



# Express China News

中訊

Issue no. 07-2

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## Herbal teas ready to take on Coca Cola While China drinks in capital from overseas IPOs

**Coca Cola** may be recognized around the world, but China has another product ready to battle for supremacy as a favourite beverage. Bottled, chilled herbal tea has become popular in China as a healthy alternative to sugar-laden sodas. The tea drinks are said to reduce "nei huo" or internal body heat and are better at quenching thirst. Zhang Junxiu, director of the Guangdong Provincial Food and Drug Industry Association says overall production of bottled tea surpassed Coca Cola in China last year. Now beverage company **Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co.** has teamed up with a South African firm in a US\$20-million deal to build a bottling plant in South Africa. It hopes to compete head to head with soft drink giants such as Coke and Pepsi. Another Guangdong tea bottler company is planning to set up plants in Brazil. Even gaming company **The9 Ltd.** has turned to a Chinese maker of beverages, **Master Kong**, to help promote its latest game. Its last promotional campaign for World of Warcraft was with Coke.

This competition marks a new level of confidence for Chinese businesses and the extent to which China now considers itself ready to compete in world markets. After developing assembly, parts and finally design capability over the last decade, the automotive industry is on the brink of marketing itself to the world. **Brilliance China Automotive Holdings Ltd.** has put two models of its Grandeur family car on sale in Belgium, after its successful landing on Germany last year. Geely is getting ready to take on the U.S. China's main state aerospace group, **China Aviation Industry Corp.** is bidding for all six Airbus plants that are being auctioned.

## Process of accepting Chinese firms

Electronics and handset maker **ZTE** is already a significant player overseas and estimates 50% of its revenue came from overseas operations in 2006, up from 34% in 2005. In 2007 overseas revenue could be higher than Chinese revenue. "Our main trend is toward globalization, and China is only one part of that," said Lin Zao Ming, president of the company. "For consumers and governments in developed countries, there is a process of accepting Chinese firms," he said. "Those markets need to better understand we are there to serve consumers and we don't present a threat."

One of the ways China is trying to ensure acceptance by overseas consumers and governments is to improve the quality of its products. China does not want to be known as the maker of the shabby electronic product that breaks just after the warranty expired. It has set a new set of standards for some products, is increasing inspections and shutting down makers that don't make the grade. It has radically stepped up inspection and enforcement in the drugs industry after a scandal last year in which an antibiotic was blamed for at least 10 deaths. China's former top food and

drug regulator was sentenced to death for taking bribes to approve substandard products.

China's manufacturers are moving into higher-priced market segments, the same strategy companies around the world use when labour costs rise and they are threatened with cheaper competitors. Already manufacturers in Guangdong are talking about pulling up and moving elsewhere because it has raised the minimum wage to try to address its labour shortages. This is the price of competition.

## Pressure over climate change

With international competition comes more trade pressure, with the EU threatening anti-dumping duties and the U.S. putting on pressure over the value of China's currency. This spring, the new irritant is environmental issues, with the G8 calling on China to take some steps in line with Kyoto protocol. China argued that it is already using energy more efficiently, but pointed out its booming economy, and great amount of room for growth.

China is hoping innovation in the energy-saving sector will go further to bring it in line with the Kyoto targets. It estimates it has spent US\$930 million since 2001 for technology upgrades that help with climate change. Officials are setting new standards for energy efficiency for buildings and companies such as **Wacker Chemie AG**, which makes polymers that help optimize the indoor climate of buildings and prevent energy loss, are investing in China. **Simon Electric** says it is introducing new lower-energy lighting products and air switches. A standard label, showing which consumer appliances are more energy efficient, will give consumers an idea of how they can save money and save the environment.

With Chinese companies having such large ambitions on the world stage, they have turned to the world for the capital to fund their expansion. Of 99 mainland companies that listed overseas in 2006, 43 listed in Hong Kong. Other bourses would like a share of that action and have begun wooing the Chinese. Stock exchanges of Canada, Japan, Singapore and South Korea are all going after this business. The London Stock Exchange opened an office in Beijing to encourage Chinese companies to list in the U.K. Nasdaq and the New York Stock exchange are competing to bring Chinese firms seeking New York listings.

## Raise your money at home

But China's central planners have begun asking domestic firms to float their IPOs in Shanghai. In part, there is a problem of huge excess liquidity from soaring exports and overseas IPOs. This is putting pressure on the yuan and increasing friction with its trading partners. It also is leading to a huge bubble in domestic stocks, which have soared this year. More domestic listings might help soak up some of that excess liquidity, as individual investors are moving money into stocks because of poor returns on other savings instruments. Chinese investors are opening up to 200,000 Chinese A-share accounts daily as stocks soar. The National People's Congress is discussing a draft bill that would suspend or cut the longstanding tax on interest earned on personal savings. China is hoping that making bank deposits more attractive for citizens will help cool investment in stocks.

But would China's sometimes volatile stock markets be able to handle a new flood of listings? Would the securities industry itself be able to handle 100 listings a year, with some of them huge? Two-thirds of Chinese companies are private enterprises, one-third state-owned. One securities expert doubts that China's capital infrastructure can support the demand. "How many investment banks do they have? How many stockbrokers? How are the small companies going to grow?" he said, quoted in the Singapore-based Business Times.

## Tricky balancing act

Would investors retreat in the face of a flood of listings? China has approved US\$10 billion in QFII quota, but planners are reluctant to approve more at this time, not wanting more foreign money expanding the stock market bubble. It's a tricky balancing

act, but China does not feel itself ready for wide-open markets. It goes two steps forward, one step back until it finds something that appears to work.

Columbia University professor Edmund Phelps, a Nobel laureate in economics, says the problem is temporary. Chinese consumer demand will eventually catch up to Chinese production, decreasing China's need to sell abroad and contributing to what Phelps sees as an eventual increase in "real" interest rates worldwide. That will slow everything down, including the global investment boom.

In the meantime, one potential new source of capital is private equity funds, which are taking great interest in China. The world's top four private equity firms - **Blackstone, Carlyle Group, KKR, and Texas Pacific Group** - have set up offices to manage China business. They mainly started out in IT sectors and are now branching into traditional industries including energy, mining, and logistics. Out of the 48 PE-funded domestic companies registered in 2005, 20 reported a high return of over 200%. They have to do their homework well, as there is no infrastructure in place in China's immature financial markets to unearth the problems behind a business plan. China may allow PE funds to invest in more Chinese domestic companies if they have partial Chinese ownership. This can also help these companies grow with Western expertise.

But private equity is another way that China is able to act globally. Private equity funds don't have to disclose a) who actually owns the limited partnerships and b) what investments the fund itself has made unless the ownership is large enough to trigger a regulatory filing. This presents the opportunity for capital from Chinese businesses and new tycoons to move into Western markets without roadblocks, either from China or from Western companies wary of Chinese investment.

## Web-savvy protest

China's web-savvy population has found a new use for email and text messaging – protest. Residents along the route of the Shanghai-Hangzhou magnetic-levitation train line, worried about radiation pollution from the project, sent thousands of e-mails to their local government. They had an effect. The US\$4.5-billion line, to stretch 175 km, was put on hold until it can be assessed by the state environmental watchdog. In another successful use of technology, Chinese activists sent cellphone text messages to government officials over a paraxylene chemical factory in Xiamen. The city suspended the project after the onslaught. And finally, a group of 400 fathers signed an online letter appealing for help tracking missing sons who they believe were taken into illegal brick operations. The letter helped prompt the investigation of slavery in the brick works that led to a nationwide crackdown.

## Interesting facts and figures

- The number of Chinese considered middle class – described as having annual income of between 60,000 and 500,000 yuan (US\$7,868-\$65,790) – has risen 15% in the last two years to 80 million people. China still has 23.6 million people below the official poverty line of US\$85 a year. A majority of teenagers in China expect a future quality of life better than their parents and think they will attend college. About 27 per cent think of marketing as a career to aspire to, compared to 5% who want to be doctors and 2% accountants. China estimates it has a workforce oversupply of 12 million people a year. There are 10 million new workers annually plus urban workers laid off and unemployed, which requires creation of 24 million positions. However, only about 12 million new jobs come open. A report says China will need 240,000 civil aviation personnel over the next 20 years
- China's State Council has called for an easing of dress codes so that employers can increase temperatures to 26 deg. C. It says employees should be encouraged to wear T-shirts and other relaxed clothing.
- Macau had 1.83 million hotel guests in the first four months of 2007 with visitors from the mainland accounting for more than half of the guests. In April alone nearly 500,000 checked into hotels and boarding houses, up 24.2% on year.

