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# NEWSLETTER | 9 JULY 2012

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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

### Three Chinese banks are the world's most profitable

China’s three biggest lenders – Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), and Bank of China (BOC) – are the world's most profitable banks, according to The Banker. ICBC led for the second successive year with pretax earnings of USD43.2 billion, followed by CCB, which delivered a USD34.8 billion profit, and BOC with earnings of USD26.8 billion. “Chinese banks appear to have a vast cushion of profits with which to tackle problem loans as they arise,” the magazine said. Four Chinese banks were in the top 10 in terms of tier 1 capital. The Banker also noted that Chinese lenders’ assets are just 13% of the global total, compared with their profits accounting for 30%. Their capital-to-assets ratios are significantly lower than for banks in other major emerging markets.

## PBOC cut interest rates for second time in four weeks

The People's Bank of China (PBOC) cut interest rates for the second time in just four weeks. The surprise reduction is sure to stoke fears that China's second-quarter economic growth rate – due to be announced this week – will be even weaker than the 7.5% or so that analysts were expecting. The benchmark one-year savings rate fell by 0.25 percentage points to 3%, while the key lending rate was cut by a slightly larger 0.31 percentage points to 6%. On top of that, the central bank said that from now on banks would be allowed to make loans at rates as low as 70% of the benchmark lending rate. As a result, the minimum one-year lending rate has been reduced to just 4.2%, from 5.9% at the beginning of June. The margin between what banks pay on their deposits and what they get on their loans has now fallen by half to just 1.2 percentage points. In the near term that's bound to hurt the share prices of China's main banks, which have already fallen heavily since early April, when Premier Wen Jiabao signaled a tougher policy stance towards the banking sector, declaring “our banks are profiting too easily”. The asymmetric interest rate cut is expected to make little difference to banks' margins, however. A couple of years ago, Chinese banks typically made two-thirds of all their loans either at or slightly below the benchmark lending rate, but now banks only make a third of their loans at or below the benchmark rate. Two-thirds are made at interest rates above the benchmark. Some analysts say the latest interest rate cut may do little or nothing to boost China's economic growth rate. Many economist say this month's action won't be enough, and the central bank will be forced to cut rates at least two more times this year, as well as further relax the reserve requirement ratio (RRR). Both measures effectively free up credit in the financial system so banks can grant more loans.

- The time is ripe for China to cut banks’ reserve requirements as slowing inflation gives more room for easing to stabilize growth, said the China Securities Journal. A “timely” reduction by an “appropriate magnitude” can release liquidity and spur lending, the newspaper, published by Xinhua News Agency, said in a front-page commentary. The ratio stands at 20% for large banks, a relatively high level, the newspaper said.
- The fiscal strength of the government, enterprises and individual households remained healthy, and financial infrastructure continued to be steadily built last year, the People’s Bank of China (PBOC) said in the 2012 financial stability report. Stress test results showed that 17 key commercial banks were capable of withstanding macro-economic shocks. The banks’ capital reserves were adequate, but with slowing deposit growth, the liquidity pressure rose. The banking system was healthy overall, the report noted.
- China's central bank has flooded the local money market with cash last week, stoking expectations that it may be signaling a broader monetary easing, just as it did two months ago. Since last week, the People's Bank of China (PBOC) has ramped up its use of reverse-repurchase operations, an increasingly important tool for pumping short-term liquidity into the banking system. It did something similar in May, shortly before it cut banks' reserve requirements, freeing up huge amounts of cash that banks could lend out to boost the slowing economy.
- London's yuan deposits reached CNY109 billion by April, according to data from the City of London. Hong Kong's deposits were about CNY538 billion at the end of the same month. London would face a liquidity problem as it develops into an off-shore yuan center, analysts said. To expand the currency's capacity and transaction volumes in London, the City of London Corp is advising banks to keep raising awareness of the potential benefits of the yuan.
- The China Banking Association predicted new yuan-denominated loans would total CNY8 trillion to CNY8.5 trillion this year, higher than the CNY7.47 trillion in 2011.

# FOREIGN INVESTMENT

## Foreign exchange rules for FDI to be simplified

The State Administration of Foreign Exchange (SAFE) is planning to simplify the foreign exchange rules pertaining to foreign direct investment accounts. The plan is another step in the country’s efforts to make the yuan fully convertible on the capital account and to eventually make it a global currency. The acts of opening or adding to foreign exchange accounts for the purpose of foreign direct investment (FDI) will no longer be subject to regulatory examinations. The same will be true for transfers between different foreign exchange accounts. Examinations will no longer be conducted on reinvestments of profits generated by foreign companies in China. There will also be a simplification of the procedures foreign investors must follow when buying Chinese equities in the over-the-counter market and applying for capital verification for investments in Sino-foreign joint ventures. “The move will eliminate a lot of procedures and make foreign direct investment simpler in China,” said Wang Jianhui, Chief Economist with Southwest Securities Co, an investment bank. The report said the procedures for foreign direct investment should be simplified for investments whose purpose is verified and which do not involve speculative capital. Guo Shuqing, Chairman of China Securities Regulatory Commission (CSRC), said that none of the 40 items in China’s capital account is totally unconvertible. To avoid financial instability, China’s capital markets are largely off-limits to foreign investors. Only selected foreign fund managers can invest in China through the Qualified Foreign Institutional Investor (QFII) program. In total, USD80 billion in QFII has been approved. An RQFII program — the “R” standing for renminbi — followed this year. It allows off-shore yuan, accrued mostly through yuan-denominated trade settlements, to flow back to China.

