oil-Liu alliance and SK Group have amassed a combined stake of 50.97%.
- China’s Sichuan Hanlong (Group) Co received approval from Australia’s Foreign Investment Review Board for a USD1.3 billion takeover of the iron ore company Sundance Resources. Hanlong also has to gain approval from the National Development and Reform Commission (NDRC) and credit approval from the China Development Bank (CDB). Hanlong’s move targets Sundance’s USD4.7 billion Mbalam iron ore project on the border of Cameroon and the Republic of Congo. The acquisition is expected to be completed by November.

PETROCHEMICALS

Brightoil to start crude trading in China

Hong Kong-listed Brightoil Petroleum will start crude trading operations in the third quarter, aiming to become a key supplier to China. Brightoil, with a market capitalization of USD3 billion, is eyeing a slice of China's massive five-million-barrels-per-day crude import market that is dominated by state-owned PetroChina, China Petroleum and Chemical (Sinopec), China National Offshore Oil Corp (CNOOC) and Sinochem. The company will put into service two oil storage terminals: the Zhoushan terminal would have a storage capacity of 3.2 million cubic meters, while the Dalian facility would be able to hold up to 7.7 million cu m of crude and fuel oil. Brightoil has said it will also double its fleet of Very Large Crude Carriers (VLCC) to 10 vessels by the first half of next year. The expansion reflects the aspirations of Brightoil Chairman Raymond Sit to turn the company into a global energy conglomerate. “His ambitions are clear; he wants to dominate the secondary market in China,” a Singapore-based crude trader said. “Of course he won't be competing with the big guns, but he sees opportunity in cornering the medium and smaller refiners.” Private entities have previously failed to enter the Chinese market. To supply crude to China, Brightoil needs to obtain an import license, is subject to a yearly quota, and must find clients among state refineries. “Isn't that what Gunvor, Strong, Arcadia, Trafigura, Glencore and Kangqi have all tried?” another trader said of Brightoil's strategy. “It's easier said than done, given Beijing is trying to get rid of all refineries smaller than 60,000 barrels per day.”

- Nine off-shore areas in the South China Sea are to be made available for exploration in cooperation with foreign companies, according to the China National Offshore Oil Corporation (CNOOC). The nine areas collectively total more than 160,000 square kilometers. China repeated its call for Vietnam to respect bilateral agreements regarding maritime disputes and to halt its gas exploitation program. Vietnam’s National Assembly on June 21 passed the “Vietnamese Law of the Sea,” which describes China’s Xisha Islands and Nansha Islands in the South China Sea as being within Vietnam’s sovereignty and jurisdiction. Four China Marine Surveillance ships sailed from Sanya to the South China Sea to conduct regular patrols.
- Crude output by China Petroleum & Chemical Corp (Sinopec) in the first five months of this year rose 1.3% from a year ago to 17.9 million metric tons, and natural gas production increased 13.9% to 6.8 billion cubic meters.

- A tanker truck filled with petrol collided with a truck in Guangzhou on June 29, setting off an explosion and a massive fire that left 20 people dead and 14 others hurt. The tanker was carrying 40 tons of petrol when it crashed into the other vehicle.

REAL ESTATE

SIC calls for raising taxes on home ownership

Property curbs should not be eased until a more effective mechanism to reduce home prices to reasonable levels could be worked out, the State Information Center (SIC) said in a report. The new mechanism must have a long-lasting impact on the housing market and should focus mainly on implementation of property-related taxes, the SIC said. While cutting taxes on transactions, taxes on home ownership should be raised to curb speculative demand, which has been largely blamed for soaring home prices in the country, especially over the last few years, the SIC added. There are now 10 different types of taxes on property transactions in China, but only two taxes on home ownership. To bring down home prices, China should also set up a fair system for land auctions, property investment and financing. Home prices still remain very high compared with what they were at the end of 2009, the SIC said. It sees a long road before prices can be at reasonable levels.