Guangdong launched travel restrictions on May 1 to limit the number of times Guangdong residents can visit the gambling resorts of Macau each month. As a result, **Wynn Resorts** of the U.S. said it would add just 25 gaming tables in the former Portuguese colony this year. It had planned 210 tables.

- More than 100,000 residents will be moved away from the **Three Gorges** reservoir by the end of next year, the last group to be relocated to allow for building of the massive hydroelectric project. A total of 1.35 million people have been moved since 1993, as well as 1,392 businesses and two cities. China had invested US\$6.8 billion in the relocation project at the end of 2006. Three Gorges power project has 26 generators with combined capacity of 18.2 million KW.
- Hong Kong businessman Carson Yeung Ka-sing is reported to be leading a consortium to bid for English Premier League football club **Birmingham City**. He recently took 16.67% in clothing firm **Grandtop International** for HK\$65.66 million. **Wharf Holdings** of Hong Kong has announced that it will sponsor a Euro-Asia Snooker Master Challenge 2007 in July.
- **Hi-Tech Wealth**, a Chinese maker of telecom products, said it has developed a mobile phone that runs on solar energy. After an hour of sunlight, it will provide power for up to 40 minutes. It plans to have six solar power phones on the market by the end of the year. China announced it would issue national standards for portable digital players by the end 2007 after a study found a majority of Chinese-made MP3 players had defects such as poor sound quality or unsafe adaptors. China has about 1000 MP3 makers and produces 100 million players annually.
- Barter, the ancient way of trade, has re-emerged in China's rural areas. Recently a barter-exchange fair has been held in Old Anren Town, west of Sichuan province. People from the cities barter used goods, such as electronics, watches, cell phones and clothes in exchange for handicrafts and foods. An "Evaluation Desk" helps evaluate fair market value.
- Nearly 80% of China's rural residents are part of a cooperative health network as of April, the Ministry of Health says. Under the cooperative scheme, a participant pays 10 yuan (US\$1.31) annually and state, municipal and county governments pay 40 yuan to a medical fund. Contributors are entitled to discounts on medical expenses. The fund was started in 2003 and now covers 685 million farmers. In further efforts to narrow the divide between rural and urban areas China has asked Chongqing and Chengdu to provide plans that would allow rural farmers and migrant workers to enjoy the same public services and living conditions as city dwellers. There are also pilot projects for reform in southern Shenzhen, Pudong New Area and Binhai New Area in Tianjin. Per capita income of farmers is about US\$417, compared to 11,759 yuan (US\$1,542) for city dwellers. A survey of migrant workers in the Pearl River Delta showed that most would not give up farmland to get a permanent city residence. Most get a bonus for holding farmland.
- Ministry of Information Industry has released 130 recommended standards for the telecom industry, covering all the 3G technologies (WCDMA, CDMA2000 and homegrown TD-SCDMA). The ministry has suspended the operation of 265 telecom service providers for irregularities such as owing connect fees, changing shareholders without permission and evading annual inspections. China has a total of 22,000 value-added telecom service providers.
- China approved about 1,300 foreign mergers and acquisitions in 2006, up 25% from 2005. Total M&A activity was US\$4.8 billion with US\$1.7 billion in the manufacturing sector. Mergers accounted for about 2% of total foreign investment.
- Three Chinese companies must pay **Lacoste** 760,000 yuan (US\$98,700) for trademark infringement after selling clothing with a crocodile label without authorization. Drinks maker **Wahaha Group** has asked the Hangzhou Arbitration Committee to rule in a trademark dispute with **Danone Group**. Danone has accused Wahaha of setting up companies outside their joint venture agreement. Four U.S. film studios have won US\$23,230 from **Shanghai Le Ying AV Products**

Co., one of a group of shops accused of selling pirated DVDs. The U.S.-based Motion Picture Association says piracy is growing faster than enforcement in China.

- Small and medium-sized enterprises contribute 60% of China's GDP and half its tax revenue. They also make 65% of patent applications, develop 80% of its new products and provide most of its urban employment. China has 42 million SMEs, more than 95% of them privately owned. A ministerial meeting for SMEs will held in Beijing in October.
- **Linde Group**, also known as LinkGlobal Logistics Co., won operating rights to the Parchim Airport in northern Germany, close to Hamburg. However, its plan to take over the airport was stopped when it failed to get Chinese government approval, according to *China Economic News*. The boss of Linde could have become the first Chinese private citizen to own the operating rights to an airport in Europe.
- Local officials in Tibet plan to ban mining of gold, mercury, arsenic and peat in a bid to protect the environment. There are fears the water supply, which flows from Tibet into the Yangtze River, would be contaminated by mining.
- According to a census in mainland China, Wang became the No. 1 most common last name in China with 92.88 million peoples carrying the name, followed by Li, Zhang, Liu, Chen, Yang, Huang, Zhao, Wu, Zhou and others.

Wang	Li	Zhang	Liu	Chen	Yang	Huang	Zhao	Wu	Zhou
王	李	张	刘	陈	杨	黄	赵	吴	周
Xu	Sun	Ma	Zhu	Hu	Guo	He	Gao	Lin	Luo
徐	孙	马	朱	胡	郭	何	高	林	罗
Zheng	Liang	Xie	Song	Tang	Xu	Han	Feng	Deng	Cao
郑	梁	谢	宋	唐	许	韩	冯	邓	曹

## Government

- China is offering rebates of up to US\$4,600 annually to foreign companies that hire disabled workers. China has more than 83 million people considered disabled with 22.7 million of them unemployed.
- Chinese banks have invested US\$800-\$900 million overseas this year on behalf of domestic clients. China has issued overseas investment quota to banks totaling US\$14.8 billion under the QDII program and recently expanded the amount they may invest in stocks and structured equity products. But many Chinese currently prefer the booming domestic markets. Insurance companies may be able to invest in New York and London stocks by the end of the year under new rules for overseas investment for insurers. Chinese insurers could be permitted to invest up to 300 billion yuan (US\$39 billion) of investment overseas.
- China had 2,600 franchise enterprises at the end of 2006, a 13% increase annually. Franchises represented about 200,000 outlets, most concentrated in the food, nutrition, gift and catering sectors. China has recently made it easier for international franchises to operate in China. Franchises registered before May 2008 no longer have to meet threshold requirements and the rule requiring equity investment in two outlets for a year has been eased. Franchisers can register with the Ministry of Commerce and no longer have to await government approval.
- China plans to adjust the regulatory structure for domestic corporate bonds this year to further develop financial markets. It is considering approval of more corporate debt. Securities regulators also issued rules to take effect July 5 allowing domestic brokerages and funds to invest in foreign shares and instruments such as bonds and futures.
- An audit has revealed two million yuan (US\$263,000) in illegal product endorsement by the National Committee on Oral Health. The agency, founded in

1988 with a mandate to improve dental care, was shut down last year, as it is not entitled to endorse dental care products.

- China has drafted a revised postal law that will forbid foreign enterprises from doing letter delivery. The world's four largest express delivery firms are hoping commercial delivery within China will be opened to international players. Existing rules allow them only to deliver non-private letters in and out of China.
- China plans to raise the cap on foreign investments in domestic brokerages, currently set at 33%. The first increase will be disclosed by the end of the year.
- France, Spain and Portugal have signed extradition treaties with China with a condition that people sent back will be exempt from the death penalty. About 800 Chinese suspects wanted for economic crimes are believed to be living abroad, many in countries such as the U.S., Canada and Australia who do not have treaties with China.
- China says it is planning to create a recall system for unsafe food amid growing international alarm over its food exports. China has about 450,000 food production companies but a recent survey found about one third of them, or 160,000, had no licences and 60% of them don't conduct safety tests. The Ministry of Agriculture is inspecting snacks made by Japan's **Exaki Glico Co.** and Germany's **Metro Group** after Greenpeace reported they contained genetically modified ingredients.