## Chinese FDI falls for first time in 9 years

Foreign direct investment (FDI) from China fell for the first time in nine years in 2011. According to a report by the United Nations Conference on Trade and Development (UNCTAD), outgoing FDI from China declined 5.4% to USD65.12 billion last year – the first drop since an increase in expansion overseas in 2003. Francis Cheung at brokerage firm CLSA said the data was unsurprising. “Since Greece threatened to break from the euro zone last June, pricing negotiations of any merger and acquisition have become immensely difficult,” Cheung said. “If I were an executive from a corporation in one of those troubled regions, I would also hold off until better times.” Cheung expected China's FDI outflow to rebound in the next few months as projects restarted amid better external economic conditions. China remained the world's most favored destination for FDI, with inflows rising 8% to USD124 billion last year, and for the first time investment in services surpassing that of manufacturing. UNCTAD said the amount of capital inflow to the financial sector would rise in the coming years as foreign banks including HSBC and Citigroup expanded their presence in China.

- A “knowledge city” under construction in Guangzhou is expected to help Guangdong province to transform itself from being the “world's factory” of cheap goods into a center of higher-value production. The “Sino-Singapore Guangzhou Knowledge City” is a joint project of the provincial authorities and the government of Singapore. The joint venture was formed in September last year between Singbridge International Singapore and the Guangzhou Development District's Administration Committee. It plans an initial investment of CNY4 billion this year to establish the 123 sq km city. Global companies including Siemens, ABB, Philips, Hitachi, ST Engineering, Walt Disney and Procter & Gamble agreed to invest in the city.
- Chinese private companies investing abroad will get new policy support, including tax relief and easier access to credit, the National Development and Reform Commission (NDRC) announced. Chinese banks will provide more loans and export credit to help with mergers and acquisitions (M&As), the NDRC said, adding that the firms will be allowed to issue stocks and bonds in overseas markets. Overseas investment has been dominated by big Chinese state-owned enterprises (SOEs), which took up 80% of the accumulated outflows of USD1.5 trillion at the end of last year.
- Invista, the world's largest supplier of spandex, is betting on China's large consumer market and garment manufacturing base to help speed up global adoption of upgraded fibers under its flagship Lycra brand. Invista recently spent more than USD227 million expanding production at its plant in Foshan, Guangdong, that its apparel unit operates with joint-venture partner Foshan Plastics Group. It is the largest foreign investment to date in the province's fiber industry. The facility added 12.5 kilotons of spandex production, raising its annual capacity to 24.5 kilotons. The company estimated that roughly half of all underwear sold in China used spandex, compared with up to 98% of that sold in North America and Europe.
- USD83.2 billion in FDI flooded into Hong Kong last year, making it the world's fourth-largest recipient of FDI, according to statistics compiled by the UN Conference on Trade and Development (UNCTAD) in its World Investment Report 2012. Most of the investment is the result of round-tripping, funds coming out of the mainland through Hong Kong and back into the mainland. The latest Hong Kong government figures for

sources of FDI show that in 2010, 36.9% came from the mainland and 32.5% from the British Virgin Islands.

- Private companies account for a small share of Chinese international investments. State-owned enterprises (SOEs) accounted for 73% of the value of overseas Chinese investments last year and 98% in the first quarter of this year, according to A Capital, a private equity firm that assists Chinese companies investing in Europe. Although China's overseas investments are not the largest in the world, they are the fastest-growing, with an annual rate of 54%, says A Capital. The company expected Chinese overseas investments to reach USD800 billion from 2012 to 2016.

## FOREIGN TRADE

### China could miss its trade growth target

Vice Premier Wang Qishan has warned China may miss its target for trade growth this year, underscoring growing concern about the slowing global economy. He said the global economic situation remained severe, with many uncertainties, so it was “an arduous task” to ensure China's trade growth target for the whole of this year could be achieved. Last month, a Ministry of Commerce Spokesman had voiced confidence the country would be able to achieve its objective of 10% growth in trade for the year, barring any catastrophe. British bank Barclays recently lowered its forecast for China's export growth to 8% from 10%, due to a weakening external outlook. During the first half of the year, container throughput at Shanghai, the world's busiest port, grew 3.6% to 15.86 million TEU, slower than the 10.5% growth in the first half of last year, according to official Chinese data. Willy Lin, Chairman of the Hong Kong Shippers' Council said orders placed with Hong Kong exporters have fallen 20% to 30% this year. In Dongguan, a leading Pearl River Delta manufacturing center, the number of Hong Kong companies has fallen to 6,500 from 9,000 in 2008, Lin added. “This indicates Chinese exports are really dropping.”