Buy-back plan gives Soho China a boost in Hong Kong

Hong Kong-listed developer Soho China is planning to buy back up to USD200 million worth of shares, saying its share price doesn't reflect its balance-sheet strength. The announcement, made in a filing with the Hong Kong stock exchange, pushed up its share price. “The board believes that the shares have been trading at a level that significantly undervalues the company's assets and strength of its balance sheet,” Chairman Pan Shiyi said. “The board also believes that the company's strong financial position will enable it to conduct the proposed share repurchases while maintaining sufficient financial resources for the continued growth of the group's operation.” As of the end of last year, Soho China, which focuses on commercial property development in Beijing and Shanghai, had a total cash and bank deposit of CNY15.71 billion. “We like its sharp focus on commercial property and strong financial position, and see new acquisitions as accretive. While its interim earnings may decline 24% year-on-year on a skewed booking schedule, we see share price weakness as a good buying opportunity given accelerating pre-sales,” Jefferies' Equity Analysts Jack Gong and Christie Ju said. They expected the company to achieve CNY15-20 billion in sales this year, slightly lower than the company's target of CNY23 billion. Macquarie Capital Securities' Property Research Analyst David Ng expected Soho China to book CNY18.7 billion in sales this year.

More cities report year-on-year sales increases

In its latest report, China Index Academy (CIA) said that 35 major cities reported year-on-year sales increases, with Lanzhou, capital of Gansu province, recording a massive 560.25% year-on-year increase between June 17 and 24. The latest report showed sales of as many as 57,000 apartments in 54 major cities, a weekly record that exceeded 50,000 traded units since 2011. The turnover in May of four leading Chinese real estate developers – Poly Real Estate Group Co, China Vanke Co, Evergrande Real Estate Group and China Overseas Holdings – exceeded CNY10 billion, suggesting a warming market after a year-long chill. Poly’s sales in May grew 45% over a year earlier to hit CNY10.77 billion, slightly higher than that of China Vanke. It was the first month in 2012 that Poly had revenues of more than CNY10 billion. The combined turnover in May for the top 15 Chinese property developers reached CNY268.6 billion. For many companies, the turnover grew more than 20%. Local governments across China have been trying to adjust house sales policies to help kick-start the economy, said Xue Jianxiong, Analyst with China Real Estate Information Corp (CRIC).

- The property market in Nanjing showed signs of recovery during the Dragon Boat festival holiday, as sales of flats more than doubled compared with the same period last year. Nearly 900 apartments were sold, compared with 400 last year.
- Shanghai has reiterated that its existing property curbs restricting the number of homes a family can buy are unchanged in response to some media reports claiming that stricter rules have been recently implemented. Locally-registered families owning one house are allowed to buy one more, while qualified non-local households with no

residential property are allowed to purchase only one.

- Wanda Group has been ordered to dismantle the top 10 floors of Fucheng Wanda Plaza, a 32-story mall, 2.4 kilometers from the airport in Mianyang city, Sichuan province, because of flight safety risks. Night flights at the airport had to be suspended on April 24. Rebuilding would cost at least CNY200 million. Dalian Wanda Spokesman Liu Mingsheng said the company had done nothing wrong and was still considering how to respond. The company invested CNY6 billion in the 7.5-hectare project.
- In Beijing, 10,576 registered house purchases were made in the first half of June, a 46.5% year-on-year increase, according to the Beijing Municipal Housing and Urban-Rural Development Bureau.
- Property developers who in the past focused on residential property development, all have ventured into commercial property. The latest report by CBRE, a property consultancy firm, said the oversupply of commercial property indicated a bubble is surfacing. In China's second-tier cities, it could take 15 to even 60 years in extreme cases to sell existing projects. Some experts said the overcapacity occurred only in second- and third-tier cities and there should be no reason to worry about the market in major cities like Beijing and Shanghai.
- Standard & Poor's Ratings Services has downgraded its outlook for Chinese developer Evergrande Real Estate from stable to negative, noting the group may face a tougher refinancing environment following allegations of fraud by Citron Research. The ratings firm affirmed a "BB" long-term corporate credit rating on the firm and a "BB-" on its outstanding senior unsecured notes. "Evergrande's corporate governance assessment could deteriorate if the company continues to materially invest in non-core businesses and pursues a high-growth strategy," S&P Credit Analyst Christopher Lee said.