## Agriculture, food and forestry

- **Hain Celestial Group** of the U.S. has invested US\$6 million in **Yeo Hiap Seng** of Singapore, maker of Terra Chips and Celestial Seasonings Tea. The two firms will jointly invest in other Asian organic food and personal care companies, including a venture in Hong Kong to create a soy drink.
- **Amano Enzyme** plans to create a Chinese unit to boost sales of processed food and agrochemical products in China. **Bakkavor Group** and **Glitnir Bank** of Sweden have bought all of **Creative Foods**, a Chinese salad maker. They bought 40% in March and another 60% in June.
- Taiwan has begun exporting live fish to mainland China via Fujian's Donshan Port, with a smaller amount of fish exported from mainland China to Taiwan. Prices of live fish in Taiwan are about 20% lower than the mainland. China has begun importing cherries from California.
- **GLG Life Tech Corp.** of Vancouver is buying a stevia seed base operation in Jiangsu through its China unit **Qingdao Runde Biotechnology Co. Ltd.** Stevia is a natural sweetener 20 to 30 times sweeter than cane sugar.
- China has planted 53.3 million hectares of forest and increased its forest coverage to 18.2% of landmass in the past 58 years, according to the State Forestry Administration. China expects to produce 200 million cu. m of timber a year by 2015 and will meet its own paper and timber needs. **China Grand Forestry Resources** has invested 70.5 million yuan to buy leasehold rights to 231,700 acres of forestland. **Maple Leaf Reforestation** of Canada has signed a C\$850,000 contract to supply tree seedlings to Sanya Zhonghai Fishing Co. of China.
- **China Huiyuan Juice** will invest 400 million yuan to build two new plants and boost its capacity to 200,000 tonnes by yearend. Huiyuan has about 42% of China's market for pure juice. Canada-based **SunOpta Inc.** has signed an agreement to buy Yumberry juice concentrate, an organic juice high in antioxidants, from **Zhejiang Yumberry Juice Co.** It will market the product in the U.S. and Canada.
- **Hutchison Whampoa Guangzhou Baijyunshan Chinese Medicine Co.** has signed a US\$20-million deal with **FHC Group** of South Africa to bottle herbal tea

for the South African market. **China Resources Food and Beverage Co.** has set up a new unit, C'estbon Food and Beverage Co., to make medium and high-end bottled drinking water. The market for bottled water in Beijing currently is dominated by Danone, Nongfushanquan and Yangjing.

- **Vin & Spirit**, the Swedish-based maker of Absolut vodka, has bought 51% of **JianNanChun**, China's third largest producer of baijiu, a grain-based spirit. The Chinese company had earnings of US\$24 million last year. V&S plans to launch new premium baijiu brands. Diageo and LVMH have also invested in Chinese producers of baijiu within the last six months. **United Spirits** of India plans to start bottling spirits in China, beginning with five brands, including Bagpiper whisky. **Carlsberg AS** will buy a 40% stake in **Lanzhou Huanghe Enterprise**, a Lanzhou brewery, for 200 million yuan. Mexican brewer **Grupo Modelo** began expanding the presence of Corona beer in China this year in an agreement with **Anheuser-Busch** of the U.S. It also is importing Tsingtao beer into Mexico. The Mexican brewer is struggling with a pirating problem as a Beijing brewer is selling a beer called Cerono in a bottle almost identical to Corona. **Far Eastern Textile** of Taiwan is considering building a plant to make plastic beer bottles in China.
- **Nanning Yongkai Industry Group** plans to build three sugar-based ethanol refineries in the Philippines in a US\$105-million deal with Filipino partners **BM SB Integrated Biofuels Co**, **Negros Southern Integrated Biofuels** and **One Cagayan Resource Development Inc.**
- Drought is affecting 26.7 million hectares of Chinese farmland, with agriculture accounting for 64% of the country's total water consumption. The government has already invested US\$91.3 million in water saving technologies. China's grain prices will rise 15-20% this year and edible oil prices could rise 10-20%. Increased ethanol and meat production are pushing up grain and soy prices. Cotton sales were up 51.7% in the five months to June 6 to 4.56 million tonnes. Cotton prices are rising because of demand by the textile industry.

## Automobile

- **Fiat** is planning no new models for its joint venture with **Nanjing Automobile Corp.** and will pull out of the venture's management team. Fiat says Nanjing has not made its promised investment in the venture and sold only 30,668 vehicles last year, preferring to concentrate on its own brands. It is reported to be considering new joint venture partners. NAC unveiled its MG 7 series in Nanjing this march.
- **Toyota** is in talks with **Guangzhou Automobile**, its Chinese partner, to build a second plant to make more models. It currently builds the Camry and the Yaris in China. Another joint venture, Tianjin FAW Toyota, started making the Corolla in China. Toyota is aiming for 10% market share, up from 4% now.
- **Gulliver International** of Japan plans to set up a joint venture in China to buy and sell used cars. It plans to have 30 stores in Shenzhen and Beijing by 2009. **Apple International Co.** is setting up a Beijing joint venture for selling used cars. It now holds a chain of 54 used car franchises in different parts of the country and plans 400 shops by 2009.
- China exported 340,000 motor vehicles valued at US\$3.2 billion in 2006, up from 173,000 units in 2005. The average price of a Chinese vehicle was \$9,400, 33% lower than Korea with average price of \$12,200 per unit. The China unit of Honda exported 24,600 Jazz compact cars to Europe last year and plans to export 42,000 this year. It recently began selling MDX SUVs, built in Canada, in China. China exported 38,000 vehicles to Russia in 2006 and a total of US\$460 million in automotive products.
- **Manganese Bronze Holdings** of London and **Geely Automobile Holdings** have received approvals to make the London taxi, a limousine and two large saloon cars in Shanghai. **Hebei ZhongXing Automobile Manufacture** and **Ayass Motors** of Jordan plan a joint venture auto assembly and manufacturing plant in Jordan to

make 4,000 to 6,250 vehicles annually. **Fujian Daimler Chrysler Automotive Co.** has begun construction of a new 200-million-euro assembly plant in Fujian. It will make Mercedes Vito, Viano and Sprinter automobiles.

- Sales of passenger vehicles in China totaled 2,572,700 units in the first five months of 2007, a 21% annual increase. That figure includes 1.9 million cars, 89,700 multi-purpose vehicles, 128,200 SUVs and 452,300 cross-type vehicles. In May **FAW Volkswagen**, a joint venture of Germany's Volkswagen AG, was the top seller and **Chery** was No. 2. Chery made 142,000 vehicles in January to May and sold 139,000. **Hyundai** sold 17,143 vehicles in May, **PSA Peugeot-Citroen** sold 16,200 vehicles, **Geely** sold 15,649, **BMW** sold 4,055 cars, and **Honda** sold 29,812. **Skoda Autobobilova AS**, a Czech carmaker owned by Volkswagen, has started selling cars made at its Shanghai joint venture and has opened more than 50 sales outlets in China. Taiwan's **Yulon Motors** plans mainland China sales of five of its own models by 2009..
- Sweden's **Volvo AB** is negotiating to take Nissan Motor's stake in Dongfeng Motor Group Co. It has a plan to make trucks for India and China with Dongfeng.
- **Beijing Automotive Industry** will build a three-billion-yuan auto parts factory in Shunyi district of Beijing. **Denso** of Japan will invest US\$30 million in a wholly owned unit to make fuel injection systems for diesel engines for common rail system. **Invista** of the U.S. plans a US\$50-million plant to make car air-bag yarns in Shanghai. **Kumho Tire** of Korea is building its fourth plant in China to make truck/bus radio tires at a cost of US\$90 million. It also is building a passenger car tire plant in Changchun. **Xingda International** will invest US\$90 million in a joint venture plant to make radial tire cords and bead wires. **PPG Industries** has opened an automobile coatings plant in Wuhu, Anhui to supply Chery Corp. **German Continental Group** plans to invest 67 million euros in a hydraulic brake factory in Changshou, Jiangsu.