### U.S. files trade complaint against China

The U.S. filed a trade complaint against China for imposing duties on more than USD3 billion in shipments of American vehicles, mostly made by General Motors and Chrysler.The Chinese duties cover more than 80% of U.S. auto exports to China, including Jeep's Wrangler and Grand Cherokee, both made by Chrysler, and GM's Buick Enclave and Cadillac CTS, according to a White House fact sheet. The U.S. complaint adds to an expanding list of grievances between the two nations on exports of rare-earth minerals, and solar panels and wind-turbine products sold in the U.S. The steps on trade by China and the U.S. in recent months have led some analysts to speculate the nations are headed for a trade war. China, the world's biggest car market, announced plans on December 14 to impose anti-dumping duties as high as 12.9% on GM cars and 8.8% for Chrysler vehicles. China said U.S. taxpayer support of the two carmakers amounted to a government subsidy that was illegal under WTO rules, an allegation the Obama administration rejects. The U.S. government, which provided aid to the companies in 2008 in return for stock, holds a 32% stake in GM. The Chinese levies, which cover about 92,000 vehicles, also were applied to vehicles made by the U.S. units of BMW and Daimler, which pay 2% and 2.7% respectively.

## IPR PROTECTION

### Bloomberg sues Shanghai Great Wisdom for copyright infringement

Bloomberg sued Shanghai Great Wisdom Co in the Shanghai No 1 Intermediate People’s Court for copying its software and hardware designs. Bloomberg took its terminal to court to show Great Wisdom’s version is a copycat. It said that the multi-color keyboard, dual monitors, the theme colors of software, and the layout of the user interface are all copied from the Bloomberg model, and has thus violated China’s law against unfair competition. Bloomberg said users could mistake one for the other, and demanded CNY6.6 million compensation and an apology from Great Wisdom. Si Weijiang, lawyer for Great Wisdom, argued that the monitors of the two sides are both uniform products of Hewlett-Packard, and Great Wisdom purchased its keyboard from a third-party supplier. He argued that Bloomberg doesn’t own the patents for colors and layouts of the software, which are commonly used in stock-trading software and financial TV programs. Bloomberg entered the Chinese market in the early 1990s and became China’s third largest financial data provider in 2010. Great Wisdom, established in 2001, said it is the largest financial data provider in China in revenue and users. Competition between heated up after Great Wisdom drew up ambitious plans for overseas expansion. Shanghai-listed Great Wisdom said in its 2011 annual report that it had finished an English database for all 2,366 firms listed in China, and it would accelerate international versions of its products, the Shanghai Daily reports.

- Guangzhou Pharmaceutical Co is suing Dongguan Jiarong Supermarket Co and Guangzhou New Supply Trade Co for a total of CNY1 million in compensation for selling a herbal tea under the “Wong Lo Kat” name, which the drug firm has exclusive use of. Two courts in Guangdong province have accepted the case.
- Apple is facing another trademark conflict, following a dispute of ownership of the iPad name, this time with Jiangsu Snow Leopard Household Chemical Co that alleges Apple’s Snow Leopard operating system violates its existing trademark. A Shanghai court will begin hearing the case on July 10. The Jiangsu company registered 42 Snow Leopard trademarks in various categories, and in 2008, its toothpaste was granted well-known trademark status in China. Apple applied for the Snow Leopard trademark for computer software in 2008, but the application was rejected, according to the State Administration of Industry and Commerce (SAIC).
- A contentious clause that musicians said violated their intellectual property rights and undermined creativity has been deleted from an amendment to the Copyright Law. Among other revisions, the controversial “Article 46” was dropped. Under the article, those who did not hold the copyright of a recording would have been allowed to circumvent copyright holders after just three months after the recording being released, as long as permission was obtained by the National Copyright Bureau. The copyright owners would still have been paid for the use of a recording, but they would not have been able to prohibit its use.

## MACRO-ECONOMY

### Manufacturing drops, but services improve in China

The HSBC Purchasing Managers’ Index, slanted toward private and export-focused companies, dropped to 48.2 in June from May’s 48.4. For the second quarter of this year, the index averaged its lowest quarterly value in over three years. The index’s reading contrasted with that of big state-owned enterprises whose business grew although at the slowest pace in seven months. The official Purchasing Managers’ Index, compiled by the China Federation of Logistics and Purchasing and slanted toward big SOEs, continued to indicate growth. The official PMI was 50.2 in June, compared with May’s 50.4. The official non-manufacturing Purchasing Managers’ Index, which measures the performance of companies in the service industry, rose to 56.7 in June, up from May’s 55.2 and April’s 56.1, the National Bureau of Statistics (NBS) said. The growth was bolstered by increased activity in industries such as logistics, telecommunications and broadcasting, while less vitality was reported in the retailing, hospitality and road transport sectors.

### Shanghai to spend CNY100 billion on infrastructure projects

Shanghai plans to spend more than CNY100 billion in the next few years on infrastructure projects ranging from roads and bridges to affordable housing. Shanghai Chengtou Corp says it will partly fund the projects by issuing CNY2.5 billion of one-year bonds. Chengtou has some 77 infrastructure projects lined up over the next few years, with a total investment budget of CNY105.2 billion. “As the main infrastructure construction firm of the Shanghai government and Shanghai's largest infrastructure conglomerate, our funding needs are large. In recent years, the scale of Shanghai's infrastructure construction has continued to increase, and that may bring financial pressure on the company in future,” the firm's prospectus said. This year, Chengtou will invest CNY17 billion in infrastructure projects, of which CNY3.2 billion has already been spent from January to April. Its debt stood at CNY100.9 billion at the end of March, with a gearing ratio of 56.9%.

