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FLANDERS-CHINA CHAMBER OF COMMERCE  
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# NEWSLETTER | 27 AUGUST 2012

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## **FCCC ACTIVITIES**

### **Information session: Financial incentives and investment funds for doing business with China – 12 September 2012, 15h – Offices of FIT, Brussels**

The Flanders-China Chamber of Commerce and Flanders Investment & Trade are organizing an information session focused on financial incentives and investment funds for doing business with China.

The session will present a view on investment funds available and which financial incentives are being offered. This seminar focuses both on Flemish companies wishing to expand in China and Chinese companies investing in Belgium.

This practical information session will take place on Wednesday 12 September at 15h at the offices of Flanders Investment & Trade, Gaucheretstraat 90, 1030 Brussels.

The programme is :

14h30	Registration
15h00	Welcome by Mrs Claire Tillekaerts, CEO, Flanders Investment & Trade
15h10	Introduction by Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce
15h20	“China-Belgium Investment Funds” by Mr Rik Daems, Senator, Chairman China-Belgium Investment Fund
15h50	“TINA: Transformation through Innovation, a multi-company approach”, by Mr Roald Borré, Business Manager, Investment Fund TINA, PMV
16h20	“Financial Support to companies” by Peter Bulckaert (Head of Department Finance & IT) / Yves Roekens (Head of financial incentives) Flanders Investment & Trade
16h35	Questions and answer session
16h45	Networking cocktail

If you are interested in attending, please subscribe online before 7 September 2012. Participation fee for FCCC Members: €45, for Non-Members: €65.

### **Lunch seminar: EU Business in China: Position Paper 2012/2013 – 18 September 2012, 12h00 – Résidence Palace, Brussels**

The Flanders-China Chamber of Commerce (FCCC) is inviting its members the annual lunch seminar “EU Business in China: Position Paper 2012/2013”, which will take place on Tuesday 18 September 2012 at 12h at the Résidence Palace, Rue de la Loi/Wetstraat 155, 1040 Brussels. The seminar is organized by the European Union Chamber of Commerce in China (European Chamber) in collaboration with Business Europe and the EU-China Business Association (EUCBA), of which the FCCC is in charge of the secretariat-general. At this occasion, the European Chamber will present its European Business in China Position Paper 2012/2013.

Speakers:

- Karel De Gucht, Commissioner for Trade, European Commission
- Davide Cucino, President, European Union Chamber of Commerce in China

This is the 13<sup>th</sup> edition of this annual publication, which has grown in importance and stature to become a vital contribution from private business to the development of China and Europe-

China relations. On the eve of a generational leadership transition, China's economic model remains unstable, unbalanced, uncoordinated and unsustainable. China's state capitalism has supported high-levels of growth for the last 3 decades. However it has reached the point in which bold reforms are needed in order to create the conditions whereby the drivers of innovation, productivity and efficiency will prevail.

The "EU Business in China: Position Paper 2012/2013" illustrates the perception of European business regarding the challenges to operate in the Chinese market. But it also wants to contribute by providing constructive recommendations on how China could move to a more balanced and sustainable economic model. Drawing on the industry knowledge and expertise of the European Chamber's 1,700 member companies, this year's Position Paper presents Chinese and European policy-makers with more than 600 key recommendations. Trade Commissioner Karel De Gucht will deliver a speech on the current climate of EU-China business and economic relations.

Agenda:

12h00 –13h00: Registration and buffet lunch

13h00 –13h15: Introduction by EU-China Business Association

13h15 –13h45: Presentation of the European Business in China Position Paper 2012/2013 by Mr Davide Cucino, President, European Union Chamber of Commerce in China

13h45 –14h00: Speech on EU-China business relations by Mr Karel De Gucht, European Commissioner for Trade

14h00 –14h15: Q&A

The participation fee is €85. Register online via following link:

[http://www.flanders-china.be/events\\_subscription1.asp?id\\_event=250&lang1](http://www.flanders-china.be/events_subscription1.asp?id_event=250&lang1)

## EU-China Business Summit – 20 September 2012 – Brussels – Speaking & Sponsorship Opportunities and Registration

Following the announcement that the EU-China Political Summit will take place on 20 September 2012 in Brussels, we have started preparing the EU-China Business Summit which will be organized the same day in parallel to the Political Summit. It is a joint initiative by the EU-China Business Association (EUCBA), BUSINESSEUROPE, the China Council for the Promotion of International Trade (CCPIT) and the EU Chamber of Commerce in China (EUCCC).

The EU-China Business Summit provides business leaders from China and Europe with an opportunity to discuss the current commercial environment as well as issues of common concern in the EU-China trade relationship. It is held annually, alternately in the EU and in China, and recognized as the most high-level platform for exchange between EU and Chinese business and political leaders.

We expect a Chinese delegation of about 100 senior business people (including CEOs) to attend the event. The overall theme will be linked to investment – opportunities and challenges in both China and the EU.

The 8<sup>th</sup> EU-China Business Summit will:

- Bring together the highest level of European and Chinese political leaders including Chinese Premier Wen Jiabao, European Commission President José Manuel Durão Barroso, European Council President Herman Van Rompuy and global CEOs.
- Provide an excellent opportunity to join an open discussion with European and Chinese leaders about current and future challenges and opportunities that shape the business environment in China and the European Union.
- Provide an excellent opportunity to expand business relations and the EU-China network with important counterparts from Chinese business and politics.

Speaking & sponsorship opportunities:

As the Chinese business delegation will be very high-level, including CEOs from major Chinese companies, we are actively seeking Global CEOs from representative European

Companies to participate as key European business speakers at the EU-China Business Summit.

The EU-China Business Summit will also provide an excellent opportunity for companies to present themselves and their activities to a broad public of high-level business and political representatives from China and the EU. We are happy to provide more detailed information about this possibility.

To register for the event, [click here](#) no later than 14 September 2012.

## **OTHER ACTIVITIES**

### **China Low Carbon City Tour – September 15-19, 2012 – Beijing-Dezhou-Nanchang-Beijing**

New energy is one of the seven Strategic Emerging Industries under China's 12<sup>th</sup> Five Year Plan which receives favorite policy support from the central government. To decarbonize the economy and encourage the development of new energy industry and application, the government targets to have 11.4% non-fossil fuel based primary energy by 2015, and to shoot for 15% by 2020. The Climate Group's 5<sup>th</sup> China Low Carbon City Tour focuses on new energy industry development and application. The tour will bring local and foreign business delegates and investors to two Chinese cities – Dezhou and Nanchang. The delegation will gain industry insights by meeting senior city government officials, as well as local business leaders. The tour will also include visiting local industrial parks and projects.

Key activities of the Low Carbon City Tour include:

- Visiting Dezhou Solar Exhibition, Dezhou Economic Development Zone, Solar Valley, Industrial Park, and selected industrial plants;
- Meeting with Dezhou Mayor and DRC officials;
- Visiting Nanchang Economic Development Zone and low carbon projects;
- Meeting with Nanchang Mayor, DRC officials, business and financial institutions on projects and development roadmap

All activities in Dezhou and Nanchang of the Low Carbon City Tour are free. The Dezhou government will cover all local expenditure including meals and accommodations. However, we will charge each participant CNY6,000 to cover round trip transportation from Beijing-Dezhou-Nanchang-Beijing. If participants are departing directly from Nanchang after the tour ends, the cost is CNY5,000.

Confirm your participation by August 31 (Friday). Xue Yanyan, Senior Manager, The Climate Group Tel: +86 10 6440 3639 (ext 8008)  
Email: [yxue@theclimategroup.org](mailto:yxue@theclimategroup.org)

## **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](http://www.flanders-china.be)

## **FINANCE**

### **Government to probe triangular debt**

The Chinese government has ordered a major probe into the level of debt owed between companies from the private and public sector, also known as “triangular debt”. Various ministries are involved in the investigation. From January to May, the turnover rate of receivables among state-owned enterprises stood at 4.9 times, 0.32 times lower than the same period of last year. Equipment manufacturers had suffered most in terms of payment defaults with both receivables and payables increasing “substantially”. The steel and coal industries are also severely affected. Among 1,437 listed companies that had published half-year results as of September 23, receivables stood at CNY803.9 billion by the end of June, up by 45% year-on-year. By March, receivables among industrial enterprises rose by 18% year-on-year to CNY7.12 trillion, accounting for 12.5% of outstanding loans, the highest level since 2009. Non-performing loans at Chinese banks increased for a third straight quarter to

CNY456.4 billion by June, the longest deterioration in eight years.