RETAIL

Little brand loyalty found among Chinese consumers

Chinese consumers exhibit little brand loyalty toward goods that tend to be used up quickly, even though they buy such goods frequently, according to the 2012 China Shopper Report by Bain & Co and Kantar Worldpanel. The study dispels several misconceptions about how Chinese shoppers respond to product brands. The researchers in the study divided shoppers' behavior into two categories, calling them loyalist and repertoire. Interviewing shoppers from 40,000 households in urban China, they found that the vast majority of shoppers tend to exhibit repertoire behavior, meaning they don't stick with one brand when shopping for the goods they buy most frequently. Shoppers showed the least loyalty to individual brands of cookies, fabric detergent, juice and facial tissue. The findings also suggested that Chinese customers tend to not be entirely forthcoming when talking about their shopping habits. More than 60% of the respondents said they first look at brands when trying to decide what products they want to buy. But, when it comes to making a purchase, other considerations take on greater importance, the study said. "Marketers must pay attention to what Chinese shoppers do, not what they say in the survey," Bruno Lannes, Partner of Bain & Company, said in Beijing. The survey looked at the 26 categories of consumer goods that are most commonly sold in China, including packaged foods, beverages, and personal care and home-care products. "Chinese shoppers are pampered by having an abundance of brand choices," said Jason Yu, General Manager of Kantar Worldpanel China. "Hence it is increasingly difficult for big brands to stand out from the clutter." Lannes said brands that are likely to enjoy the least loyalty should run TV commercials inside stores and use similar methods to remind shoppers of their products. On the other hand, Chinese shoppers do tend to exhibit strong brand loyalty when they buy infant formula, baby diapers, milk, beer, carbonated soft drinks and chewing gum, the study found.

- Some well-known international brands such as Vero Moda and H&M failed quality tests, Shanghai authorities said. Brands such as New Balance, Edc by Esprit and Mogg Pink were also on the list for quality problems including color fastness, fiber content and pH index.
- Bright Dairy & Food Co is recalling hundreds of cartons of its Ubest fresh milk after alkaline water used to clean equipment was inadvertently added during production, the Shanghai Quality and Technical Supervision Bureau said. About 300 cartons of

Ubest 950 milliliters were affected.

- Bosideng International, the biggest Chinese down-apparel maker, is set to open a European flagship store in London close to Oxford Street with an investment of GBP30 million. The company accounts for 36.7% of the down-apparel market in China. Bosideng's revenue rose 19% to CNY8.38 billion for the year to March 31, while net profit grew 12.6% to CNY1.44 billion. The double-digit growth in revenue was mainly due to the company's non-down apparel sales, which jumped 128.6% to CNY1.35 billion. Sales of down apparel increased 7.7% to CNY6.12 billion last fiscal year.
- Chow Tai Fook Jewelery Group, a Hong Kong-based chain that has more revenue than Tiffany & Co, reported its profit increased by 79% to HKD6.34 billion this past fiscal year as China's growing middle class spent more on luxury goods.
- Half the shopping space being built in the world is in China, according to CBRE's Global ViewPoint report. Some 29.6 million square meters of shopping centers are now under construction globally – equivalent to the total existing mall space in France, Britain and Germany. Seven of the 10 most active development markets are in China. Tianjin topped the list with 2.45 million sq m of such space being built, while 2.17 million sq m is under construction in Shenyang. China was also by far the most active market last year, with four cities in the top five in terms of new mall space built.