### Independent U.S. report points to pickup in China

China's official statistics may be lagging behind independent data that show a pick-up in the economy last quarter, according to a new private survey modeled on the U.S. Federal Reserve's “Beige Book”. The “China Beige Book”, in interviews of about 2,000 company executives and bankers, found retail sales and manufacturing strengthened while property sales increased and shortages of unskilled labor failed to abate. New York-based CBB International conducted the survey. The report said four of every five retailers see higher sales in six months, a bigger proportion than in the first quarter, contrasting with government data showing the weakest non-holiday sales growth since 2006 in May. Bankers foresee growing availability of loans and 46% of companies intend to borrow, “suggesting a fairly stable rise in credit demand”. “These findings diverge considerably from the current 'gloom and doom' narratives,” CBB President Leland Miller and Craig Charney, Director of Research and Polling, said. The official data probably lagged CBB's data by one to three months and might reflect a pickup by “mid- to late summer”, they said. “The economy as a whole is now strengthening modestly” and credit was “fairly loose”, Miller said. “[Quarterly] growth was particularly evident by June in consumer spending and real estate, while agriculture and mining also showed improvement.” In the second quarterly “China Beige Book” survey, property agents reported higher second-quarter revenue doubled to almost 60%, manufacturers recorded sales increased 3 percentage points to 63%, and the number of retailers with increased sales climbed 5 percentage points to 68%. Retailers expected spending to strengthen further and 71% of manufacturers foresaw higher revenue in six months, the survey said, indicating a reduced need for further stimulus measures. The data contrasted with the manufacturing purchasing managers' index released by HSBC Holdings and Markit Economics, which fell last month to the lowest level since November, showing a contraction for an eighth straight month, the South China Morning Post reports.

- A suggestion that China’s retirement age should be raised to 65 has been overwhelmingly rejected by the public, with more than 90% of respondents in two separate online polls voting “no”. Last month, China’s Ministry of Human Resources and Social Security announced an investigation into a possibly more flexible retirement and pension system that would allow people to continue working past the current retirement age of 55 for women and 60 for men.
- Investors in Shanghai are still optimistic about the future but the confidence level hit a three-year low in the second quarter, according to the Investor Sentiment Index compiled by the Shanghai University of Finance and Economics. Investors turned pessimistic lately on the country’s continued economic slowdown and growing uncertainties overseas, said Xu Guoxiang, Program Leader and Director of the University’s Applied Statistics Research Center.
- China’s benchmark power station coal price at the Qinhuangdao port in Hebei province fell to its lowest level in 31 months amid weakening domestic demand and rising imports. Coal with an energy value of 5,500 kilocalories per kilogram fell to a range of CNY660 to CNY680 a metric ton, according to the China Coal Transport and Distribution Association, the lowest price since November 2009. Stockpiles declined 5.9% to 8.57 million tons.

## MERGERS & ACQUISITIONS

### Chinese private company acquires commercial bank overseas

Xinjiang Hualing Industry and Trade (Group) Co has acquired 90% of Georgian JSC Basisbank, becoming the first Chinese private company to buy a commercial bank overseas. The acquisition was sealed after the European Bank for Reconstruction and Development (EBRD) and the bank’s Supervisory Board Chairman Zurab Tsikhistavi agreed on the deal. The EBRD and Tsikhistavi, as the bank’s single international shareholder and the founder, will each retain 5% stake. The bank will change its name and operate in Tbilisi and Kutaisi, Georgia’s second largest city. Founded in 1993, Basisbank ranked 11th among Georgia’s 19 existing commercial banks by total assets. Its assets were valued at USD94 million at the end of March.

- ENN Energy, part of a consortium with China Petroleum & Chemical (Sinopec) to acquire a majority share in China Gas, is considering to enhance its takeover offer after its shareholders voted in support of the bid, which was also extended by a month. “We are considering different options, [and raising the offer bid] is one of them,” Cheng Chak-ngok, Executive Director of ENN said. The ENN-Sinopec consortium needs 50% of the voting rights in China Gas for its hostile bid to succeed. China Gas joint Managing Director and President Eric Leung repeated his criticism of ENN, saying

China Gas shareholders were not willing to accept the offer, and its shares were trading well above the bid.

- Carlyle Group has taken a controlling 49% stake in China's Mandarin Hotel Holdings, a leader in the mid-tier hotel market in China. Carlyle is reported to have invested around USD4 billion in more than 60 deals in China. The room number of mid-tier chain hotels has only accounted for 12% of the whole mid-tier hotel industry, according to Carlyle. Founded in 2006, Mandarin Hotel Holdings, which is not related to the Mandarin Oriental chain, has operated 25 designer hotels in six major cities in China, 14 of them in Beijing. It operates under the Crystal Orange Hotel and Orange Hotel brands.
- China Southern Locomotive and Rolling Stock Industry Group Co, China's largest train maker, said it is in contact with a British railway signaling company and several others about possible acquisitions. "The crisis has created good possibilities for mergers and acquisitions in that current prices are attractive," said CSR Chairman Zhao Xiaogang, adding that no actual moves have been taken so far. The Sunday Times reported that CSR was considering a takeover bid for British company Invensys, which makes railway signaling systems. Zhao predicted that CSR's exports will increase by 50% this year, contributing 20% of its total revenue.
- Veolia Environment acquired a majority stake in a Chinese environmental services firm that won a 25-year contract to process hazardous waste in Hunan province. Revenue over the period of the contract is expected to be about €320 million.