## Banking, finance, insurance and IPOs

- **Fubon Financial** of Taiwan will sell its 50% stake in **Metlife Worldwide** for US\$56 million. Metlife Worldwide Holdings, a unit of insurer Metlife, will wholly own the company after the transaction. **Aegon NV** of the Netherlands has set up a US\$50-million life insurance and pension joint venture with Taiwan's **Taishin Financial**. Aegon also bought 49% of **China's Industrial Fund Management**, its second venture in China after a life insurance joint venture with CNOOC, created in 2003. **Aioi Insurance** of Tokyo has received approval to open a branch in Tianjin for casualty insurance. **China Life P&C Insurance** has won approval to operate casualty business in Shanghai, where there are more than 30 property insurers in operation. At the end of April, China's insurance industry had assets of 2.43 trillion yuan, 3.74 times more than in 2002. Premium revenue was 253.1 billion yuan, up 24% on year.
- London-based insurance broker **Willis Group**, which has a 50/50 joint venture with **Shanghai Pudong Insurance Brokers Co.**, says it would like to eventually buy out the company. Rival **Marsh & McLennan** has won the right to have a wholly owned foreign enterprise brokerage licence. **China Life** will sell its insurance products through Bank of China and Bank of East Asia in Hong Kong. China Life also has a licence to issue life insurance policies in foreign currencies. It is bidding for a 4.93% stake in **China Minsheng Banking Corp.** Rival **Ping An Insurance** is also bidding for a stake in the Shanghai-based bank. Export credit insurance firm **China Export & Credit Insurance Corp.** has signed an agreement with **Fortis NV** to develop products and promote each other's business.
- **Intesa Sanpaolo SpA** of Milan is considering taking a 20% stake in Qingdao City Commercial Bank. **Deutsche Bank** has bought the rights to name an office building in China Central Place, a huge commercial complex in Beijing, where it will locate headquarters for its Chinese business. **Westpac Banking Corp.** of Australia has received approval for a Shanghai branch. Hong Kong's **Hang Seng Bank** became locally incorporated in China and said it intends to boost its branches to 50

by 2010 from 16 now. **Habib Bank** of Pakistan is planning to buy up to 19.9% of Urumqi City Commercial Bank. **Industrial and Commercial Bank of China** is trying to move into Pakistan and is considering buying a Pakistani bank. **Woori Bank** of South Korea has received approval to establish a corporate bank in China. **China Merchants Bank** has applied to set up a financial leasing firm. Five commercial banks, including China Minsheng and China Everbright are reported to have applied for leasing approvals.

- Chinese banks have issued more than 1.1 billion bank cards, including 1.08 billion debit cards and 50 million credit cards. Spain's **Banco Bilbao Viscaya Argentina SA** has bought 4.83% of Citic Bank which has 3 million credit cards in circulation. **China Industrial and Commercial Bank, Staples Commerce & Trade Co.** and **American Express** have cooperated to issue the Peony-Staples-Express Commercial Card, which offers preferential procurement of Staples products. **China UnionPay**, which is already working with 25 overseas financial institutions, says it wants to expand the network for its bankcards to 30 countries and regions. Four foreign invested banks – **Citibank, HSBC, Standard Chartered** and **Bank of East Asia** – have applied to launch bankcard business in China.
- PetroChina Co.** plans to raise up to US\$6 billion on the Shanghai stock exchange to fund overseas acquisitions and exploration. PetroChina's Hong Kong-listed shares surged 8% on news of the new issue, raising the company's market value to US\$273 billion, which would make it the world's second-largest oil major.
- Top IPO Regions – Jan – May 2007:

Region	Rank		Total Capital Raised (US\$ Bln) Jan- May, 2007
	Jan- May, 007	2006	
<b>New York</b>	1	3	28.76
<b>London</b>	2	1	25.47
<b>Shanghai</b>	3	9	16.27
<b>Hong Kong</b>	4	2	11.78
<b>Australia</b>	5	10	6.49

- Jazz Pharmaceuticals Inc.** and TD-SCDMA chip developer **Spreadtrum Communications Inc.** are seeking listing on the Nasdaq exchange. Online game developer **Beijing Perfect World Co.** also plans to list in the U.S. **China Mobile** is waiting for approval of its A-share listing in Shanghai where it could raise up to 80 billion yuan. Luxury R/E developer **Longhu Real Estate**, sporting goods maker **Anta Co.**, **Guangzhou Automobile**, Taiwan's **Stella International Holdings**, department store **Grand Ocean Group** and **Alibaba.com**, all have plans to list in Hong Kong. **China Medical System Holdings Ltd.** plans to float on the AIM in London. **Shanghai Everstar Online Entertainment Co.** and **Nineyou International Ltd.** will list in Japan. **Haitong** plans to go public in Shanghai and could be the first Chinese brokerage to go public since 2002. **Cosco Holdings**, the parent of China's biggest shipping firm, hopes to raise US\$1.78 billion in Shanghai. The Korea Exchange has approved the listing of China-based **Huafeng Textile International Group**.
- Five foreign banks have received approval to trade on the Shanghai Gold Exchange. They are **HSBC, Standard Chartered, Bank of Nova Scotia, UBS** and **Societe Generale of France**.
- Shanghai Tianma Microelectronics Co.** has received a 2.17-billion-yuan syndicated loan led by **China Development Bank** to fund its LCD production line.
- Nikko Asset Management** has boosted its stake in **Rongtong Fund Management Co.** to 40% from 20%. Nikko paid 1.5-billion yen for its first 20% stake in Rongtong earlier this year. China has issued overseas investment quota of US\$14.8 billion under the QDII scheme. **Bank of Communications** said it plans to invest more than US\$400 million of clients' funds overseas. **Hony Capital Ltd.**, a Beijing private equity firm with US\$700 million under management, plans to launch

a yuan denominated fund. Hony is backed by Legend Holdings, Bill and Melinda Gates Foundation and Goldman Sachs. **KGR Capital**, a London and Hong Kong-based fund manager, has launched a China hedge fund. China Life is cooperating with **Franklin Templeton Investments** to form a Hong Kong-based asset management firm. China's Social Security Fund will invest no more than 20% of its assets in private equity funds.

- **Ashmore Investment Management** will buy 19.99% of **Beijing International Trust & Investment**. France's **Societe Generale** has boosted its stake in **Fortune SGAM Fund Management** to 49% from 33%. Four Chinese fund-management firms are raising 50 billion yuan this spring for equities funds. Fortune SGAM will raise 10 billion yuan, **GF Fund Management**, 15 billion yuan, **Invesco Great Wall Fund Management**, 15 billion yuan and **Yimin Asset Management**, 10 billion yuan. **Morgan Stanley** says it plans to launch retail fund management operations in mainland China and Taiwan. **Prudential Financial Inc.** is awaiting QFII approvals.

## Consumer/Retail markets

- China approved 334 foreign-invested enterprises in the accommodation and catering sector in the first five months of 2007, down 21% from last year. Contracted investment was US\$950 million. Sales in the industry were 486.4 billion yuan, up 17.8% annually. Hotpot restaurants make up 36% of the turnover, amounting to US\$3.9 billion, among the 100 major Chinese catering enterprises.
- **Jollibee Foods Corp.** of the Philippines has bought all shares of **Yonghe King**, its Chinese fast-food venture with 102 stores in China. It paid US\$6 million for the 15% stake held by Belmont Enterprises.
- **OK Convenience Retail Stores** plans to have 81 stores in China by yearend, accelerating its pace of growth by purchasing other stores. Competitor **7-Eleven** has 200 stores in southern China. OK parent firm **Liya Group** will open 12 Saint Honore Cake Shops with total investment of 70 million yuan. China's total retail market was 4.16 trillion yuan in 2006 and is estimated to have grown 19.6% annually since 1999. It has 26,429 supermarkets with sales of about 647 billion yuan. British retailer **Tesco**, with 47 stores in China, has boosted its stake in joint venture partner Ting Cao to 90% by investing US\$350 million.
- **Haier Group** and Nigerian partner **PZ Cussons** have a 500-sq.m. retail space in Lagos to sell refrigerators, air conditioners, TVs and water heaters. It has created more than 10 products especially for Nigeria. Haier signed a 10-billion-yuan cooperation agreement with **Gome Electrical Appliances** covering market research, product development and logistics management. Gome is expected to have sales of 100 billion yuan in 2007 after the US\$677-million purchase of rival Yongle. **Apple Inc.** has a deal with **Suning Appliance Co.** to open a small experience store carrying iPods, notebook computers and other products, in its Beijing outlet. U.S. PC maker **Gateway Inc.** is selling its products in China in a pilot program with **Digital China Holdings Ltd.**
- **Calvin Klein** opened its first China store in the Peninsula Palace hotel in Beijing this May and plans 10 new stores annually in China. Italian sportswear maker **Chervo** has opened a boutique in Hong Kong. Also moving into Hong Kong are German women's wear store **Lusia Cerano** and **Sole Alliance**, which carries JLo, Arturo Chiang, Betsey Johnson and Jessica Simpson labels. Swiss watchmaker **Swatch AG** says it will set up a Tourbillon boutique in Beijing, its first in China.
- **Ahava Dead Sea Cosmetics**, an Israeli firm that makes cosmetics containing minerals from the Dead Sea, has signed a deal with **Cosmoprof Shanghai** to distribute its products in China.