- Hong Kong Exchanges and Clearing (HKEx) will introduce yuan futures on September 17. The futures contract will be the world's first exchange-traded deliverable yuan-denominated futures. The futures will be quoted in yuan per U.S. dollar.
- China Minsheng Banking Corp said first-half profits rose 37% from a year earlier to CNY19.1 billion. Bad loans rose about 19% to nearly CNY9 billion as defaults among small and medium enterprises increased.
- Ping An, China's No 2 insurance company, reported a better-than-expected 9.4% rise in first-half profits to CNY13.96 billion, boosted by its banking business. Ping An's performance was helped by its 52.38% stake in Shenzhen Development Bank.
- Cai Jinyong, a Chinese national with more than 20 years of experience in the financial services industry and development, was appointed – effective on October 1 – as the new Executive Vice President and CEO of the International Finance Corporation (IFC), a member of the World Bank Group. Cai started his career as a young professional at the World Bank, where he worked as an economist on Central Europe and South Asia. He holds a Bachelor of Science degree from Peking University and a PhD in Economics from Boston University.
- Gao Shan, a former Bank of China Sub-branch Manager in Heilongjiang and one of the country's top fugitives, who was behind a CNY1 billion bank fraud, has surrendered to Chinese police after nearly eight years of self-imposed exile in Canada, the Ministry of Public Security announced. China had asked Canada to extradite Gao, who was arrested in Vancouver in 2007.
- Beijing's slower-than-forecast cuts in banks' reserve requirements show authorities are worried that inflation will accelerate. The People's Bank of China (PBOC) has left the reserve ratio for the biggest banks at 20% since mid-May while lowering interest rates in June and July. The hesitation risks increasing the odds that economic growth will decelerate for a seventh quarter. "The central bank is still concerned about a rebound in inflation, and it is reluctant to loosen too much on the liquidity side," said Xu Gao, Economist with Everbright Securities in Beijing. Consumer prices rose 1.8% in July from a year earlier, below the government's target of 4% for the year.
- The level of bad loans at Chinese banks rose in the April-June period, marking the third straight quarter of increases for the first time in eight years. Total non-performing loans (NPLs) rose by CNY18.2 billion, or 4.15%, to CNY456.4 billion in the quarter ended June from the preceding quarter, according the China Banking Regulatory Commission (CBRC). The average NPL ratio, or the percentage of bad loans to total outstanding loans, was unchanged from the first quarter ended March at 0.9%.
- Goldman Sachs Group has appointed Matthew Westerman to run its investment banking business in China, after Cai Jinyong left for a top job at the World Bank. Westerman will remain co-head of investment banking for the Asia-Pacific region excluding Japan.
- Shenzhen-headquartered China Merchants Bank, the country's sixth-largest lender by market capitalization, said bad loans rose for the second consecutive quarter as credit quality in the Yangtze River and Pearl River Delta regions deteriorated. The bank's net profit rose 25.68% to CNY23.4 billion, on the back of better fee income and loan business. Net interest income rose 22% to CNY43.6 billion in the first half, while fee-based income increased 19% to CNY9.7 billion. Bad loans rose nearly 8% to CNY9.9 billion in the first half, compared with the end of last year. The bank's non-performing loan ratio remained flat compared with the end of last year, thanks to a near 19% growth in assets. The bank's net interest margin, a measure of lending profitability, rose 0.12 percentage points to 3.11% from a year earlier.
- China's biggest banks still dominate the world's top 10 in terms of market capitalization and are among the most profitable globally, according to a report by the Boston Consulting Group. Driven by rapid growth in credit spreads, China's big four banks all made it to the list of the world's top banks, with Industrial and Commercial Bank of China (ICBC) maintaining the top spot. China's banks are among the most profitable, with an average of 22% after-tax return on equity (ROE), second only to that in Indonesia. Boston Consulting suggested that the high profitability of China's banks was unlikely to be sustainable, evidenced by falling price to book values and price-earning ratios.

- British insurer Prudential plans to double its sales force in China to 30,000 over the next few years because it believes more Chinese are keen to buy their own health insurance amid growing uncertainties about pension reform.
- China issued 3.23 billion bank cards as of the end of the second quarter, up an annual 20.6%. The growth rate was 2.6 percentage points higher than that registered during the same period last year, the People's Bank of China (PBOC) said. The number of bank cards grew by 3.9% quarterly. Some 302 million credit cards were issued by the end of June, up an annual 17.4% and by 4% from the end of March. Credit card expenses that were over six months overdue rose 10.2% quarterly to CNY13.27 billion by the end of the second quarter, accounting for 1.5% of total credit loans outstanding.
- PICC Property & Casualty, China's biggest non-life insurer, said first-half profit rose 24% to CNY6.53 billion as premiums income increased and underwriting profitability improved. Investment income expanded 38% from a year earlier to CNY4.1 billion. Rival China Pacific Insurance promised not to participate in price wars to get business in the current half, after first-half net profit plunged 54.6% to CNY2.64 billion.
- Citigroup has launched its proprietary credit card business in China. Citibank received regulatory approval in February to issue the credit cards which will be denominated in yuan or U.S. dollar and be accepted worldwide. It will be the first U.S. bank to issue credit cards carrying its name in China. Previously the lender issued co-branded credit cards with Shanghai Pudong Development Bank but the business ceased after Citi sold its stake in the lender in March.
- China's "big four" state-owned banks accelerated their pace of new loan issuance in August. They extended CNY70 billion worth of yuan-denominated loans in the first half of August, a significant increase from the CNY50 billion offered by the same stage last month.
- China's four major life insurers generated CNY511.16 billion worth of insurance income in the first seven months of 2012. China Life was the only one of the four not to see year-on-year growth in insurance income. PICC Property & Casualty reported a record-high interim profit of CNY6.53 billion for the first half year, up 23.6%, and said it expected buoyant results for the full year. Turnover rose 10.7% to more than CNY100 billion.
- Shanghai remains the world's sixth-most competitive financial center this year, according to the Xinhua-Dow Jones International Financial Centers Development Index. Shanghai ranked after New York, London, Tokyo, Hong Kong and Singapore. Frankfurt and Paris are seventh and eighth, while Zurich and Chicago replaced Sydney and Amsterdam at the ninth and tenth spot. Beijing climbed three ranks to No 11. Shanghai aims to become the world's leading financial center by 2020.

## FOREIGN INVESTMENT

### European R&D investment in China lagging

The share of European Union companies' R&D investment in China lags behind not only developed markets such as the United States and Canada, but also other emerging economies, such as India, said Dan Prud'homme, Business Manager of the Intellectual Property Rights Working Group at the European Chamber of Commerce in China. China accounted for only 2% of EU enterprises' R&D spending outside their respective home countries in 2010, while investment in India accounted for 3%, according to the European Commission. Despite the struggling economy in Europe, European companies' investment in R&D will increase by 4% annually from 2012 to 2014. The IPR environment is a concern, as it shows that European countries want to keep their high-end manufacturing products within Europe amid the woes of the recession, said Yao Ling, Associate Research Fellow at the Chinese Academy of International Trade and Economic Cooperation. European companies in China should have the same access to fiscal stimulus and other favorable measures as their Chinese counterparts, said Dirk Moens, the European Chamber's Secretary General. The EU's investment in China declined 2.7% year-on-year in the first seven months of this year, according to the Ministry of Commerce (MOFCOM). "The situation in Europe is difficult. That definitely to some extent has affected overseas investment," Moens said, as reported by the China Daily.

## Chinese firms urged to use Hong Kong as springboard

The National Development and Reform Commission (NDRC) is drafting a raft of measures to encourage mainland firms to use Hong Kong as a springboard for offshore investment. Speaking at the Second China Overseas Investment Summit in Hong Kong, NDRC Vice Chairman Zhang Xiaoqiang said one measure would be to encourage more mainland firms to list in Hong Kong and issue yuan-denominated bonds in the city to finance overseas projects. Another would be to encourage mainland firms to set up operations in Hong Kong specifically for overseas investment. Zhang said the NDRC would support joint investment by mainland and Hong Kong firms in overseas infrastructure, mining, energy, high-tech, advanced manufacturing, and logistics projects via equity investment, mergers and acquisitions (M&As), and greenfield investment. Hong Kong Chief Executive Leung Chun-ying told summit delegates that 65% of mainland overseas direct investment went through Hong Kong, while the city's investment on the mainland totaled USD37.3 billion in the first half, accounting for 63% of all investments in the mainland for the period.