## PETROCHEMICALS

### Sinopec plans China's biggest refinery

China Petroleum & Chemical (Sinopec) plans to spend CNY19.3 billion to build China's largest oil refinery in Jiangsu province to meet the country's rising fuel demand. The company has formed a committee with the provincial government on the mega project, which will be located in the coastal city of Lianyungang and will integrate oil refining and petrochemical production. The project would have an annual refining capacity of 32 million tons and construction could start as early next year under an agreement signed between Sinopec and the provincial government. The first phase of development involves 12 million tons of annual oil refining capacity and facilities capable of churning out one million tons of paraxylene, a chemical used to make polyester. The second phase includes 20 million tons of oil refining capacity and facilities to make one million tons of base chemical ethylene a year. The agreement also includes the construction of a wharf large enough to accommodate oil tankers with a storage capacity of 300,000 tons of fuel. The mega project still needs approval from the National Development and Reform Commission (NDRC). Sinopec Deputy Chairman Wang Tianpu said the company plans to form a joint venture with a large international petrochemical firm to co-invest in the project. Sinopec was operating 34 refineries at the end of last year, with a total annual processing capacity of 247 million tons, according to its annual filing to the Securities Exchange Commission (SEC) in the United States, where its shares are traded. If completed, the 32-million-ton-a-year refinery will be much larger than Sinopec's largest operating refinery in Zhenhai, Zhejiang province, which has an annual capacity of 23 million tons. China's petrol output grew 7.3% in the first five months of this year to 35.7 million tons, and diesel output rose 2.7% to 71.55 million tons.

- Mongolia is calling on China and Russia to redirect a planned natural gas pipeline across its territory. Altering the route to pass through Mongolia would save 1,000 km of pipeline, Mongolian President Tsakhia Elbegdorj said. It would also allow Mongolia to switch to gas heating in the capital Ulan Bator, which ranks among the world's most polluted cities due to the widespread use of coal-fired stoves. "We are trying to persuade our two neighbors not to exclude us from that project," Elbegdorj added.

## REAL ESTATE

### Home prices on the rise again

Home prices in China rose for the first time in 10 months in June amid steadily recovering sales in major cities. Prices edged up 0.05% from May to CNY8,688 per square meter in 100 major cities across the country, ending a losing streak since September 2011, according to the

China Index Academy. Prices dropped in 45 cities, compared with 73 in May, with 12 seeing falls of more than 1%, 5% fewer. Gains were posted in the other 55 cities, with 11 recording increases of more than 1%, up 3% from May. Year on year, however, home prices in the 100 cities have fallen 1.9% on average. Sixty-seven cities saw a loss in value, compared with 60 cities in May, the Academy said. “New home purchases continued to rebound in major cities since March and a recently fine-tuned monetary policy further helped trigger buyers’ sentiment,” the Academy said in a statement. “Some real estate developers recently stopped offering discounts or even raised their prices amid robust sales, leading to the slight price increase in June.” The average cost of homes in the 10 largest cities, including Shanghai, Beijing, Guangzhou and Chongqing, climbed 0.75% from May to CNY15,429 per sq m, with Beijing registering the biggest increase of 2.3%. Tianjin and Hangzhou were the only two cities among the 10 that reported monthly drops, shedding 0.6% and 0.1%, respectively. New home sales fell 13.5% year on year to 255.52 million sq m across the country between January and May, recovering from a 14.9% annual drop recorded during the first four months of this year, the National Bureau of Statistics (NBS) said last month. In Shanghai, new home purchases soared to their highest level in 17 months in June, according to the latest market research.

## Less major real estate deals in Shanghai

The number of major real estate deals in Shanghai dropped more than one third in the first half of this year, with office buildings being the most preferred investment. Property acquisitions worth more than USD10 million each fell to CNY12.7 billion in the city between January and June, down 37% from the same period a year earlier, according to DTZ. Last year, about CNY40 billion worth of en bloc property deals were done in Shanghai, the highest since 2006, DTZ data showed. The office segment accounted for 73% of the total real estate investment in the city in the first half, up from 67% in the same period in 2011. Next came hotels with 13% and retail properties with 11%, according to DTZ. “Notably, no investment deals in residential properties were sealed during the six-month period amid the government’s restraint policies aimed at curbing speculation while high-quality offices continued to be the most sought-after real estate type,” Jim Yip of DTZ China Investment, said. He added that domestic buyers dominated as they sealed 78% of the total deals in the period while overseas players were more cautious. Owner-occupiers made up 57% of buyers in the first six months, beating pure investors for the first time, DTZ said. In 2011 their share came to 16%. New home sales in Shanghai in the first half of the year were little changed from a year ago. The sales of new homes, excluding government subsidized affordable housing, dipped 1.2% annually to 3.85 million sq m between January and June, but gained 12% from the second half of 2011, Soufun data showed. “March, May and June saw a strong rebound in transactions of new residential properties in the city, sparked by price discounts offered by real estate developers,” said Tang Zhengwei, a Soufun Analyst.