SCIENCE & TECHNOLOGY

Shenzhou-9 returns safely

The Shenzhou-9 re-entry capsule returned to earth safely in the Siziwang Banner of Inner Mongolia on June 29, "a bit west" of the designated landing zone, completing a successful mission, including the first manned automatic and manual space dockings with the Tiangong-1 space module. It took the three astronauts more than an hour to re-adapt to gravity. Only when they could stand up for at least half a minute by themselves did they crawl out of the capsule. Senior Colonel Jing Haipeng, Shenzhou-9's Commander, said they had completed the mission objectives with "all-round success", while Senior Colonel Liu Wang was glad it was over. But Major Liu Yang, China's first woman astronaut, said she had already begun to miss space. Jing became the first Chinese astronaut to venture into space twice. His last mission was aboard Shenzhou-7 in 2008.

- China's manned submersible Jiaolong has completed a series of deep-sea dives, with a sixth and final dive to 7,000 meters in the Marianas Trench in the Pacific Ocea. Jiaolong will be put in use formally after the test dives to depths ranging from 1,000 to 7,000 m in the deepest part of the world's oceans. "It enables China to conduct deep-sea scientific research and resources exploration in 99.8% of the world's oceans," Commander Liu Feng said.
- Xanadu in Inner Mongolia has joined the World Heritage List during the 36th session of the Unesco World Heritage Committee in St Petersburg. So far, there have been 42 sites, including 30 cultural ones, in China included on the list. Xanadu encompasses the remains of Kublai Khan's capital city established in 1256. The site features temples, palaces, tombs, nomadic encampments and some water works.

STOCK MARKETS

Shanghai Stock Exchange hopes to become world's second largest

The Shanghai Stock Exchange is seeking to become the world's second-largest bourse by 2015 by more than doubling its market capitalization to between CNY35 trillion and CNY40 trillion, and boost its capitalization by another 50% by 2020. Shanghai's exchange, the bigger of China's two bourses, has 945 listed companies with a combined market value of CNY15.6 trillion. The U.S. equity market has a capitalization of USD15.9 trillion, while Japan's is valued at USD3.4 trillion. The bourse also seeks to lift annual trading value to CNY100 trillion by 2015. Stock transactions totaled CNY30 trillion in 2010. The Shanghai exchange is preparing for the international board and is encouraging bond sales by foreign companies.

Four Chinese companies seek listing in Hong Kong

Four Chinese companies have filed preliminary prospectuses with the Hong Kong stock exchange to raise funds despite the weak market sentiment. Jiangxi-based miner Wanguo International Mining plans to raise up to HKD315 million to expand its facilities. The company said it would focus on the production of copper and iron concentrates, and that the reserves at the Xinzhuang mine, which it owns, were estimated to be sufficient for producing 600,000 tons per annum (TPA) for 31 years. The miner's revenue amounted to CNY297 million last year, compared with CNY86.5 million in 2009. Net profit last year was CNY73.3 million, up from CNY10.6 million in 2009. The firm reported that its revenue increased 11.6% year on year in the first quarter of this year to CNY70.4 million as sales grew, but the average selling price of its metal concentrates fell by 13% to 23% during the period. Trading is expected to begin on July 10. The second company, cigarette packaging material manufacturer Sheen Tai Holdings, is seeking to raise funds to improve its market position in Jiangsu province. It is the No 2 player in the province's cigarette packaging materials market, according to Euromonitor. Sheen Tai reported a revenue of CNY675 million for the last year, up from CNY264.5 million in 2009. Profit rose to CNY140.8 million, more than double from CNY64 million two years earlier.