- China-Malaysia Qinzhou Industrial Park is set to become the highlight of cooperation between China and the Association of Southeast Asian Nations (ASEAN). The 55 sq km industrial park in the port city Qinzhou in Guangxi, which opened in April, is China's third inter-governmental industrial park with another county.
- Chinese construction equipment producer Zoomlion has sealed a deal to set up a joint venture plant in India with ElectroMech, India's largest industrial crane maker. The joint venture will be Zoomlion's first directly-invested overseas plant, with Zoomlion holding 70% and ElectroMech owning the remainder. Zoomlion plans to invest USD100 million to bolster its business development in India in the next few years. The two partners hoped the plant, which will make tower cranes, will realize USD50 million in annual sales in five years.

## FOREIGN TRADE

### Export growth slows to 1% in July

China's exports grew at a marginal 1% in July from a year earlier to USD176.9 billion, the General Administration of Customs (GAS) said, down from the 11.3% gain in June. Imports rose 4.7% year-on-year to USD151.8 billion last month, compared with the June increase of 6.3%, indicating slowing domestic demand. The trade surplus narrowed to USD25.1 billion last month from USD31.7 billion in June. That marked the second straight month that both exports and imports slowed. Exports to Europe fell by 3.6% to USD192.4 billion in the first seven months of the year from the same period last year, extending the 0.8% decline in the first half of the year. Shipments to the United States rose 11.4% on year in the seven months through July to USD195.4 billion. "With the export sector losing speed faster than expected, the government's current investment stimulus plan looks woefully inadequate," IHS Global Insight Economists Ren Xianfang and Alistair Thornton wrote in a research note. Zhang Zhiwei, Economist with Nomura International (HK), expects exports to remain weak in the coming months as suggested by flat growth in imported parts for re-export purposes in July. A slowdown in consumer price inflation in July for the fourth straight month is seen as giving authorities more room to further loosen monetary policy in a bid to boost the slumping economy. The consumer price index rose 1.8% last month year-on-year, easing to the lowest level since January 2010. The government announced that industrial production and retail sales both slowed in July. Fixed-asset investment (FAI) rose 20.4% on year in the first seven months of the year, a rather weak performance by Chinese standards. The lower-than-expected increase in investment was in part due to a further cooling in China's property market. In the first seven months, bilateral trade between China and the European Union fell 0.9% from a year earlier to USD315.7 billion. In comparison, deals with the United States jumped 10.5% to USD271.4 billion. China's exports to the EU dropped by 16.2% in July from a year earlier, while exports to the U.S. edged up by 0.56% year-on-year in July. The U.S. replaced the EU in the first half of this year as China's biggest export market.

- Shanghai's exports posted the biggest fall in nearly three years in July, hurt by the worsening European economic crisis, data from Shanghai Customs showed. The total value of the city's imports and exports in the first seven months rose 1.2% on an annual basis to USD462.7 billion, compared with a 2.4% climb in the first half. In July, exports fell 8.6% from a year earlier to USD43.8 billion, the biggest drop since

November 2009, while imports rose 2.7% to USD26.9 billion. Shanghai's trade with its largest partner, the European Union, fell 4.2% to USD96.7 billion in the first seven months.

- Premier Wen Jiabao has pledged new measures to help lift the slowing export sector during a series of visits to industrial sites in Guangdong. Wen warned that exports would continue to face difficulty in his visits to Dongguan, Foshan and Guangzhou last week. The Premier said the government would step up the issuance of tax rebates and widen the range of export insurance, especially for small companies. Exports last month rose just 1% from last year. In the first seven months, overseas shipments rose 7.8% while imports rose 6.4%.
- China, the second-biggest corn grower, may have a smaller increase in its crop than expected this year because of damage from armyworms, the China National Grain & Oils Information Center said. However, imports may still decline. The harvest is set to total 197 million metric tons, 500,000 tons less than forecast a month ago and a gain of 2.2% from last year. Imports will probably be 3 million tons. The worst armyworm outbreak in 10 years hit more than 3 million hectares. A 60-day campaign has begun to curb its spread. China planted 34.3 million hectares of corn this year.
- The China Alcoholic Drinks Association has filed an application to the Ministry of Commerce (MOFCOM) to launch anti-dumping and anti-subsidy investigations against imported wines from the European Union. Winemakers want the Ministry to look into the increasing amount of EU imports and its impact on the domestic industry. The volume of wine imported from the EU surged from 35,944 kiloliters in 2008 to 169,114 kiloliters in 2011, the Association said, adding that their market share rose from 4.94% to 14.76%. In the first six months, domestic wine output rose 17.5% annually to 6.1 billion liters, according to the National Bureau of Statistics (NBS).
- It is unlikely that a free trade agreement between China and South Korea will be signed within two years, due to disagreements over key sectors, a source close to the talks said. "Negotiations have progressed much more slowly than anticipated," the source told China Daily. Officials from both countries met in Weihai, Shandong province, for the third round of negotiations. The biggest issues for Seoul are agriculture, services and manufacturing. The sensitive areas for China are chemicals, electronics and cars. Agriculture also remains a key issue in the trade talks.

## IPR PROTECTION

### Most Chinese patents not for innovation

The European Union Chamber of Commerce in China said in a report that the nation filed more than 1.6 million patent applications in 2011, but just 32% met the highest threshold for patent quality — new inventions. The study noted that while China's innovation potential is "impressive," its actual innovation is "overhyped." "This explosion (of patent applications) has come with a price in terms of the quality and mix of patents. This is not in the right direction," Chamber Secretary General Dirk Moens said. 65% of patent applications filed by medium and large-sized Chinese state-owned enterprises in recent years have been for the lower end design or utility model patents. The study noted that at least 20 countries have greater innovation potential than China.

### Usain Bolt objects to True Hero trademark

The True Hero trademark registered by Liaoning Renxin Trade Co includes a graphic allegedly based on an image of Usain Bolt — the world's fastest runner — and uses his iconic celebration gesture of stretching his arm to the sky as if he is about to shoot an arrow. Specializing in clothes wholesaling and auto maintenance, Renxin applied for its new trademark True Hero with the State Administration for Industry and Commerce (SAIC) in 2010 on clothes, running shoes and sports equipment. The administration rejected the application on clothes because another company had already applied for the same name in that category, but the application for shoes was approved in 2011. Bolt's team instructed a Beijing-based trademark agency to file an objection with the trademark office against the trademark application on sports equipment. Using celebrity names as trademarks "seems unreasonable but applications always get approved", said Zhao Zhanling, a lawyer and researcher at China University of Social Science and Law. "According to the trademark law, whoever applies for a trademark first is likely to have it and the law allows using people's names as trademarks," he explained.

Celebrities can file objections during the three-month trademark review period and can also later file to revoke trademarks.

- Yantai Aowei and Yantai Chivas, the manufacturer and distributor of Elysee Regal (a Chivas Regal 12-year-old look-alike), were found guilty of the infringement of the right to the exclusive use of a recognized trademark and packaging and shall pay a compensation of CNY500,000, a court in Hangzhou ruled. This is the first civil court judgment against a look-alike product for Chivas Brothers in China. One of the trademarks was a three-dimensional (3D) trademark of the Chivas Regal packaging. Three-dimensional trademarks have been rarely recognized as infringed by a court in China.
- The State Intellectual Property Office (SIPO) recently announced the 2012 qualification examinations for patent agencies and agents. SIPO said this year it will use an online system to increase the efficiency of examinations. Agencies and agents are requested to submit applications to the system by the end of September. Examinations will last until January.

## MACRO-ECONOMY

### Conference Board's China Index up in July

The Conference Board Leading Economic Index for China rose 0.7 in July to 236.4, the New York-based Conference Board said. The index was flat in June and gained 1.1 in May. Government loans to banks to help boost infrastructure investment propelled the index's growth, the Board said. The Conference Board Coincident Economic Index for China, a gauge of current economic activity, rose by 0.8 in July to 222.5 — a sign the economy is stabilizing. "Although other leading indicators, such as real estate, exports and consumer sentiment, remained weak through July, the leading and current indicators point to a modest rebound in the second half of 2012," said Andrew Polk, Resident Economist at the Conference Board China Center in Beijing. Local governments have unveiled investment plans recently to shore up the sluggish national economy, the Shanghai Daily reports.