## e-Business

- **Ctrip.com**, an online travel agency, will invest US\$20 million to improve its call centre technology. The call centre could be expanded to 5,000 seats and provide services to 100,000 person times per day, making it the largest of its kind in Asia.
- U.S.-based **Amazon.com** plans to increase spending in China on warehouses, bicycle couriers and inventory to improve sales on its China website.
- **China Telecom Ltd.**'s Vnet platform will open a channel to sell appliances for **Suning Appliance Co. Ltd.** Bank of Communications will provide online payments service. Vnet has about 40 million broadband users
- **Google Inc.** of the U.S. has won preliminary approval for a content-provider licence in China. Competitor Baidu.com accounted for 57% of internet search engine revenue in the first quarter in China, while Google held only 19%. Google plans to open an R&D centre and work with **Sina Corp.** on search services and advertising. Earlier this year, it bought a stake in **Xunlei Network Technology Co.**
- Japan's **Sega** has shut its unsuccessful online game division in China, saying it was unfamiliar with the China market. **Shanda, Netease** and The9 dominate online gaming in China, which had online revenue of 7.13 billion yuan in 2006, up 27% on year. **CDC Corp.** has established a new R&D centre in Nanjing to develop software products and online games.
- U.K. advertising firm **WPP Group PLC** has bought 100% of Singapore-based **BLUE Interactive Ltd.**, an interactive advertising agency. BLUE has offices in Beijing and Shanghai. WPP estimates its annual sales in China are US\$600 million, with only 3% of revenue from digital business. But WPP is projecting new media business will grow rapidly and eventually comprise 2/3 of its business worldwide.
- Hong Kong's **Artificial Life Inc.** will launch its mobile games, including America's Next Top Model, V-penguins and Poli the Bear, in New Zealand through **Telecom New Zealand.**
- **eBay** will try to rejoin the online auction business in China this summer, in partnership with **TOM Online.** It plans to tighten restrictions on sellers and use an escrow service to hold payments until buyers are satisfied with their goods.
- **Cyber Recreation Development Corp.** is developing a virtual world for Chinese users with Sweden's **MindArk**, operator of Entropia Universe. The universe, to launch in August 2008, will feature Chinese landmarks and shops, and opportunities to shop in a virtual world, but will avoid politics.

## Economic facts

- In the first quarter, GDP in China expanded 11.1% annually. May exports grew 28.7% to US\$94.05 billion while imports totaled US\$71.6 billion, up 19.1% on year. The May trade surplus was US\$22.45 billion and the surplus for the first five months was US\$85.72 billion. The May consumer price index rose 3.4% annually, in part because of global demand for corn as fuel, which is pushing up prices of all foods. Retail sales in China will expand by about 14% this year and are likely to total about US\$1.1 trillion. As consumer demand catches up with production, China's manufacturers are likely to sell less abroad and more domestically. China could launch a new agency, the **China State Investment Co.**, to invest about US\$200 billion of its foreign exchange reserves, estimated to reach US\$1.5 trillion by the end of this year. China estimates its outbound investment will hit US\$60 billion by 2010. Utilized foreign direct investment in January to May was US\$25.26 billion, up 9.87% from last year. The Ministry of Commerce approved 15,075 joint ventures, down 3.75%.

- Hong Kong's exports of goods rose to HK\$216.6 billion (US\$27.7 billion) in May, up 12.1 % on the same month last year. Imports rose 11.1% to HK\$230.9 billion. Hong Kong has had a trade deficit of HK\$75.1 billion in the first five months of the year. The consumer price index rose 1.2% annually in May because of stable food prices and tax concessions by the government. Economists are predicting higher inflation in the second half because of pressure from a stronger yuan and rising food prices in China. Retail sales in April were HK\$19.2 billion (US\$2.5 billion), up 3.4% on year.
- Taiwan's exports in May were US\$19.58 billion, up 3.5% annually, while imports fell 0.1% to US\$18.19 billion. In the first five months, exports totaled US\$93.86 billion, up 6.8%. China and Hong Kong are the biggest destinations for Taiwanese exports, followed by the U.S. Exports in the second half of the year are expected to continue to register solid growth, the Bureau of Foreign Trade said. Industrial production rose 2.6% in the first five months and export orders for laptops and other electronics continued strong.

## Environmental projects

- Israel's **IDE Technologies Ltd.** has won a US\$119-million contract to build a seawater desalination plant near Beijing to produce 100,000 cu. cm of fresh water daily. It will be built 200 km north of Beijing on land owned by Tianjin Ambest International Logistics. Singapore-based **SembCorp** has created a US\$9.7-million joint venture with **Shenyang Xihe State-Owned Assets Co.** to develop and operate an industrial water supply network in Liaoning province.
- China says it won't approve any more projects that use corn or other food crops to create ethanol. It will encourage ethanol production from cassava, sweet potato and cellulose, an official said. There are four enterprises in Jilin and Heilongjiang with capacity of 1.02 million tonnes creating ethanol from corn. They will be asked to switch production to non-food products. China, which imported 163 million tonnes of oil in 2006, is encouraging alternative energy resources such as biomass fuels, but worried about the amount of arable land needed to grow biofuels. It may start discouraging liquefying coal as it consumes too much energy and water.
- Over-farming has drawn down the water table in parts of China, leading to desertification. Farmers in Gansu province are being asked to vacate their properties so they can be replaced with newly planted grass in an effort to halt the advance of the Tangger and Badain Jaran deserts. Since 2001 China has spent nearly US\$9 billion to plant trees, create grasslands and enforce logging and grazing bans. China has less than 7% of the world's arable land, but 20% of the world's population. Deserts are expanding at 2,460 sq. km a year, resulting in sandstorms and poor grain production.
- **EDF Trading** of France has bought 3.6 million tonnes of carbon dioxide discharge capacity under the Kyoto Protocol from China's **Wind Power Generating Co.**, which has three wind power projects. **Chubu Electric Power** of Japan will buy 3.38 million tonnes of CO2 credits from a gas fired thermal plan in Inner Mongolia from 2007 to 2012.
- China claims it is addressing carbon dioxide concerns by reducing reliance on coal and increasing its use of renewable energy. In a meeting with the G8 over climate concerns, China said it saved 800 million tonnes of coal between 1991 and 2005 and reduced reliance on coal to 69.1% from 76.2%. It has targets to reduce energy intensity by 20% by 2010 and simultaneously increase forest coverage. The Netherlands Environmental Assessment Agency says China's CO2 emissions rose 9% last year and it may already be the world's largest CO2 emitter. Plans to introduce new auto emissions standards have been put on hold because of the poor quality of available fuel in China.
- Five universities and five enterprises have formed a strategic alliance to develop new technologies around coal use, including development of a coal chemical industry. China wants to develop technologies for coal gasification, pyrogenic

decomposition and olefin products. Partners including **China Chemical Engineering Group, Yanzhou Mining Group, Anhui Huaihua Group, Jinxi Chemical Machinery Co.** and **Henan Coal Gas.**

- **SmartCool Systems Inc.** of Vancouver has signed a deal with **Wuhan Eco-Energy Systems Co. Ltd.** to test its energy saving technology on a project with Huangshi Telephone Exchange, a unit of China Telecom.