## Land sales drop 38% in first half

Chinese land sales were mixed in the first half of the year depending on the type of market: tier-one locations reported declines in revenues during the period, while second-tier cities saw land sales go up. Total land sales revenues for 300 cities surveyed amounted to CNY652.98 billion in the first six months of this year, representing a drop of 38% compared with the first half of 2011, according to a report by China Index Academy, one of the China's largest property research institutes. Beijing and Shanghai saw the biggest declines in land sale revenues during the period. Shanghai's revenue fell 62.77% to CNY18.42 billion. The decline sees Shanghai's ranking slip from top place last year to the ninth in terms of total land sales revenues this year. Analysts said the decline in major cities was partly due to too few sites being offered for sale. On the other hand, land sales were active in second-tier cities. Chongqing topped that list with total sales up 20% to CNY37.94 billion in the first six months of this year, compared with the same period in 2011. It was followed by Wuhan, which had land sales revenues of CNY31.7 billion. According to China Index Academy, the total number of government sites launched for sale dropped 19% in the first half of 2012, while residential sites dropped 32% between January and June.

- Standard & Poor's downgraded shopping mall developer Renhe Commercial Holdings for its deteriorating liquidity.
- Evergrande Real Estate, the second-largest Chinese developer by sales, has reported accusations made against it by United States-based short seller Citron Research to Hong Kong's Commercial Crime Bureau. Citron issued a 57-page report on June 21

alleging Evergrande was insolvent and would be severely challenged from a liquidity perspective this year. It identified six alleged cases of accounting misstatement, in which Evergrande either overstated assets or understated liabilities. But an Analyst said making a police report would not help Evergrande restore its image.

- Hong Kong's Land Registry said there were 8,389 registered sale-and-purchase agreements for all properties, including apartments, shops and car parking spots, last month, down 27% from May. The value of the transactions fell 16.7% month-on-month to HKD54.5 billion. Value and number were the lowest since February, when 5,425 units were sold for a total of HKD26.97 billion. Centaline's latest Mass Centa-City Leading Index, which tracks average selling prices at 86 large housing estates across the city, rose to an all-time high of 104.6 points in the week to June 24. Home prices have risen more than 8% since January, Centaline said.
- Guangzhou-based developer Yuexiu Property defended its plan to inject Guangzhou International Finance Center into its real estate investment trust (REIT) Yuexiu. Shareholders will hold an extraordinary general meeting to vote on the proposal on July 23. "[Leasing of] office space at Guangzhou International Finance Center has improved from 52% at the end of March to 60% on June 15. We're confident that the occupancy rate will increase to 70% at the end of this year," Alan Ha, Investor Relations Director of Yuexiu's Capital Department, said yesterday. "As it's a landmark building in the city, its office rent is 30% higher than that of Swire Properties' Taikoo Hui in Guangzhou," said Liang Ningguang, Chairman of Yuexiu REIT.
- Profit attributable to shareholders at property developer Coastal Greenland surged 300% to HKD593 million for the fiscal year ended March. Its gross profit margin increased 5 percentage points to 33% because of higher selling prices. Revenue surged to HKD7.18 billion, up 91% from a year earlier. "We want to keep more cash on hand instead of distributing dividends, so that we can invest when good opportunities come," Chairman Chan Boon-teong said. Earlier this year, Standard & Poor's Rating Services downgraded Coastal Greenland's credit rating, saying the group would "find it tough to refinance its maturing debt over the next six to 12 months".
- China Vanke, China's biggest property developer by market value, said contracted sales reached CNY13.3 billion last month, a 24% jump from May. Longfor Properties reported that June sales rose 35% month on month from May to CNY4.54 billion.
- Premier Wen Jiabao reaffirmed the need for government measures to restrain the property market, amid expectations that back-to-back interest rate cuts could signal a policy shift. On a visit to Changzhou, Jiangsu province, he said the government would not relax its two-year-old campaign to curb speculation and bring down prices in what was widely seen as an overheated property market. "It is a crucial time for the controls over the property market. The controls have to be continued. And it will be long-term policy to curb speculation in the property market," Premier Wen said.
- Transactions involving office buildings accounted for as much as 73% of the real estate volume in the first half of 2012 in Shanghai, compared to 67% in 2011, according to a report by DTZ. Office space covering 435,707 sq m was traded in the first half in Shanghai, and the average price jumped from about CNY17,000 per sq m in January to CNY25,000 per sq m in June. Average rental for Grade A office buildings in Shanghai saw a 4.1% year-on-year growth.
- Foreign investment in China's real estate market amounted to CNY2.8 billion in the first six months, accounting for just 22% of the total investment value of CNY12.1 billion. Total foreign investment for the whole of last year amounted to CNY17.1 billion, or 43.8% of the CNY39 billion total, according to DTZ.

## RETAIL

### Sports apparel retailer Li Ning replaces CEO

Chinese retail sports-apparel company Li Ning said it will undergo a three-year transformation program, including replacing its veteran Chief Executive and elevating Kim Jin Goon, Partner of TPG, to Executive Director and Vice Chairman to drive changes after a period of weak profitability. Zhang Zhiyong, who served with the company for over 20 years, stepped down as Chief Executive, but will remain as an Executive Director. Li Ning's net profit fell 65% to CNY386 million last year.