- Municipal government officials in Wenzhou, Zhejiang province, have developed new plans which could establish the city as the private medical capital of China. The plan's incentives could make hospital investors exempt from property tax and land use fees during the first three-years of operation. The municipal government is proposing that it provide funds of at least CNY20 million annually to support private hospitals, and interest-free loans will be offered for larger projects. "If these plans are realized, that could be a breakthrough for the private medical sector," said Liu Guo'en, Director with the China Center for Health Economic Research, which is affiliated to Peking University.
- A stagnating electricity output that fanned speculation China's economic slowdown is becoming more pronounced may instead be evidence of an accelerated transition to a more services-based economy. Power generation in June was unchanged from a year earlier even as industrial production rose 9.5%. Heavy industries, including metals and cement, use about 60% of the electricity output and account for 20% of GDP, according to GK Dragonomics. The shift signals that electricity's relevance as an economic indicator is receding. An evolution within manufacturing to more efficient production is also damping electricity use as China upgrades its factories.
- Hong Kong's economy contracted 0.1% in the second quarter, reversing the 0.6% quarter-on-quarter growth in the first three months of the year. The contraction, attributed mainly to the worsening euro debt crisis and slower recovery in the United States, prompted the government to lower its forecast for Hong Kong's economic growth this year to 1% to 2%, down from 1% to 3%.
- Population density in downtown Shanghai has reached 16,828 people per sq km, about 2.4 times the numbers of Tokyo, 3.5 times of London and 4.8 times of Paris. Half the city's population is inside central districts that constitute only 10% of the city's total land. Shanghai's citywide population density is now 9,589 people per sq km. Shanghai's population surpassed 23 million by 2010. The city took in 630,000 more residents each year of the last decade.

- China's Ministry of Health said national healthcare input should amount to 6.5% to 7% of gross domestic product (GDP) by 2020. The ratio stood at 4.98% in 2010, based on a CNY2 trillion annual healthcare budget.
- The HSBC Flash China manufacturing purchasing managers' index (PMI) for August showed a sharp fall, to a nine-month low reading of 47.8, down from July's 49.3. The output sub-index declined to 47.9 from 50.9 in July. Last week, two municipalities — Tianjin and Chongqing — announced an extra CNY1.5 trillion investment stimulus package in industries including energy, petrochemicals and advanced equipment. Incomplete statistics show local governments across the country have announced investment plans involving about CNY7 trillion since July.
- The income of rural households grew 14.13% from a year earlier to an average of CNY38,894.4 last year, according to a survey by Central China Normal University's Center for China Rural Studies. Wages paid to migrant workers accounted for 65.7% of the total income of rural households. The nation had 253 million migrant workers by the end of 2011, 10.55 million more than a year earlier. But the wealth gap among rural households is widening. The Gini coefficient in rural China stood at 0.3949 last year.

## MERGERS & ACQUISITIONS

### M&As another casualty of slowdown

Mergers and acquisitions (M&As) plunged by a third in China in the first six months from last year as the economy slowed down, but such deals are expected to pick up in the second half. A study by accounting firm PricewaterhouseCoopers (PwC) showed a 42% plunge in M&A deals by foreign investors in the period, as they pulled back amid uncertainties over the economy. Domestic deals shrank 25%, while private-equity deals worth more than USD10 million fell a steep 39%. Outbound mergers and acquisitions from China, however, maintained their momentum. Deal numbers were flat year on year but values nearly tripled compared with the first half last year and are on track to set a record this year. PwC Greater China private equity group leader David Brown said deals in the resources and energy sectors continued to dominate overseas acquisitions of Chinese companies, making up about 44% of total outbound transactions. Last month, China National Overseas Oil Corporation (CNOOC) said it was prepared to pay USD15 billion for Canada's Nexen, as part of a strategic move to enhance energy security by diversifying away from politically unstable regions such as the Middle East. If successful, it will mark China's largest overseas acquisition. Chinese outbound deals accounted for 69% of the total deal value in the first half, and seven out of the nine deals were worth over USD1 billion each. PwC said M&As would likely increase in the second half as more funds prepared to invest and more deals moved through the pipeline. Still, there could be fewer deals this year than last year. Private equity funds continue to be interested in investing in sectors that are in line with 12<sup>th</sup> Five Year Plan priorities such as the consumer, health care and technology sectors.

### Carlyle acquires stake in Meinian Onehealth Healthcare

Carlyle Group purchased a 13.5% stake in Meinian Onehealth Healthcare Co, showing confidence in the development of preventive healthcare checkup services in China and the role private medical agencies play. "The preventive healthcare checkup service industry of China is growing at 15% a year," said Feng Junyuan, Managing Director of the Carlyle Group. "The annual revenue of the Chinese preventive healthcare checkup service industry is between CNY40 billion and CNY50 billion," said Yu Rong, Chairman of Meinian Onehealth Healthcare Co. Founded in 2004, the Shanghai-based company became China's largest private provider of preventive healthcare checkup services in 2011. The company owns a network of 83 clinics in 41 cities, including Shanghai, Beijing, Tianjin, Shenzhen and Chengdu. About 20 of them will open by the end of 2012. According to Yu, the company will serve more than 3 million individuals this year. By the end of 2015, it is expected to have 300 clinics around China. Carlyle also owns a stake in China Concord Medical Service Co, a medical service network. Carlyle has invested about USD4 billion in more than 60 deals in China.

Meanwhile, Beijing-based Ciming Health Checkup Management Co, a leading private provider of checkup services, is preparing for its IPO on the Shenzhen Stock Exchange. According to its prospectus, the Chinese health checkup market registered 287 million visits in 2010, an increase of 24.8% from the previous year. In late 2007, iKang Guobin Healthcare Group —

another Beijing-based preventive healthcare checkup service provider — received investments from investors including Merrill Lynch and ePlanet Ventures totaling USD25 million. By the end of 2011, the company had 25 clinics in China.

- The China Global Investment Tracker database by the Heritage Foundation, a U.S.-based think tank, showed Chinese corporations invested in 492 overseas projects, each worth more than USD100 million, since 2005. Australia, the United States and Brazil are the top three investment destinations for Chinese companies.
- Medtronic plans to bolster its presence in China via mergers and acquisitions (M&As) of local companies, becoming the first multinational medical equipment provider to announce such a strategy in China. Medtronic is the largest producer of heart pacemakers in the world. Medtronic's annual sales in China increased by 27% to 30% on average over the last six years, while profits jumped 20% a year. Rival St Jude Medical said that it will continue organic growth in China. It set up two technology centers to introduce its technologies to the emerging market and provide training for local doctors in a bid to promote its sophisticated products to Chinese hospitals.
- Focus Media Holding, a Chinese advertising company targeted by short seller Carson Block, has received an offer from private equity firms, including Carlyle Group, CITIC Capital Partners and Focus Media CEO Jiang Nanchun, in what would be the country's largest leveraged buyout. A successful deal would see the advertising group join Chinese companies such as Fushi Copperweld and Winner Medical Group in backing moves to go private after short sellers raised accounting and corporate governance concerns.
- Hangzhou Wahaha Group Co, China's biggest beverage producer, is in pole position to buy UK-based United Biscuits' GBP520 million snack business KP Snacks. If successful, it will be the second major acquisition by a Chinese food and drink giant of an overseas brand, following Shanghai-based Bright Food Group's purchase of a controlling interest in Weetabix, a major maker of breakfast cereals in the United Kingdom.
- Global buyout fund KKR & Co has placed a bet on China's USD38 billion youth apparel retail market by acquiring an approximately 40% stake in privately held retailer Novo Holdco for USD30 million.

## PETROCHEMICALS

### CNOOC's profit drops, needs funds for Nexen deal

China National Off-shore Oil Corp's net profit fell to CNY31.87 billion in the first six months from CNY39.34 billion a year earlier, as revenue fell 5% to CNY118.27 billion, while oil and gas output shed 4.6% to 160.9 million barrels of oil equivalent (BOE). CNOOC blamed the lower output to the closure of its key Penglai 19-3 field in China's Bohai Bay after an oil spill last year. The company hasn't provided a date for the field's start-up, which is pending government approval, although it is operationally ready to resume production. CNOOC is confident of meeting its production target of 330-340 million barrels of oil equivalent for 2012 set earlier in the year. CNOOC has announced it will take drastic measures to get the money it needs to buy Nexen in the wake of its disappointing first-half profits, which fell nearly 20%. CNOOC Chairman Wang Yilin said that the company will reduce its dividend almost by half to help raise the USD15.1 billion it needs to buy the Canadian company. The Nexen deal should help China gain both the technology and operating experience it needs to extract potentially huge domestic reserves of bitumen, heavy oil and shale oil, said industry experts.