## Health care

- A Hong Kong unit of Japan's **Softbank** is buying up to four medical centres in China this year. It agreed to pay US\$82 million for **China Renji Medical Group**, an operator of three cancer-treatment centres in Shanghai. Foreign investment in medical services has been permitted since March. Britain's **Synergy Healthcare** plans to build a £10-million medical device sterilization facility in Suzhou. The service will sterilize instruments for hospitals. **ALDA Pharmaceuticals Corp.** of Canada has received approval to manufacture its T36 Disinfectant in China for disinfecting hospital equipment and use in hand sanitizer.
- **The George Institute for International Health** of Australia has opened a branch in Beijing. It will research cardiovascular disease, including a diet involving salt substitution that could help reduce high blood pressure without drugs. **Ion Beam Applications SA** of Belgium, a maker of diagnostic tools and therapy for cancer, has opened a factory and offices in Beijing.
- China will surpass Spain to become the world's seventh largest drug market in 2009. **Eli Lilly** is setting up a venture capital fund, **Lilly Asian Ventures**, to invest in Asian biotech. One of its early projects will be US\$10 million for **BioVeda China** a venture fund investing in Chinese life-science companies. **Miyakoshi Corp.** of Japan has a US\$13.1-million wholesaling joint venture with Jilin Xiuzheng Pharmaceutical, a Chinese drugs maker. **Suzuken** of Japan has a wholesaling joint venture with **Shanghai Pharmaceutical Co.**
- Taiwan's **BIOTEQUE Corp.** will sell its wholly owned BIOCARE Medical Co. unit, which invests in medical devices made in China, to German dialysis care company **Fresenius Medical Care AG** for US\$20.78 million.
- **GlaxoSmithKline** has launched its new research centre in Shanghai. It will conduct research related to multiple sclerosis, Parkinson's disease and Alzheimer's. GSK had 17 clinical studies in China in 2006. **ValiRx** of the U.K. plans to offer its oncology products in China in a deal with U.S. based **Bridgetech Holdings**.
- **Kunming Pharmaceutical** of China will sell its anti-malarial drug ARCO in Papua New Guinea in a deal with **Borneo Pacific Pharmaceuticals**. The drug is also widely used in Africa.

## Manufacturing

- **Barnes Group**, an international aerospace and industrial components maker, has established an international sourcing centre in Shanghai. **Bodycote International** has bought Chinese heat treatment company **Ninbo Jiangdong Ruidahong Heat Treatment Co.**, which has two plants in the Yangtze River Delta.
- **Onyx Group of Cos.** of Canada is transferring operations of its wood-plastic products maker Alpine Enviro-Material Technology to Dalian. **HMV Group** of France has created a US\$39.2-million joint venture to make shop fixtures with **Yongguan Group** of China. Yongguan will double its production of shop fixtures, checkout facilities and woodenware for shops. Yongguan also has deals with Finland's Checkmark Corp. and Sweden's HL Display AB. **Uchida Yoko Co.** of Japan will invest US\$1.6 million in Ares, a Shanghai joint venture with Taiwan's **Abico Group**, to raise its stake in the furniture maker to 53% from 19%.

- **Growth-Link Overseas**, a unit of Taiwan's **Feng Tay Enterprise** will build in a Nike footwear company in Cheyyar in southern India. Feng Tay, which does OEM manufacturing for **Nike**, has factories in China and Vietnam.
- **SVA (Group) Co.** of China is considering building a plant in Shanghai to make liquid crystal display panels for domestic TV makers. China's TV production is shifting toward higher-end products with output of LCD TVs topping 4.3 million sets in January to April, an 89% rise over last year. **IRICO Group Electronics** and **Sichuan Changhong** have plans for a 390-million-yuan joint venture LCD glass substrate production line. **Panasonic** plans to supply manufacturer **Sichuan Changhong** with technology to make its highest-definition plasma TV.
- China is the second-largest consumer of chemical products in the world according to the Chemical Industry and Engineering Society. **Albermarle Corp.** is building a phosphorus flame retardant production unit in Nanjing to be completed by yearend. **Daikin Industries** of Japan has formed a US\$12.5-million joint venture with **Zhejiang Blue Star Chemical** to build a fluorochemicals production plant in China. The first stage will be a hydrofluoric acid anhydride plant in Jiujiang to start up in 2008. Most of the product will be shipped to Japan, which depends on China for fluorite. Germany's **SGL Carbon AG** has a J.V. contract with **Shanxi Quanhai Graphite Co.** to make specialty graphite. **Formosa Plastics** of Taiwan is planning a US\$6-billion integrated oil refinery and petrochemical complex in Ningbo.
- Canada's **Alcan Inc.** will build a US\$40m facility in Tianjin to produce specialty alloy cable products for the Chinese market. **Sinsteel Jilin Ferroalloy** of China is building a 500m yuan specialty ferroalloy base in Jilin. **Arcelor Mittal** will pay US\$27m for a majority stake in **Rongcheng Chengshan Steel Cord Co.**
- Germany's **BYK Chemie** has opened a technical lab in Langfang, China to offer customer support. **Phillips Plastics** of the U.S. has a J.V. with **Eastek International** in Dongguang to create injection-moulding systems for the plastics industry.
- **Microsoft China** has bought 15 million shares of **Sichuan Changhong Electric Co.**, a maker of TVs, for 94 million yuan. The two firms are jointly developing products to connect televisions with computers and the internet. **Sunten Electric Co.** has a 2-billion-euro joint venture with **Areva** of France and the two firms are cooperating on manufacturing of transmission and distribution equipment, including transformers.

## Media and communication

- **Ticketmaster** has bought a majority stake in **Emma Entertainment Holdings**, a ticketing and event promotion company in Beijing and Shanghai. Earlier this year it formed Broadway China Network and Beijing Gehua Ticketmaster Ticketing, a joint venture that is exclusive supplier of ticketing for the 2008 Beijing Olympics.
- **Theatre Smith-Gilmour** of Canada and the **Shanghai Dramatic Arts Centre** have presented the first Chinese-Canadian theatrical co-production, titled *Lu Xun Blossoms* and based on the stories of 20<sup>th</sup> century writer Lu Xun. It was produced in Shanghai and Beijing and will tour Canada.
- **AGB Nielsen Media**, the Spanish-based tracker of TV viewing habits, will install people meters in 20,000 Chinese homes before the Beijing Olympics in 2008. It already has the meters in about 10,000 homes.
- China's radio, TV and film industry had revenue of US\$14.4 billion in 2006, an 18% increase annually. Chinese filmmakers made 330 films, a 27% increase, and produced 82,300 minutes of cartoons. Radio reaches 95% of China's population, while TV reaches about 96%. **China Netcom** plans to expand internet protocol TV to five more Chinese cities by the end of 2008. It currently has 150,000 IPTV customers. Steamboat Ventures, a unit of **Walt Disney**, has opened a Hong Kong office and taken stakes in three Chinese start-ups involved in internet broadcasting. It recently jointed with Draper Fisher Jervetson and Sequoia Capital

of the U.S. to take a stake in Shanghai online ad firm **CTS Media**.

- A film of the Chinese classic *A Dream of Red Mansions* will start shooting in October. Beijing will invest one billion yuan to create Grand View Garden, the family home where the novel is set. **Grupo Televisa SA** of Mexico has signed a deal to create Chinese versions of its programs. Televisa has already dubbed four of its telenovelas (soap operas) into Mandarin and will also bring in the reality TV show *Dancing for a Dream*. Televisa has agreed to begin cable transmissions of CCTV, dubbed in Spanish, in Mexico. **Fuji Television** of Japan is forming a partnership with **Shanghai YSY Film and TV Enterprise** to sell DVDs in major cities in mainland China.
- The State Food and Drug Administration is cracking down on extravagant claims in health food advertisements. Words like highly effective, quick effect and latest generation will be banned as well as wording that implies the product cures disease. In June China's drug watchdog exposed 20 illegal medical instrument ads, including ads from Zhoulin Bio-Spectrum Technology Inc. Some ads had not been approved and some had been changed after their approval. **Procter & Gamble** will be title sponsor of the Chinese version of America's Top Model. The US\$1-million ad deal will promote its Pantene brand.