Inner Mongolia Yitai Coal plans to raise up to about HKD8.6 billion from an IPO in Hong Kong. The firm buys, mines, distributes and sells coal and coal-processed products and also has interests in pharmaceuticals and real estate. The company expects net profit of at least CNY3.1 billion for the first half of this year. Yitai Coal intends to use 27% of the IPO proceeds to improve its transport system, while 24% will be spent on building coal mines. The rest of the money will be used to repay bank loans and expand production capacity. The company has secured seven cornerstone investors that together will buy HKD3.04 billion of Yitai's offered shares. They include Datang International Power Generation, Baosteel and Mongolia-based investment firm Vanzip Investment. Fabric manufacturer and designer Silverman also filed a listing prospectus with the Hong Kong exchange. Headquartered in Shandong province, Silverman's products are widely used in bed linen and garments. Its revenue reached CNY928 million last year, compared with CNY774 million in 2010 and CNY530 million in 2009, according to the prospectus.

Reduced Citic Heavy IPO still to be China's second largest this year

Citic Heavy Industries, previously known as Luoyang Mining Machinery, was forced to nearly halve its original IPO target of CNY6 billion to CNY4.13 billion before further scaling down the offering size to CNY3.2 billion after price consultations with institutional investors. The offering price translated into 16.2 times its 2011 earnings, compared with an average price-earnings multiple of about 20 for its peers traded in China. Citic Heavy's listing date has yet to be determined. The company would need an additional CNY4 billion to fund five projects it planned to set up, given the lower-than-expected capital boost from the Shanghai market. The Citic Heavy IPO would trail the CNY5 billion share sale by China Communications Construction in February to be China's second-largest new offering so far this year. China's IPO market showed signs of ebbing in the first half of this year, with companies including Citic Heavy raising a combined CNY72 billion – down 55% from the same period a year ago. Henan-based Citic Heavy, a subsidiary of state-controlled conglomerate Citic, is the country's fourth-largest heavy machinery maker with a 3.97% share of the domestic market. Its major rivals include China First Heavy Industries and Taiyuan Heavy Machinery Group. It has supplied heavy machinery equipment to industrial giants such as Shenhua Group, China's largest coal producer, and BHP Billiton. It posted a net profit of CNY828 million in 2011, up 27% from the previous year. Haitong Securities predicted Citic Heavy's shares would trade at CNY5.44 after listing, 16.5% higher than the offering price, the South China Morning Post reports.

- Qatar's sovereign wealth fund is seeking approval to invest up to USD5 billion in Chinese stocks and bonds, which would make it the biggest foreign investor in China's capital markets. The upper limit for foreign institutions that are seeking to buy stocks or bonds is currently set at USD1 billion, but Chinese regulators are considering lifting the cap. If the securities regulator approves the Qatari application, Qatar will then need permission from the State Administration of Foreign Exchange (SAFE) to actually bring the money into the country.
- Bank of Shanghai, 8% owned by HSBC Holdings, and Longjiang Bank, based in Heilongjiang, planned to sell shares in Hong Kong. More small Chinese banks are expected to follow. Many of the 185 city and rural commercial banks need capital to

fight competition and meet tougher capital requirement rules. Regulators have not approved any IPO plans by smaller banks since 2007, partly due to worries that more listings may hurt the stock markets.

- Tsingtao Brewery's Chairman Jin Zhiguo has resigned because of health reasons and would be replaced by President Sun Mingbo. Trading in Tsingtao shares resumed after a brief suspension. The stock has dropped more than 8% in Hong Kong this month as a billionaire investor, Chen Fashu, agreed to sell shares at a discount.
- China's main stock index closed up 1.4% on June 29, its biggest one-day percentage rise in six weeks, after falling for seven straight sessions. The benchmark Shanghai Composite Index closed at 2,225.4 points. It was down 6.2% for the month, its biggest fall in three months, and down 1.7% for the quarter. The CSI300 index, which tracks China's largest listed firms, outperformed the wider index, rising by 1.5%.
- The Shanghai Equity Exchange now has 21 companies listed, two more since its formation in February, General Manager Zhang Yunfeng said. Of the listed companies, 11 are tradable, five more than in February. The remaining firms haven't passed the required lock-up period. The exchange was set up to allow companies, mainly high-technology startups, to get bank loans and raise funds through private placements. The total transaction volume has topped CNY70 million.
- Hong Kong Exchanges & Clearing (HKEx) agreed to form a joint venture with its counterparts in Shanghai and Shenzhen. It will develop index-linked and other equity derivatives products. Each partner will contribute HKD100 million. The new venture will help the internationalization of the three bourses, HKEx said. HKEx is seeking to grow by offering more yuan-denominated and mainland-related products to counter slower initial public offerings (IPOs) from mainland companies.
- The central government approved two exchange-traded funds (ETFs) through which mainlanders will be able to invest in Hong Kong stocks. The ETF policy was first announced in 2009, but is only implemented now.