- Sino Oil and Gas, which is developing the Sanjiao project in Shanxi province with PetroChina to extract natural gas from coal seams, plans to spend CNY75 million in the second half to drill up to 27 wells, said Vice President Volen He. The company expects gas output to rise to 10 million cubic meters in the second half from 2 million cu m in the first half, increasing to 150 million to 200 million cu m in 2014.
- China's crude oil production gained only 0.6% annually to 17.24 million metric tons in July as the current economic slowdown dampened fuel demand in the country. The country's crude oil output from January to July was 117.35 million tons, down 1.3% annually. Its crude oil imports grew 10.2% to 161.9 million tons in the first seven

months.

- Guangdong-based Chu Kong Petroleum & Natural Gas Steel Pipe, one of China's biggest makers of steel pipes, reported a 50% rise in first-half net profit to CNY170.34 million. Revenues grew 26% to CNY2.06 billion, thanks largely to the delivery of orders for the Shenzhen-to-Hong Kong section of PetroChina's second west-to-east gas pipeline, and the Liwan deep-sea gas project in the South China Sea led by Canada's Husky Energy. Gross profit margin edged up to 17.3% from 16.5% because of higher-margin deep-sea pipeline orders. Chu Kong has been building a major base in Lianyungang, Jiangsu province.
- Shengli Oil & Gas Pipe Holdings reported a 19.7% fall in first-half net profit to CNY9.8 million, despite a 45% increase in sales revenue to CNY617.4 million. Gross margin shrank to 4.8% from 6.7% because of losses in one project and contraction of the pipe-processing business. Shengli said that its pact with Panama's Iri de Colombia to set up a pipe manufacturing venture in Panama, had lapsed because Shengli saw the investment cost as too high. It said in April that it wanted to expand into the U.S., a priority target market, via the joint venture.
- China's first domestically-made ultra deep-water drilling rig is drilling its fourth well in the South China Sea since operations began in May. The semi-submersible CNOOC 981 is now operating at the Liwan 3-1-1 well, near Hong Kong. It has drilled at a depth of up to 2,450 meters, said Su Jing, Vice Project Director of CNOOC's deep-water drilling unit project team, on the sidelines of the 2012 China International Petroleum and Petrochemical Technology and Equipment Exhibition, Asia's largest petrochemical show.
- Natural gas prices in China may rise 80% from current levels as the government stimulates domestic production from shale to reduce its energy imports, according to Bank of America Merrill Lynch. The gas price may rise to as much as CNY2.6 per cubic meter, equivalent to USD11.4 per million British thermal units, by 2016 as the government revises its pricing formula for the fuel, Bank of America said in a report. The government's target of as much as 100 billion cu m of domestic annual shale-gas production by 2020 may account for as much as 28% of the nation's total gas consumption and "crowd out" the need for incremental imports.
- PetroChina's second quarter net profit fell 21% to CNY22.8 billion in the April-June quarter, down 21% year on year. Its net profit fell 6% to CNY62 billion in the first half of the year. The company incurred a loss of CNY23.3 billion from its refining business in the first half, while its chemicals business lost CNY5.57 billion. China cut fuel prices three times between May and July after global crude rates fell. It raised fuel rates this month for the first time since March. Net profit in PetroChina's natural gas and pipeline segment tumbled 84.7% to CNY1.64 billion.

## REAL ESTATE

### Soho to switch strategy from sell to hold

Soho China will shift its strategy from the "build and sell" model to "build and hold" as it expects a promising growth in rent and capital value of prime office buildings in Beijing and Shanghai. The Beijing-based developer intends to hold prime office and retail spaces totaling 1.5 million sq m — 1.12 million sq m in Shanghai and 380,000 sq m in Beijing — and expects annual rental income from existing portfolios to exceed CNY4 billion in five years. "We hope rental income will become a major source of our profit in three years while sales will become supplementary," said Pan Shiyi, Chairman of Soho China. Beijing posted a 73% jump in office rents while Shanghai's rose 18% over the past 18 months, according to CB Richard Ellis. For the six months ended 30 June, Soho's turnover dived 54% to CNY1.22 billion, as no new projects were completed for booking during the period. The net profit attributable to equity shareholders plunged 65% annually to CNY613 million. The company expects that rental income will replace sales revenue to become the major profit contributor in three years, and that in five years' time, annual rental income will exceed CNY4 billion. By the end of the first half-year, the company had CNY15 billion of capital in hand, and its net gearing ratio stood at 20%. Pan said the two factors made the company capable of making the strategic decision, and that the company would raise its gearing ratio to 30% to complete the transition. In line with the transition plan, the company cut its sales target of CNY23 billion for this year by half to CNY12 billion. Contracted sales were CNY6 billion by the end of the first half. For the six months ended June, Soho China posted a 54% drop in turnover to CNY1.22 billion compared

with a year earlier.

- China Vanke Co, the biggest developer by market value traded on China's stock exchanges, said its first-half profit climbed 25% as the company cut prices to boost sales amid government controls. Net income increased to CNY3.73 billion, as revenue gained 54% to CNY30.72 billion.
- Belimo Holding, a supplier of motors that control air-conditioning units, says it sees recovering construction activity in China. Belimo's outlook mirrors positive statements from ABB, which supplies low-voltage equipment like switches and circuit-breakers to China's construction market.
- Shui On Land, a Shanghai-based developer controlled by Hong Kong billionaire Vincent Lo, said first-half underlying profit slumped 95% after property sales dropped and prices fell. Net income before revaluation of investment properties fell to CNY15 million, while revenue fell 8%.
- There is speculation that the central government will implement a property tax in more than 30 cities. The State Administration of Taxation (SAT) is conducting a six-month course on how to evaluate property tax and officials from local taxation bureaus in more than 30 cities were taking the program. The course is widely believed to be preparing officials for the property tax. "The mainland government will impose the property tax sooner or later. It has already done so in Shanghai and Chongqing but that didn't bring down property prices," Alfred Lau, Property Analyst at Bocom International, said, adding restrictions on buying second homes have had a much greater impact than the property tax.
- Greentown China sold a total gross floor area of about 213,000 sq m in July, 48.6% less than in June. The monthly sales of Longfor Properties slumped 32.4% to CNY3.07 billion last month, while Shimao Property Holdings' sales fell 33.42% to CNY4.02 billion. Sales slowed as developers have begun to raise prices. Sales are expected to rebound next month as more new residential projects hit the market.
- Four unfurnished villas have been built on top of a shopping mall in Zhuzhou, Hunan province, and city planners said the structures were built legally and with the required documentation. The buildings will be used as offices by the 160 real estate management employees of Zhuzhou Jiutian Real Estate, the shopping mall developer. The Zhuzhou government has made steady investments to build a green city after it was named one of 34 national-level garden cities in 2008.
- Home sales in Hong Kong's secondary market have surged 60% by mid-August, triggered by a buying frenzy across the board. The sharp rebound in sales and prices prompted Chief Executive Leung Chun-ying to warn he would act to curb property speculation to prevent "over-expansion" of bank credit and ensure the healthy development of the residential market. Home prices have gained 10% since early this year. Hong Kong Property Services (Agency) data shows there were 2,864 transactions as of August 15, up 60% from the same period last month. The total value jumped 45.6% to HKD12.12 billion.
- Guangzhou R&F Properties plans to increase investment in second- and third-tier cities as the industry shifts its focus to the housing demand of end-users in the coming years. Chairman Li Sze-lim: "If we want to achieve a large property sales volume, we have to target end-users. The demand from end-users in second- and third-tier cities is stronger because of the urbanization process. Property sales in first-tier cities, on the other hand, will remain slow." The developer has expanded to 13 cities besides its major market, Guangzhou. The company has a land bank of 28.31 million square meters.
- China's property market continued to improve last month, with more than 70% of cities recording property price growth. Prices rose in 50 of 70 cities monitored, a significant increase from 25 cities in June. Only nine cities recorded lower property prices in July, compared with 21 cities in June. Property prices in the remaining 11 cities in the latest survey remained flat. July was the fourth month in which more cities saw growth in prices. In the new-home market, Beijing recorded the strongest price growth among first-tier cities. The average price of new homes in the capital climbed 0.3% in July. For second-hand homes, the average price in Guangzhou grew 0.6%, the biggest rise among first-tier cities.
- China Resources Land expects to see a stable business performance in the second

half of this year after reporting a modest 2.2% increase in net profit to HKD3.69 billion for the six months to June 30. The Hong Kong-listed developer said consolidated turnover rose 2.9% to HKD7.92 billion. In the first half of 2012, revenue from investment property business including hotel operations was HKD1.7 billion, up 38.5% over the same period last year. Gross profit margin for the period was 47.6%, against 41.4% and 39.6% for the corresponding period and full year of 2011 respectively.