## Mining and resources

- **PetroChina** says it has found China's largest natural gas field, the Longgang Field in Sichuan province. PetroChina is in talks with **Samsung** of South Korea and **Total** of France to explore the Sunanliqe gas field in Ordos Basin, Inner Mongolia. PetroChina also found one million tonnes of oil in the Nanpu block in Bohai Bay. It is studying whether to build a 102-billion-yuan gas pipeline from west to East China. **China Petroleum & Chemical Corp.** (Sinopec) has found crude oil reserves of up to 200 million tonnes in Tahe Oil field in northwestern China. China's imports of crude oil rose 9.6% in the first five months of 2007 to 67.43 million tonnes. **Husky Energy Inc.** of Calgary is working with China Oilfield Services Ltd. to explore the South China Sea for oil and gas.
- Three companies have been granted licences to conduct oil product wholesale business – two Sinopec joint ventures and **Langfang Rongli Oil Storage Co.** of Hebei. The Sinopec joint ventures, **Sinopec SenMei (Fujian) Petroleum Co.** and **Fujian Refining & Petrochemical**, which has backing from Exxon and Aramco, are the first foreign-invested firms to get wholesale licences. Sinopec chairman Chen Tonghai has resigned for personal reasons and Vice-President Zhou Yuan is now acting chairman.
- **Saudi Basic Industries Corp.** (Sabic) has a preliminary agreement with Sinopec to build a US\$1-billion petrochemical plant in China. The deal, to include a naphtha cracker and polyethylene production line, has yet to get approval from the Chinese government.
- China is expected to need 2.5 billion tonnes of coal annually by 2010, and predicts it could produce up to 3.1 billion tonnes by then. Coal production hit 2.38 billion tonnes in 2006, more than double the figure in 2000 and investment in the sector is rising but China still had to import coal. It imported 19.22 million tonnes of coal valued at US\$910 million in the first four months of the year, a 50% increase. Its switch to net importer of coal is expected to boost world coal prices by 10%. Coke prices also are projected to rise because of high demand. China's coke production capacity for 2007 is targeted at 50 million tonnes, almost four times of the newly increased capacity of 12.5 million tonnes in 2006 when consumption was 30 million tonnes.
- Imports of nonferrous metals grew 76% in the first four months of 2007 to US\$19.14 billion. Demand for bauxite surged 245% and nickel ore demand was 10 times the previous year. **Yunnan Tin Australia Investment Holding Co. Pty.** has bought 5% of Australia's **Metallica Minerals Ltd.** for A\$5.9 million. **China Minmetals Corp.** is bidding on a project in Cuba and has won exclusive

exploration rights in Jamaica.

- Brazil's **Samarco Mineracao SA** will supply 1.9 million tonnes of iron ore pellets to China Steel Corp. of Taiwan between 2008 and 2011. **Anshan Iron & Steel Group Corp.** has bought 12.94% of **Gindalbie Metals Ltd.** of Australia for A\$39 million. China's production of iron ore reached 580 million tonnes in 2006, up 40% on year and could grow to 710 million tonnes this year. Imports dropped sharply in the first quarter because of rapid domestic output and high shipping costs. Exports of steel in the January-May period were 27.44 million tonnes, more than double last year. Enterprises had rushed to export before the government imposed duties on steel exporters to reign in expansion of the domestic industry.
- **Baoji Titanium Industrial Co.** of China will provide 4,300 tonnes of titanium products to U.S.-based **Boeing** over three years in a contract valued at US\$130 million. China had annual production capacity of 30,000 tonnes of titanium sponge in 2006 and a single enterprise, **Xunyi Titanium Industrial Co.** had 14,000 tonnes in capacity. **Aluminum Corp. of China** is offering \$840 million for **Peru Copper Inc.** of Vancouver, which is developing a low-grade Toromocho project in Peru. **Yunnan Copper Industrial Corp.** is building a 200,000-tonne electrolytic copper project in Qingyuan to produce and market non-ferrous products. A consortium led by **Zijin Mining Group** has taken a controlling stake in Rio Blanco copper and molybdenum in Peru.
- **Sino Gold Mining Ltd.** of Australia has acquired three exploration licences in Shandong province with its joint venture partner Shandong Provincial Bureau of Geo-Mineral Exploration & Development. **Golden China Resources Corp.** of Toronto has won a second exploration licence in the Behinyar gold project in Inner Mongolia. **Asian Dragon Group** of Vancouver will invest US\$10 million to take majority interest in Fuding Mining Development co, a miner of molybdenum, vanadium, silver and lead.

## Power/utility/infrastructure projects

- **Siemens AG** of Germany has won a 300-million-euro order to build a high-voltage DC transmission system between Yunan and Guangdong for **China Southern Power Grid Co.** Power generation in China rose 15.8% in the first five months of 2007.
- Russia is negotiating to work with **China National Nuclear Corp.** on a power station at Tianwan. China is drafting a nuclear energy law that would permit foreign investment in the nuclear fuel sector and power projects, but prohibit controlling stakes. **China Resources Power Holdings** will buy 44.7% of **Xintai Power Generation Co.** in northeastern Hebei from State Grid Corp. for 530 million yuan.
- **British Columbia Transmission Corp.** has signed a C\$8.5-million agreement to buy shifting transformers for its power grid on Vancouver Island from China's **Baoding Tianwei Baobian Electric Co. Ltd.**
- **Sparton Resources Inc.** of Toronto and its Chinese partner **Beijing John Henseng Investment Consulting** have increased their joint interest in a secondary uranium recovery program in China to 80%. They will recover small amounts of uranium oxide from coal ash. China National Nuclear Corp. has agreed to buy any oxide recovered.
- Power is now generated on both sides of the river in China's US\$22.5-billion **Three Gorges Project.** The 14 turbines on the left bank of the Gorges began operating in September 2005 and there will be 12 turbines on the right bank. The project will produce 85 billion KW/hours of electricity annually when it is completed in 2008.

## Real estate/construction

- Seven Shanghai-based companies are developing the US\$1.3-billion Baltic Pearl residential project in St. Petersburg with housing and related services for up to

35,000 residents.

- **Cimentos de Portugal SA** will buy 60% of **Shandong Liuyuan New Type Cement Development Co.** for two million euros. **Canam Group Inc.** of Canada has taken a 49% stake in **United Steel Structures Ltd.** of China, a maker of bridge and structural steel. Canam paid US\$9.2 million in total for the stake.
- Hong Kong-listed developer **Guangzhou R&F Properties Co.** is buying 100% of construction firm **Guangzhou Tianli Construction Co.** There are 1,189 foreign-funded construction firms in China, according to the Ministry of Construction. About 570 firms are from Hong Kong, 110 from Japan and 100 from the U.S. Among 233 foreign-invested architecture firms, 139 were from Hong Kong, 25 from the U.S. and 15 from Singapore.
- Singapore's **Win Tai Holdings** will lead a consortium with **SEB Immobilien-Investment** of Germany, **Forum Partners** of the U.S. and **Ellam Group** of Israel to do real estate projects in China. They expect to invest about US\$1 billion in China. **Yanlord Land Group Ltd.** of Singapore has invested 2.16 billion yuan for a residential-commercial development site in Jiangsu.
- China's central planners have ordered local commerce departments to limit foreign investment in luxury real estate. Foreign investors must establish a real estate company and get government approvals before they invest. Investment in property development rose 27.5% in the first five months of 2007 to 721 billion yuan. Prices for new residential units are rising rapidly and the supply of affordable housing insufficient. Property prices in China's 70 largest cities rose 6.4% on year in May, with the biggest jump of 15.1% in Behai in Guangxi. The escalating prices could prompt further measures to cool the property sector.