- The Chinese government is considering banning shark fin at official banquets paid for by public money – a prohibition environmentalists say would give a big push to global efforts to end the trade. The prohibition is expected to be enforced within the next three years. Citing WildAid, a conservation organization, Xinhua reported that up to 70 million sharks were slain annually for their fins.
- Consumers won their first lawsuit against luxury furniture retailer Da Vinci as a district court in Hangzhou, Zhejiang province, ordered the retailer to pay a refund of CNY3.23 million to a customer for making false claims about its goods. Da Vinci claimed its furniture was made in Italy, but an investigation found it was made in Guangdong province. The material used was not expensive solid wood as claimed, but synthetic, high-density polymers. It was the first successful lawsuit against the company by a consumer following the scandal.
- China's standard for the amount of melamine allowed in milk products is 16 times that of the latest one adopted by the United Nations. The UN's Codex Alimentarius Commission amended its dairy products standard to cap the melamine limit at 0.15 milligrams per kilogram. The maximum for infant formula in China, however, is 1 milligram per kilogram, and 2.5 milligrams/kilogram for other milk products. China bans adding melamine to milk products, but allows a certain amount from packaging and the environment.

## SCIENCE & TECHNOLOGY

### China unveils plans to build deep-sea station

China plans to build a mobile deep-sea station to be used in future ocean exploration. Equipped with a nuclear reactor, the station would be able to support 33 crewmen for up to two months at a time. The designs show the station resembling a nuclear submarine, with two propeller fans at the tail. It would measure 60.2 m long, 15.8 m wide and 9.7 m tall, weighing about 2,600 tons. Like a space station, the deep-sea station would have multiple ports to support the docking of smaller manned or unmanned vessels. The Aquarius Reef Base, owned by the U.S. National Oceanic and Atmospheric Administration, is currently the world's only undersea research station. It operates at a depth of just over 19 m. Constructing a massive, floating mining facility in the middle of the ocean will require technology that has not yet been developed, such as for anchoring and power generation. But the biggest risk might be the environmental damage that such mining could cause.

- Scientists in Shanghai have helped discover a new compound to inhibit and kill the tuberculosis bacterium, the National Center for Drug Screening and the Chinese National Compound Library located in Shanghai said. The discovery, made with scientists from four other nations, will lead to development of new drugs. Tuberculosis is one of the three major infectious diseases in China apart from AIDS and viral hepatitis. This compound is the first discovery under the collaboration between the Library and the World Health Organization (WHO).
- The MNI China Consumer Sentiment Indicator by Market News International, a unit of Deutsche Börse Group, pointed to a strong rebound in consumer confidence in June from the previous month. The index rose to 101.6 points in June from May's 90.4, and was the highest in 22 months. The number of people saying it is a good time to buy a home rose in June as the outlook for housing prices improved and sentiment over buying a car also recovered, aided by lower fuel prices and new government subsidy plans.

## STOCK MARKETS

### Funds raised from IPOs drop in first half

Funds raised through initial public offerings (IPOs) in the first half of this year in Shanghai and Shenzhen tumbled 56%. Experts expect IPO activities to sharply rebound in the second half of the year as the market situation is likely to turn for the better and also on the large number of companies already approved to list. The Shanghai and Shenzhen bourses saw CNY77.5 billion raised through IPOs during the January to June period, down 56% annually, PricewaterhouseCoopers (PwC) said in a report. In Shanghai, 17 companies raised CNY28.8 billion and in Shenzhen CNY48.7 billion were raised by 88 companies as of June 30, the report said. In a separate report, Ernst and Young blamed the weak IPO market globally for the situation. Funds raised through IPOs totaled USD59.2 billion in the first half, an annual 47% drop, E&Y said. Both firms, however, forecast that funds raised via IPOs in the second half on the mainland may double that in the first six months, to CNY200 billion to CNY250 billion. That compared to CNY286.1 billion raised last year. An important mission of the State-owned Assets Supervision and Administration Commission (SASAC) this year is to encourage listing of central government owned enterprises. There may be large IPOs with fund-raising sizes exceeding CNY10 billion. More than 100 companies have been approved to list, the Shanghai Daily reports.

- Inner Mongolia Yitai Coal Co managed to raise USD903 million in Hong Kong's second largest IPO this year after Haitong Securities' USD1.8 billion IPO in April. Citic Heavy Industries had a lackluster debut in Shanghai after raising CNY3.2 billion in China's second-largest domestic IPO this year. So far this year, just USD4.19 billion has been raised from IPOs in Hong Kong, compared with USD24.42 billion in the same period of 2011, according to Dealogic.
- Xiao Nan Guo Restaurant Holdings raised HKD500 million in a Hong Kong public offering (IPO) on the Hong Kong Stock Exchange. Another Chinese restaurant, South Beauty, is also seeking an IPO on the Hong Kong stock market this month.
- Pacific Securities Co's board of directors has agreed to set up a joint venture securities company in Laos and invest up to CNY35 million in the joint venture. The draft plan still needs to be approved by Chinese regulators.
- More than one-third of Chinese investors say they have lost at least 30% of their equity investments in the first half of this year, according to an online survey by internet portal Sina. 35.5% of the 54,400 respondents said their investment losses topped 30% between January and June. The result dealt a blow to China Securities Regulatory Commission (CSRC) Chairman Guo, who predicted in February that investors could book an 8% gain this year via undervalued blue-chip stocks.