- The average selling price of Sino-Ocean Land Holdings' properties dropped by a quarter to CNY11,600 per sq m in the first half-year compared with a year earlier, and Chief Executive Li Ming said the company will cut prices further to sell inventory in the current half. Beijing, which used to be Sino-Ocean's largest contributor, fell to fourth by the end of June, accounting for only 11% of the company's business. However, the company remains confident it will reach its sales target of CNY27 billion for this year because it achieved 63% of its full-year target during the first seven months. Li expects selling prices to remain flat for the rest of the year.
- Former Morgan Stanley real estate executive Garth Peterson has been sentenced to nine months in prison for transferring multi-million U.S. dollar interests in a Shanghai building from his employer to himself and a Chinese official. Peterson, 43, was sentenced by U.S. District Judge Jack Weinstein in Brooklyn, New York, for conspiring to circumvent internal bank controls required under the Foreign Corrupt Practices Act.
- Developers will not be able to skip "unlucky" numbers such as 4, 13 and 14 in the registration of Beijing addresses after a new regulation came into effect on August 25. The regulation would only apply to new buildings and be supervised by the Public Security Bureau (PSB). Four, which sounds like "death" in Putonghua, is very unpopular on door plates or car license plates, and people are willing to pay extra to avoid a number ending in four.
- An analysis published in the South China Morning Post shows that home prices in Shanghai, Guangzhou and Hong Kong have risen to levels which are out of reach to the general public. Housing affordability had risen to alarming levels by the second half of this year, with Hong Kong's ratio particularly high. In the case of Shanghai only high-income households were able to raise mortgages to help fund the purchase of a new home. Both Hong Kong and the central government are now trying to address the affordability issue by increasing the supply of public housing.
- Yu Jinyong, President of the Board of China Shidai Investment Holding Group, a real estate investment and development company, has been arrested on the orders of Beijing's Haidian District People's Procuratorate on suspicion of commercial fraud. He has previously been accused of having forged his academic qualifications and faked a charity donation. Yu could be sentenced to more than 10 years in prison if found guilty.

## RETAIL

### Home appliances retailers launch price war

Competition in the home appliance industry is heating up as major retailers Suning Appliance, Gome Electrical Appliances and e-commerce player 360buy wage a new round in their price war. 360buy's Chairman and Chief Executive Liu Qiangdong said the retailer would make zero gross profit selling big-size home appliances over the next three years. 360buy cut prices of television sets, refrigerators, washing machines and air conditioners, making sure they would be cheaper than what was being offered by competitors Suning and Gome. Suning.com guaranteed its prices would be lower than those of 360buy, while Gome's website promised to offer "the cheapest price in history" for home appliances. Dangdang and 51buy also joined in, pledging to adjust their prices. Shares of some retailers fell as investors worried the price war would further erode their bottom lines. "This round of the price war will be a turning point for the home appliance retailing industry," said Zuo Yingjie, Market Expert who runs Beijing-based online shop All3C.com. "360buy started the war because it knows Suning and Gome's weakness very well. The two traditional retailers have higher costs running their bricks-and-mortar shops although the operating efficiency of these shops is lower than online stores."

### China Resources Enterprise to open more shops

China Resources Enterprise, the brewer of Snow Beer, China's No 1 beer in terms of sales volume, said it will raise the number of its retail outlets regardless of the uncertainties in the economy. Net profit of the beer-to-retail conglomerate rose 36.5% year on year to HKD2.2

billion in the first six months of this year, boosted mainly by the disposal of non-core businesses and gains from asset revaluation. Underlying earnings, however, dropped 6.3% year on year, dragged down by higher start-up costs for new supermarkets and the new joint venture with Japan's Kirin Brewery. Frank Lai, Chief Financial Officer of China Resources, said: "We want to get ahead of our competitors as they delay their expansion amid the grim economic outlook." The company opened some 200 retail outlets in the first half and plans to follow it up with 300 more in the second. Staff costs went up 20% to 25% year on year in its retail units, which could only be partially passed on to customers, leading to a 4% drop in profits in those units to HKD650 million. Snow Beer, which has a 22% market share in China, saw volumes grow 6% year on year to 5.4 million kiloliters in the first half. Profit from the beer unit rose 14% year on year to HKD375 million. Snow Beer's net profit margin was 5%, against the global average of 10%. The company is in the process of upgrading its product mix to improve its margin. The beer is priced in a wide range, from as low as CNY1 to CNY80 per bottle, depending on branding and sales location.

- Sportswear group Li Ning posted an 85% drop in first-half net profit, lagging expectations as high inventories, rising costs and competition from foreign and domestic rivals hit the bottom line. Li Ning recorded a profit of CNY44.3 million for the January-June period, while revenue fell to CNY3.88 billion from CNY4.29 billion a year ago.
- All prepackaged food must be labelled with nutritional information from next year in a bid to reduce the risk of chronic non-communicable diseases, according to a new rule, effective from January 1. The standard nutritional information includes protein, fat, carbohydrate and sodium content, and calorie count. It is the first time the central government has mandated the listing of such information on labels.
- China Yurun Food Group, the country's second-largest supplier of meat products, has reported a 93% decline in first-half profit as China's slowing economy dented consumer demand and hog prices plunged. Net income fell to HKD107 million, as revenue declined 24% to HKD12.5 billion. The company rejected allegations of accounting irregularities and contaminated products as "groundless".
- The U.S. drought – the worst in more than 50 years – will not endanger food security in China, but it is almost certain to result in costlier cooking oil and pork, analysts said. There is no indication of any need for the government to stabilize the market with sales of strategic reserves of oil-bearing grains, Zhai Jianglin, Vice President of the Academy of Science and Technology at the State Administration of Grain said. Imports account for around 80% of the country's soybean supplies. While corn prices will rise, China imports just 5% of its supplies, Wang Ruiyuan, Vice President of the Chinese Cereals and Oils Association, said.
- Sinopharm Group Co, China's biggest pharmaceutical distributor, posted a 22% increase in first-half profit as broader health insurance coverage and higher subsidies spurred demand for medicine. Net income rose to CNY959.1 million in the first half, as sales jumped 39% to CNY66.6 billion. As many as 95% of Chinese last year were covered by medical insurance, up from 87% in 2008.
- Ikea Group is accelerating its expansion in China with a plan to open at least three stores annually over the next years, in a bid to support its long-term commitment to make China its largest market in 15 to 20 years. Ikea, which entered China 14 years ago, has 11 stores in Shanghai, Beijing, Guangzhou, Chengdu, Shenzhen, Nanjing, Dalian, Shenyang, Tianjin and Wuxi. By the end of 2014, it will have 17 stores across the country, following the opening of a new outlet in Ningbo, a third store in Shanghai and a second store in Beijing.
- Britain's Tesco, the world's third-largest retailer by sales revenue, confirmed it would close four stores in China to concentrate on its key business regions in China. The store closures, in Bengbu, Anhui province, Tieling, Liaoning province, and Taizhou and Changshu, both in Jiangsu province, are the latest example of foreign retailers' slowing expansion in China. Tesco currently has 132 stores in China. It intends to open 16 new stores in China in its financial year from March 2012 to February 2013, but only two of these stores opened so far.
- More Chinese consumers have turned to imported food and brands due to rising concerns over food safety in recent years, according a survey by international research company Ipsos. Based on interviews with 2,100 respondents, 61% of Chinese consumers said their confidence in domestic foods has declined in the past

year, and 28% said they will buy more imported foods, or brands to replace domestic products. Dairy products are the most purchased imported foods, followed by grains and oil, and children's food.

## SCIENCE & TECHNOLOGY

### 42 Chinese universities in Top 500

Chinese universities have taken 42 spots in the top 500 in the 2012 Academic Ranking of World Universities, compared with 35 last year. Among the 42 universities, 28 are based on the Chinese mainland, five more than last year. Tsinghua University, Peking University, Shanghai Jiao Tong University and Zhejiang University rank among the world's top 200. China overtakes the United Kingdom, which has 38 universities in the Top 500, and becomes second in the world in terms of the number of universities joining the list. However, no Chinese university is ranked among the top 100 yet. Chinese universities have performed well in categories such as the number of articles published in international journals, but still lag in terms of internationally recognized scholars and articles of world influence. The ranking puts Harvard University on the top of the list for the 10<sup>th</sup> time, followed by Stanford, MIT, Berkeley, Cambridge, Caltech, Princeton, Columbia, Chicago and Oxford. The annual ranking has been released by the Center for World-Class Universities of Shanghai Jiao Tong University since 2003.