TRAVEL

Chinese airlines increase services to London

China's major airlines are adding new routes to London in the run up to the Olympic Games. Wu Xiaoming, General Manager of Air China in the UK, said that it had added a new route between Beijing and London Gatwick Airport on top of the 11 flights it already operates weekly to the city's Heathrow Airport. China Southern Airlines has just added its first route from Guangzhou to London from June 6. It reports flights to the UK capital since that date have been 90% full, against a normal average of 80%. Both Air China and China Southern use A330-200 aircraft on their new routes, and Air China is considering putting larger aircraft on its London routes between July 27 and August 12, if demand continues at current high levels. Passengers are being warned that prices will rise as the event nears. Ticket prices from Beijing to London in July are reported to be 43% higher than in May. British airlines are not planning to add flights for the Olympics.

Hong Kong Airport reports 32% profit jump

The Hong Kong Airport Authority said it would run out of space ahead of schedule on stronger-than-expected traffic growth. The Authority reported a 32% jump in net profit to HKD5.3 billion in the year to March. Passenger traffic has risen 15% over the past three years. Retailing and advertising accounted for 37% of total revenue last year, for the first time overtaking revenue from flight-related operations such as parking and security fees. The number of passengers grew to 54.9 million, up by 6.6% from a year earlier, while cargo volume dipped 5.9% year-on-year to 3.9 million tons. "The traffic volume at Chek Lap Kok is two to three years ahead of what we forecast in the 2030 master plan," Authority Chief Executive Stanley Hui said. "It means we will meet maximum capacity earlier than we thought." In the master plan the authority forecast that the airport would operate at its maximum capacity by 2020. In light of the stronger growth, new expansion would be needed in addition to the HKD12.2 billion midfield and west apron extension plan, which seeks to create 36 more aircraft parking spaces by 2015. The third runway project, which is still going through an environmental impact assessment, will not be completed before 2022.