## TRAVEL

### More Chinese tourists visiting Australia

The number of Chinese tourists visiting Australia in May hit 50,000, an increase of 17% on the same month a year earlier, according to the Australian Bureau of Statistics. In contrast, arrivals from the UK rose just 0.4% to 48,800. If the trend continues Chinese tourist arrivals will pass 600,000 this year, up from 542,000 in 2010 and 158,000 a decade ago, and soon overtake British arrivals (608,000 last year). Deloitte Access Economics estimates Chinese tourists, who accounted for 2.4% of all visitors to Australia in 2004, will make up 13.3% of the market by 2014. It also says Chinese visitors stay longer and spend more – AUD109 a night against AUD88 a night for other tourists.

- Chinese airlines cut fuel surcharges on domestic routes for the second time this year due to lower jet fuel prices. From July 5 the fuel surcharge on domestic routes of over 800 kilometers was cut to CNY100 per passenger from the previous CNY130 while that on other routes was trimmed to CNY50. The cuts are the result of a drop in the price of domestic jet fuel by CNY741 per ton to CNY6,768 this month due to the fall in the benchmark price of Singapore jet kerosene.
- Lhasa will spend CNY30 billion in the next three to five years to build a massive 800-hectare cultural theme park to boost tourism. Its theme will be the ancient Chinese princess Wencheng, who became a symbol of ethnic friendship by marrying a Tibetan king. The park in Lhasa will also show Tibetan folk arts and medicine.

## VIP VISITS

### Cuban President Raul Castro visits China

Cuban President Raul Castro visited China last week and met Chinese President Hu Jintao. A number of cooperation agreements were signed. The visit is Raul Castro's first to China since he took over as President of Cuba from his brother, Fidel, in 2008. Bilateral trade rose from USD590 million in 2004 to USD1.8 billion in 2010. China became Cuba’s second-largest trading partner, exceeded only by Venezuela, and Cuba is China's biggest commercial partner in the Caribbean.. China mainly imports sugar and nickel, while it exports electronic equipment to Cuba. Both countries have great potential to cooperate in the fields of agriculture, energy and tourism, said Niu Haibin, Latin American Studies Researcher with the Shanghai Institute for International Studies. The two sides signed a series of economic agreements including a grant and interest-free loan to Cuba for economic and technological cooperation, a credit line to support Cuban healthcare, and an agreement for agricultural cooperation. Sino-Cuban bilateral trade totaled USD1.8 billion in 2010. Cuba established diplomatic relations with China on September 28, 1960, the first Latin American country to do so.

- French Foreign Minister Laurent Fabius has said that bilateral ties are a "priority" ahead of his official visit to China. He also called for more cooperation in the nuclear power and aerospace sectors. "The relationship with China is a priority for the new French government. We are driven by a new ambition for our bilateral relationship," Fabius was quoted as saying. He said the two countries could also collaborate on environmental protection and urban planning.
- Catherine Ashton, EU High Representative for Foreign Affairs, began a three-day visit to China on June 8 and will attend the third round of the China-EU high-level strategic dialogue.

## ONE-LINE NEWS

- Liu Zhuozhi, former Vice Chairman of Inner Mongolia, has been sentenced by the Beijing No 1 Intermediate People's Court to life imprisonment for taking more than CNY8.17 million in bribes. In exchange, Liu granted favors to 21 people, including approving business and mining credentials and promoting officials. Liu's wife was also found to be involved in the corruption and is under criminal investigation.
- Chairman Huang Yujie of Beijing Bonwin Contemporary Art Investment has been detained by police in a corruption investigation linked to two bankers at the Agricultural Bank of China (ABC) and China Minsheng Banking Corp. "This is like an earthquake in the art world on the mainland," said an anonymous source. "The more the government looks into it, the worse it will be likely to find, because this [art auction and investment] industry is full of tricks that outsiders won't usually know," he added.
- Beijing Mayor Guo Jinlong, 65, was promoted to Communist Party Secretary of the capital at the close of the Beijing Municipal Communist Party Congress, paving the way for him to become a Politburo Member at this autumn's National Party Congress. Guo replaces 70-year-old Liu Qi. Wang Anshun, the municipality's Second Deputy Party Secretary, was promoted to First Deputy Party Secretary and is set to succeed Guo as the capital's Mayor.
- China's wine output is estimated to rise an annual average of 15% through 2015, according to a blueprint for the wine industry outlined by the Ministry of Industry and Information Technology (MIIT). The yield of domestic vineyards will almost double to around 2.2 billion liters from that of 2010 and sales income would reach CNY60 billion by 2015, compared with CNY32.5 billion in 2010.

## QUOTES OF THE WEEK

"Even when China becomes developed in the future, it will never seek hegemony. China is always committed to economic development, world peace and common development of mankind. We must abandon the old mindset and approach that have been rendered obsolete; we must keep pace with the times, forge ahead with innovation and foster a new security concept. China will actively participate in the reform of the international system for governance with a view to move towards a more just and equitable international political and economic order."

Vice President Xi Jinping, quoted in the South China Morning Post, July 8, 2012.

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