- A poll for the latest China Education Xiaokang Index found that almost 40% of Chinese believe that the best time for someone to study abroad is at the undergraduate level, while about 21% said it is during high school. Only 17% stick with the traditional idea of students not going overseas until they have bachelor's degrees, and about 4% said it should be at the post doctoral level. The pressure of the university entrance examination or gaokao is another key reason for parents to send their children abroad earlier.
- A Chinese nuclear battery will power the country's first moon rover after it lands on the lunar surface next year. The battery, using plutonium-238, will be able to power the 100-kilogram vehicle for more than 30 years. The rover will patrol the surface for at least three months. It would be powered by the sun during daytime and by nuclear power during the night. A lunar night lasts for 14 days with temperatures reaching below minus 100 degrees Celsius. The battery will be the only source of energy during that time and will prevent the equipment from freezing.
- Chinese scientists, including members of the Chinese Academy of Sciences (CAS), have complained that some of the world's biggest publishers of academic journals, including Elsevier and Springer, had charged "absurdly" high prices for academic journals whose contents were written, reviewed, edited and mostly purchased by academics themselves. The price for a three-page article can exceed USD30. Earlier this year some of the world's leading mathematicians started a movement, "the cost of knowledge", to boycott Elsevier, one of the largest academic publishers.
- The second phase of a human trial for China's potential HIV vaccine started in Beijing. About 150 volunteers, mostly those with a high risk of contracting HIV took part in the clinical trial. Shao Yiming, Director of the Virology and Immunology Department of the National Center for AIDS/STD Control and Prevention, said that the trial will last nearly two years in the Beijing You'an Hospital of the Capital Medical University. The phase 2 clinical trial mainly aims to test the vaccine's safety, ahead of the next phase, which will test its effectiveness. A UNAIDS report said that China invested at least USD18 million in HIV vaccine research and development (R&D) in 2010, making it the third-largest spender in the world after the United States and the EU.
- Médecins Sans Frontières (MSF) is in talks with Chinese scientists and researchers to develop a malaria treatment suitable for Africa. Malaria also still affects rural parts of Anhui, Guizhou, Hainan, Henan, Hubei and Yunnan provinces. MSF has been working in China since 1998 and has offices in Beijing and Guangzhou.
- China is to launch several space projects, including a hard X-ray telescope for black hole studies, between 2014 and 2016. China will develop another satellite, the dark matter particle explorer, to help detect high-energy electrons and gamma rays to study the solar magnetic field and participate in a Sino-French joint mission to study gamma ray bursts. Chinese scientists are also planning to establish an Antarctic astronomical

observatory.

- Chinese academic Meng Xiaoli was appointed Dean of the Graduate School of Arts and Sciences (GSAS) at Harvard University, becoming the first Chinese to hold such a senior position at the prestigious university. Meng is also the Whipple V.N. Jones Professor of Economics and Chair of the Department of Statistics. Meng received a Bachelor of Science degree in mathematics in 1982 and a diploma in graduate study of mathematical statistics in 1986 from Fudan University in Shanghai. He earned a doctorate in statistics in 1990 at Harvard.
- The 28<sup>th</sup> General Assembly of the International Astronomical Union (IAU) is being held in Beijing till August 31. This is the first time China has hosted the triennial event since joining the organization in 1935. Vice President Xi Jinping made a speech at the opening ceremony. "The contributions of Chinese astronomy to human knowledge and our understanding of the cosmos have been of historical significance, from the earliest to modern times," said IAU President Robert Williams.

## STOCK MARKETS

### West China Cement accused of fraud

West China Cement denied allegations of fraud by U.S. short seller Glaucus Research Group, which included falsifying profit margins, suspiciously overpaying to buy loss-making cement plants and borrowing money at unusually high interest rates. On June 28 Italcementi agreed to pay CNY504 million to acquire a 6.25% in West China Cement in return for selling its stakes in Chinese cement plants to West China Cement. When West China Cement listed on London's Alternative Investment Market (AIM) in 2006, raising GBP22 million, its production capacity was 1.5 million tons, which grew to 10 million tons in 2010 when it listed in Hong Kong. The company has an annual cement production capacity of 23.7 million tons, of which 21.1 million tons is in Shaanxi province and the rest in Xinjiang, according to its website. It became the first Chinese company to quit AIM and transfer its listing to Hong Kong, where it raised HKD1.4 billion in August 2010. Zhang co-founded West China Cement with 13 employees of the company in 1997, when it was called Shaanxi Pucheng Yaobai Special Cement, according to its Hong Kong IPO prospectus. The firm subsequently relocated its headquarters from Pucheng to Xian. In December 2009, Zhang became Chairman of the Shaanxi Province Cement Association, the South China Morning Post reports.

### B-share listings encouraged to withdraw, launch A-shares

Song Liping, Chief Executive of the Shenzhen Stock Exchange, has said B-share companies would be encouraged to voluntarily withdraw the listing of their shares and relaunch A-share public offerings. The Shanghai Stock Exchange also said in a statement that those B-share companies that voluntarily privatize would be able to relaunch A-share initial public offerings (IPOs) without going through the lengthy application process. A-shares are yuan-denominated while B-shares are traded in foreign currencies. The China Securities Regulatory Commission (CSRC) created the B-share market in 1992 to help state-owned companies raise funds in foreign currencies. In the past decade, there hasn't been a single IPO on the B-share market, where some 100 companies are traded. B-shares are now trading at a huge discount to their A-share counterparts. There are more than 20 companies with only B-shares listed. The remaining B-share companies are also listed on the A-share market. Analysts say companies with dual listings could conduct share-swap deals to convert their B-shares into A-shares. This conversion would benefit holders of B-shares because of the relatively high valuations and strong liquidity on the A-share market. Early this month, Tsann Kuen (China) Enterprise's B-shares traded below the equivalent of CNY1 for 18 straight sessions before the company announced it would pursue a bailout plan. The company was on the verge of being expelled from the Shenzhen exchange because of the newly published delisting rule under which a firm can be delisted if its stock price trades below CNY1 for 20 straight sessions. Tsann Kuen's experience triggered panic selling as B-share investors worried about a flood of expulsions.

### Foreigners allowed larger share in securities JVs

The China Securities Regulatory Commission (CSRC) announced that foreign shareholders can have a total stake of as much as 49% in a joint venture securities company, up from the previous limit of one third. The regulation also lowered the standards for Sino-foreign securities joint ventures to expand their business scope. Joint ventures can apply for new

services after two years' operation, compared with five years in the past, the CSRC said. Their scope can be expanded into brokerage services and financial consultancy, alongside the investment banking business. The new policy is expected to give a shot in the arm to China's securities joint venture business, while also increasing brokers' competitiveness. The business performance of 11 Sino-foreign securities joint ventures was lackluster this year, influenced by the gloomy stock market and economic slowdown. In the first six months of this year, only three of the 11 securities joint ventures gained a total of five IPO underwriting projects, raising CNY4.96 billion, according to Wind Information Co. In the A-share market, 33 securities companies raised CNY73.4 billion by underwriting 108 IPOs in the first half. "Compared with local Chinese securities companies, the joint ventures enjoy very limited strengths in the investment banking business," said Wang Xianyi, Researcher on China at the Samsung Economic Research Institute.