- The Sofitel Shanghai Hyland, Hilton Shanghai, the Fairmont Peace Hotel, InterContinental Shanghai Puxi, Sheraton Shanghai Pudong and Pullman Shanghai Skyway, all in Shanghai, stopped offering dim sum made by Shanghai Jiabao Food after the company lost its license due to poor hygiene. Supermarket chain Metro China pulled Jiabao products from all its 55 outlets.
- The Chinese government has given approval to Embraer to re-start building aircraft at its plant in Harbin, closed since the second quarter of 2011, after it landed an order from China’s ICBC Financial Leasing Co for five of its Legacy 650 jets, with the option for five more. The world’s fourth-biggest plane maker will be able to build both its 600 and 650 models at the plant.
- Shanghai is developing its cruise ship industry. Authorities expect a 15% jump in passengers taking cruise liners to and from Shanghai this year. Shanghai ports handled over 300,000 passengers taking cruise ships or yachts last year. The city plans to boost that number to 1 million by 2015.
- The Commercial Aircraft Corp of China (COMAC) and France’s Safran Labinal formed a joint venture to work on the electrical wiring interconnection systems for China’s C919 jumbo jet. COMAC will own 51% of the joint venture, Shanghai Saifei Aviation Ewis Manufacturing, based in Shanghai's Pudong New Area. Over 10 Chinese companies have ordered 235 of the C919 airplanes.
- Kunming's new Changshui International airport began operations on June 28. The nation's fourth-largest airport can cater to Airbus A380 aircraft, and targets regional and international air traffic in southwestern China.
- The China Railway Group said two subsidiaries had won CNY6.6 billion in tenders to work on a bridge connecting Hong Kong, Zhuhai and Macao, which is the equivalent of 1.43% of the firm's revenue last year. The Hong Kong- and Shanghai-listed company builds more than half of China's urban and intercity rail projects, which account for 60% to 70% of its business.
- The 3,000th subway carriage was delivered in Shanghai since the city got its first metro train in 1992.
- Pudong International Airport Terminal 1 will undergo a major renovation starting this year to expand its retail space with an investment of CNY1.4 billion, the Shanghai Airport Authority said. The project, which is slated to be finished by 2014, will add some 6,000 square meters of retail space to the terminal.
- One year ago individual mainland tourists were allowed for the first time to visit Taiwan, but the numbers have been far lower than expectations. 89,007 mainlanders visited Taiwan on individual visits last year, an average of 244 a day, far less than the 1,000 quota. Taiwan first permitted 500 mainlanders from Beijing, Shanghai and Xiamen to visit the island solo on a trial basis last June and doubled that number in February. The mainland also extended the scheme in April to allow residents of cities including Chongqing, Nanjing, Hangzhou, Guangzhou and Chengdu to apply for individual visits to Taiwan.
- The tourism firm managing Mount Putuo, considered one of the four sacred mountains of Buddhism, is planning to launch an initial public offering (IPO). The share sale is expected to generate CNY750 million. A tourism administration company for Mount Emei has already been publicly listed, and IPOs are in the works for the other two mountains, Wutai and Jiuhua.
- Passengers on flights departing from Shanghai will need to be at the airport some 30 to 60 minutes earlier than usual after security checks were tightened over the weekend. Many travelers reported longer queues and tougher checks at Hongqiao and Pudong airports. Aircrew and passengers foiled an attempted hijacking of a Tianjin Airlines flight from Hotan to Urumqi in Xinjiang last week.
- Train services to Lhasa are to be increased. Trains will travel daily between Guangzhou and Lhasa starting from July 9, while Chengdu-Lhasa trains also will soon follow the same schedule. Seven major Chinese cities currently have Lhasa-bound trains. All are expected to operate on a daily basis in the future. The Qinghai-Tibet Railway, spanning 1,956 km from Xining to Lhasa, has transported 52.76 million passengers since it started on July 1, 2006. Last year, the number of passengers reached 10.6 million, up 65.6% compared with 2006.

VIP VISITS

Premier Wen visits Latin America

Chinese Premier Wen Jiabao visited Argentina on the first visit by a Chinese Premier in 27 years. Strengthening agricultural cooperation was one of the hot topics of discussion, as China is a main importer of Argentina's soybeans and soybean oil. The volume of bilateral agricultural trade reached USD5 billion last year, accounting for one-third of the bilateral trade volume. The two countries signed three agricultural cooperation agreements during Wen's visit. Before flying to Argentina, Wen paid a 24-hour visit to Uruguay, the first by a Chinese Premier since Beijing and Montevideo established diplomatic ties in 1988. China is interested in investing in a deepwater port in Uruguay and in a possible free-trade deal with the Mercosur regional trade bloc. "We share ample common interests and we have great potential," Wen said in a video conference that included Brazilian President Dilma Rousseff and Uruguayan President Jose Mujica. Wen also met Argentine President Cristina Fernandez in Buenos Aires as part of a South American tour. Wen said China would create a USD5 billion fund for cooperation between China and Latin America and the Caribbean. China aims to nearly double trade with Latin America in five years to over USD400 billion. Last year, 8.9% of all regional exports were destined for China and 13.8% of imports were made in China, as trade between China and Latin America and the Caribbean surged nearly 30% in the 2005 to 2011 period. China and Chile elevated ties to a strategic partnership with a target of doubling bilateral trade to USD60 billion by 2015. Premier Wen Jiabao and Chilean President Sebastian Pinera witnessed the signing of agreements in trade, education and telecommunications, including a five-year plan to elevate the level of agricultural cooperation. Bilateral trade was more than USD29 billion in 2011, a year-on-year increase of 17.4%. Wen urged the establishment of a China-Chile free trade zone as soon as possible. Chile was the first South American nation to establish diplomatic relations with China in 1970.