- China's National Social Security Fund (NSSF) has invested CNY15 billion in a non-public offering of Bank of Communications' (BoCom) Shanghai- and Hong Kong-listed shares. The fund increased its stake in the bank to 13.88% from 11.36%.
- Shanghai-listed China Everbright Bank has again delayed a Hong Kong share offering because of weak market conditions. The bank's decision comes as equity issuance in Asia ex-Japan tumbled 30.4% to USD77.9 billion in the first half of 2012 from a year earlier on weak investor appetite.
- Meilan International Holdings, a Chinese chemical producer, may become the first company to raise both yuan and Hong Kong dollars with a planned dual-currency initial public offering (IPO) in Hong Kong in the fourth quarter. But brokers have already cautioned that investors may not favor these dual offerings given the current weak market conditions. Previously, companies including jewelry retailer Chow Tai Fook Jewellery had initially planned dual-currency IPOs but eventually chose to list in Hong Kong dollars only due to the complications of having a dual-currency offering, as well as poor market sentiment. The only yuan IPO in Hong Kong has been Hui Xian Real Estate Investment Trust, which is not considered a company.
- After issuing four more QFII licenses recently, the China Securities Regulatory Commission (CSRC) said that it had issued 176 qualified foreign institutional investor (QFII) licenses so far, including 41 this year, the most in nearly 10 years. Analysts said the acceleration of approvals under the QFII program would help ease a liquidity crunch in the market.
- More and more Chinese investors are closing their stock trading accounts. The number of Chinese stock accounts containing funds dropped by 788,000 to 56.3 million in the year to August 3 — the most for 12 months. A record 110 million are empty or frozen. Stocks in the Shanghai Composite Index are trading at a 54% discount to their 10-year average.
- On August 24, the Shanghai stock market fell to its lowest level since March 2009, rattled by news the central government intends to tighten property curbs and also on poor company earnings. The Shanghai Composite Index lost 0.99% to 2,092.1 points, dropping below 2,100 for the first time in over three years. For the week, the index fell 1.08%. Data from the State-owned Assets Supervision and Administration Commission (SASAC) showed the combined net profit of state-owned firms fell 16.1% on an annual basis to CNY459.4 billion in the first seven months of this year.
- Haitong Securities, China's No 5 brokerage by market share, says net profit shrank 9.36% to CNY2.02 billion in the first six months of this year on the back of a sluggish market. Revenue declined 1.79% to CNY5.84 billion, dragged down by a 23.48% drop in commission and fee income to CNY2.82 billion in the first half.
- Hong Kong's Securities and Futures Commission (SFC) suspended China High Precision Automation from trading. This is the first time the SFC has suspended a company since March 2010 when it halted trading in Fujian fabric maker Hontex International. Agreement from the entire SFC Board is needed before the company can resume trading – a highly complicated process. China High Precision Chairman Wong Fun-chung announced that price-sensitive information would be released. The company, which makes industrial automation instruments, has been in the limelight since it claimed its business involved "state secrets" and cited that as the reason for not providing sufficient information to its former auditor, KPMG.

## TRAVEL

### Beijing to build 10 new metro lines

Beijing Infrastructure Investment, which invests in and builds the capital's metro, says it will spend CNY55.87 billion on 10 metro projects from next year to 2015. The state-run company will issue CNY2 billion of one-year bonds to fund the construction of at least six metro lines. The city plans to build 660 kilometers of metro rail lines by 2015, which would account for most of Beijing's traffic flow. Beijing has 372 km of metro rail lines, making up 14 lines serving an average of more than seven million passengers a day. The system is the world's fourth-largest urban metro rail network, and another 296 km are under construction. "The number of cars in Beijing is growing very quickly, putting great pressure on the traffic," said Wang Jiangyan, Executive Director of the Sustainable Transportation Center, a non-governmental organization (NGO) supported by the U.S. Energy Foundation. Beijing Infrastructure's prospectus warns that because construction will be substantial "the company's funding gap is rather large, which may result in a sharp increase of the company's debt". Beijing Infrastructure's debt ballooned from CNY67.81 billion in 2009 to CNY135.46 billion in 2011, while its gearing ratio increased from 48.2% in 2009 to 60.52% on March 31, according to the prospectus. The firm posted a net profit of CNY878.46 million last year, but recorded a net loss of CNY43.71 million in the first quarter of this year. As of March 31, it suffered a net operating cash outflow of CNY2.54 billion. Beijing Infrastructure enjoys strong financial support from the municipal government.

- Hong Kong Airlines is set to terminate its cash-guzzling, all-business-class service between Hong Kong and London from next month. The daily Hong Kong-Gatwick route was operated by three Airbus 330-200s with an all-business-class configuration. The route has been deep in the red since it was launched in March. The three Airbus 330-200s, featuring 34 lie-flat seats and 82 recliners, were designed exclusively for Hong Kong Airlines by the manufacturer.
- A number of major Chinese state-owned enterprises (SOEs) have been ordered to conduct internal investigations into claims that corruption might have affected up to a dozen railway projects. The firms have also been temporarily banned from bidding for further railway contracts. The 12 problem lines include the Wuhan-Guangzhou high-speed railway, which will link up with Hong Kong in 2015; and the Ningbo-Taizhou-Wenzhou high-speed railway, where a deadly high-speed-train crash occurred in July last year. Zheng Tianxiang, Transport Professor at Sun Yat-sen University in Guangzhou, said the pace of high-speed-rail development had been too rapid, "so there will be quality problems".
- Kaifeng in Henan province, one of China's ancient capital cities, will spend CNY100 billion – the equivalent of 20 times its 2011 fiscal revenue – over the next four years to relocate about 80,000 households – one-third of the population in its old district – to build a replica ancient town that it hopes will be a tourist hot spot. The sprawling 20 sq km tourist attraction will be built in the architectural style of the Song dynasty (AD960 to AD1279), when the then-capital reached its peak of urbanization and prosperity.
- Nearly 39 million Chinese left the country on overseas trips in the first half of this year, roughly double the number five years ago. Chinese carriers made about half of the USD7.9 billion in profits earned by the global airline industry last year, which expected international traffic growth of 8% to 9% from China in the five years to 2015.
- InterContinental Hotels Group is launching its first flagship e-store on one of China's leading online travel booking platforms. Chinese consumers will now be able to use Taobao Travel, which is operated by Taobao Marketplace, to book at IHG hotels.
- The Ministry of Railways (MOR) is to issue another CNY20 billion of medium-term bonds – its fourth such issue this year – to partially finance 40 railway projects. The National Development and Reform Commission (NDRC) gave special permission for the Ministry's bond issuance to exceed 40% of its net asset value. Excluding this CNY20 billion planned bond issue, the Ministry's outstanding bond issuance already totaled CNY652 billion.
- Jetstar Hong Kong, the budget airline joint-venture between China Eastern Airlines and Qantas Group, has started hiring pilots as it aims to become the first Hong Kong-based budget carrier. The airline, which is still waiting for approval of its air operators certificate application by Hong Kong's Civil Aviation Department, is recruiting up to 50 captains and first officers to operate its fleet of new Airbus 320s from next year.

- China will relax the ban on the use of low-altitude airspace across the country starting in 2013, an official of the State Air Traffic Control Commission said at the two-day 2012 China Low-altitude Economy Summit in Shenyang, Liaoning province. Pilot projects have been launched in Tangshan, Xian, Qingdao, Hangzhou, Ningbo, Kunming and Chongqing. The further opening up of the airspace is expected to promote the general aviation industry, including the purchase and use of private planes. Private pilots currently need to go through time-consuming and complicated procedures to fly in low-altitude airspace.

## VIP VISITS

### DPRK's Jang Song-thaek pushes trade zones

China pledged to support two trade zones near its border with the Democratic People's Republic of Korea (DPRK), following a meeting in Beijing between Commerce Minister Chen Deming and Jang Song-thaek, Vice Chairman of the DPRK's National Defense Commission. The two special economic zones are Rason on the Korean peninsula's northern tip and Hwanggumpyong, an island in the Yalu river, on the southwest border of the two countries. Plans for Rason would see it become a manufacturing base, logistics center and tourism hub, while Hwanggumpyong will focus on the information technology, tourism, agriculture and garment industries.

## ONE-LINE NEWS

- Average life expectancy in China rose to 74.83 years at the end of 2010 and would continue to rise because of improved medical services, according to the National Bureau of Statistics (NBS). The average life expectancy among men was 72.38 years, 2.75 years longer than in 2000, while that for women rose 4.04 years to 77.37. The female-male gap widened to 4.99 years from 3.7 in 2000.
- The National Bureau of Statistics (NBS) reported that China's population reached 1.347 billion by the end of 2011, an increase of 62.82 million from 2002. The ratio of Chinese to the world population dropped from 20.3% in 2002 to 19.5% in 2011. People aged 65 or over made up 9.1%, compared with 7.3% in 2002. China saw 16.04 million births in 2011. The country had a work force of 764.2 million people by the end of 2011.
- Lhasa topped an annual survey of residents' sense of happiness in Chinese cities by China Central Television (CCTV). The capital of the Tibetan Autonomous Region was followed by Taiyuan, Shanxi province; Hefei, Anhui province; Tianjin municipality; Changsha, Hunan province; and Hohhot, Inner Mongolia. Around 100,000 households from 104 cities were polled for the survey.

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Canton Fair – Encouraging Growth at a Difficult Time

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

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

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

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

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

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- SMEs: €350

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