- President Hu Jintao paid a three-day visit to Hong Kong to mark the 15th anniversary of the city's handover to China. He promised to "walk more and see more" to get a better feeling for Hongkongers' expectations. He also witnessed the inauguration of the government under incoming Chief Executive Leung Chun-ying.

ONE-LINE NEWS

- Huang Sheng, former Vice Governor of Shandong province, has been expelled from the Communist Party for serious disciplinary and legal violations. Huang took huge bribes and used his position to advance the interests of others, which caused massive economic losses to the country, a statement said. He is now under criminal investigation for corruption. He was among seven ministerial-level officials who were investigated for suspected embezzlement or bribery in China last year.
- As of the end of last year, there were about 220,000 foreigners legally working on China's mainland, about 37% of the legal foreign residents. The number of foreign visitors to the country has been increasing by 10% each year since 2000. Many of the illegal foreign workers were found in language training, domestic housekeeping and showbiz, the Ministry of Public Security said.
- Mainland China's first wholly Taiwan-funded hospital opened in Shanghai. Established by the Taipei-based Landseed International Medical Group, the Shanghai Landseed International Hospital, with a CNY150 million investment, is mainly aimed at Taiwanese, expatriates living in Shanghai and locals with high-end health demands. Previously, the Chinese government only allowed foreigners to set up joint venture hospitals. The Landseed Group has run the Shanghai Chenxin Hospital, a joint venture hospital, in Shanghai since 2002.
- Eight mid-level Shantou officials have been arrested for allegedly taking millions of yuan in bribes as part of an anti-graft campaign in Guangdong that analysts say is spreading to second-tier cities after previously focusing on Guangzhou and Shenzhen. The arrests came amid a high-profile campaign against economic crimes launched in February by provincial Communist Party Secretary, Wang Yang. More than 1,000 party cadres and civil servants across the province are being investigated.
- China's central government administrations and institutions spent CNY110 million less on overseas trips, vehicles, and receptions last year compared with 2010, the Ministry of Finance (MOF) said. Expenses in the three areas, known as "three public

consumptions," totaled CNY9.36 billion in 2011. The three public consumptions are often criticized as sources of corruption and waste of public funds.

- Nearly 30 Olympic medallists and showbiz celebrities were swindled out of about CNY60 million in bogus housing and car deals orchestrated by Wang Di, a woman pretending to be a "princeling" – a child of a senior Communist Party figure. Hearings in the high-profile fraud case began at the Beijing Municipal No 2 Intermediate People's Court.
- China has blocked access to Bloomberg's website after it published a report detailing the multimillion-dollar assets of the family of Vice President Xi Jinping, who is expected to succeed Hu Jintao as General Secretary of the Chinese Communist Party in the autumn and as China's President in March next year. The family has investments totaling USD376 million, an 18% indirect stake in a rare-earths company with USD1.73 billion in assets, and a USD20 million holding in a technology company. Internet searches and references to Xi Jinping were also blocked.
- The Standing Committee of the National People's Congress (NPC) has endorsed a tighter immigration regulation aimed primarily at illegal foreign workers. It shortens the minimum duration of residential certificates for foreigners carrying a work visa to 90 days – half of the current period. The rule also bans any organization or individual from employing expatriates without either a work visa or a residential certificate for foreigners working in China. The Public Security Ministry was now entitled to deport foreigners who violated the regulation, and offenders would be barred from entering China for 10 years from their date of expulsion. The law comes into effect on July 1 next year.

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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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