## Technology and communications

- A report by market research company **AMI-Partners** of Singapore predicts small and medium-sized businesses in China will spend more than US\$28 billion on IT applications in 2007. Most SMBs, who have less than 1,000 employees, buy their PCs and other computer products from retailers.
- More than 700 foreign-invested high-tech companies have R&D facilities in China. In 2005, exports of high-tech products totaled 218 billion yuan, up sixfold from 2000. **IBM** has bought 7.7% of **Kingdee International Software Group** for HK\$132 million. China's software industry generated sales of 480 billion yuan in 2006, a 23% increase and is expected to maintain annual growth rate of 30%. China has about 13,000 software enterprises. Export of high and new technology products totaled US\$125.76 billion in the first five months of 2007, a 20% increase on year. Vancouver's **Intrinsyc Software International** will license its Soleus software platform to a Taiwanese equipment maker to create handsets with GPS and MDTV capability.
- Nasdaq-listed **Asial Info Holdings Inc.** will expand and upgrade the business intelligence system, supporting 10 million subscribers, for Chongqing Mobile.
- Two Chinese companies are joining with **Alcatel** and **Ericsson** to provide a \$500-million network expansion for **CMPak Ltd.**, a Pakistani mobile provider. **China Mobile Communications Corp.** bought 88.8% of CMPak, then called Paktel, in February for US\$284 million. **Huawei Technologies Pakistan** and **ZTE ZhongXing Telecom** are involved in the network expansion deal. **Nokia Siemens Networks** has won a contract to provide a turnkey solution for a commercial Push-to-Talk over Cellular network during the Beijing Olympics.
- **InfoPrinter Solutions Co.**, a joint venture of IBM and Ricoh based on IBM printing systems, has begun selling in the Chinese market. **Frauscher Ltd.** of Austria is working with **China Railway Signal & Communication Corp.** to produce an axle-counting system for the Chinese market.

- **Intel** will use the most advanced technology allowed by the U.S. government for its chip fabrication plant in Dalian. **China Daily** reports it will have 45 or 65 nanometre circuitry.
- **SR Telecom** of Montreal has signed a three-year agreement to supply base station radio units and equipment for the WiMAX product portfolio developed by **Microelectronics Technology Inc.** of Taiwan. **Huawei Technologies Co.** has won a US\$700-million contract to provide base stations to China Mobile Ltd for global communication.

## Transportation, travel, tourism and leisure

- China could be the world's biggest tourism destination by 2014, according to the World Tourism Organization. The WTO had earlier estimated it would be the biggest tourist destination and fourth biggest source of outgoing tourists by 2020. China plans to end its restriction on foreign travel firms founding branches in China on July 1. Companies with turnover of more than US\$40 million will be able to apply as a foreign-controlled travel firm and larger companies, with turnover of more than US\$500-million can be wholly foreign owned. Currently foreign travel companies cannot handle outbound travel.
- Construction will start this year on a 29.5-billion-yuan rail line running 560 KM from Nanning to Guangzhou. It will be an electrified double-track railway with speeds of 250 km/hr and the journey is expected to take three and a half hours. **Sifang Locomotive and Rolling Stock** of Qingdao has designed high-speed trains for the Beijing-Tianjin line. The line will use eight-car trains that can seat about 600 people and make the 115-km journey in 30 minutes.
- Hong Kong's **MTR Corp.** is in a joint venture with **John Laing** to provide services for London's above-ground rail network. The city is investing £1.4-billion to revamp its suburban rail lines with new trains, upgraded staff and refurbished stations. **Bombardier Transportation** of Montreal has won a US\$71-million contract for an automated people mover system for the **Guangzhou Metro Corp.**
- Indonesian oil company **PT Pertamina** has ordered two oil tankers from **Jiangsu Eastern Shipyard** for US\$61.5 million. The two 8,500-tonne deadweight tankers will be delivered in 2010. **China Ocean Shipping Group Co.** will take part in the creation of a US\$499-million shipyard in Dalian. Kawasaki Heavy Industries Ltd. of Japan, which has a joint venture with Cosco, is also considering investing in the project, which will create a shipyard that can build vessels of up to two million deadweight tonnes.
- **Cosco Container Lines Americas Inc.** is the first Asian ship company to route Asian container traffic to the new port of Prince Rupert, B.C. It has signed a contract for container shipping with Montreal-based rail operator **CN.**
- **Avions de Transport Regional**, a joint venture of France's Aerospatiale and Italy's Aertalia, is looking at manufacturing and developing new aircraft models in Hefei, Anhui. General Administration of Civil Aviation and China Aviation Suppliers Import and Export Group have signed a contract to buy an Airbus A320 flight simulator from **Thales Group** of France. **China Aviation Industry Corp.** (AVIC 1) is investing US\$400 million in development of the new 90-149-seat regional jet from Canada's Bombardier. **Bombardier** will invest \$100 million in the ARJ21-900 and provide technical assistance on the Chinese jet project. AVIC 1 is also bidding for plants being sold off by Airbus.
- **Hainan Airlines** has bought 20 V2500 Rolls-Royce engines for its fleet of Airbus A319s at a cost of US\$180 million. **China Eastern Airlines** has selected of the same engines for its 30 Airbus A320 aircraft at a cost of US\$260 million.
- Designer Andree Putman has designed a boutique hotel apartment in Hong Kong called The Putnam with 1,300 sq. ft. apartments with private dual lift lobbies. **Fairmont Raffles Hotel International** will renovate and manage the historic

Peace Hotel in Shanghai, built in the 1920s by British tycoon Victor Sassoon, in a joint venture with owner **Jinjiang International Hotel**. There are plans to add a new wing with a spa and meeting rooms and attach it to the former Palace Hotel, which will become an arts and shopping centre to be managed by Jinjiang and Swatch Group AG. Fairmont also plans a 3,000-room hotel in Macau.

- **Air Canada** has doubled its flights from Beijing to Vancouver to two a day and will increase to daily non-stop service from Toronto to Shanghai in July. **China Southern Airlines** has launched a new service from Changchun in northeastern China to Fukuoka, Japan. **Singapore Airlines** is adding three more direct flights weekly from Shanghai to Singapore in June and another four more flights in July. Budget carrier **Oasis Hong Kong Airlines** has received approval to operate direct flights from Hong Kong to Vancouver.
- **Copenhagen Airports AS** has sold its 20% stake in Hainan Meilan International Airports Co. for US\$69.7 million to **Oriental Patron Resources Investment Ltd.** of the British Virgin Islands. Copenhagen Airports is 53% held by Macquarie Airports of Australia.

## Deloitte & Touche in China related activities/projects

- Major downward adjustments in export VAT refund rates come into force July 1 in China. As a Deloitte Tax analysis report explains, these changes are an attempt to slow exports and reduce China's ballooning trade surplus. Among the measures are elimination of VAT rebates for pollution-causing, resource-consuming products and a reduction of rebates on clothing, toys, shoes and other products that have become irritants to China's trading partners. Exporters will need professional advice to ameliorate the impact of these changes. For more details contact your local Deloitte tax professionals or see *Deloitte China Tax Analysis Issue P12/2007 date June 21, 007*: <http://www.deloitte.com/dtt/newsletter/0,1012,cid%253D162161,00.html>
- Vice Mayor of Shanghai Feng Guoqin and a group of 250 business leaders including the CEOs of Deloitte met in Shanghai in March for the Deloitte Global forum. The focus of the forum was achieving fair and stronger competition in China, and tackling the shortage of skilled workers, two areas identified as needing attention if business is to help China realize its full potential. The forum is part of a series of focused, knowledge-sharing events, held all around the world by Deloitte.

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This publication is issued regularly by the Chinese Services Group in Toronto with information extracted from the following sources: *China Economic News; China Economic Review; Hong Kong Economic Journal; Wall Street Journal; Asian Wall Street Journal; Asia Week; The National Post; Globe & Mail; Toronto Star; Far Eastern Economic Review; South China Morning Post; Hong Kong Standard; Ming Pao Daily News of Toronto; Sing Tao Daily; World Journal; Financial Times; The China Daily; China Internet Information Center; Canada-China Business Forum; Asia-Pacific Foundation of Canada; Hong Kong Trader; AP Business; Plastics News; Asia Pulse; The Edge Financial Daily, The Kansas City Star, Logisticstoday, The Citizen; just-auto.com; SinoCast; IPR Strategic Information Database; Australian Company News Bites; Swedish News Digest; Industry Updates; NewsTrak Daily; Shanghai Daily; Associated Press Newswires; Agence France Presse; Japanese News Digest; SinoFile Information Services; Japan Chemical Week; Company Reports; Washington Post; Business Week; The New York Times; M2 Presswire; Knowledge@Wharton; Shanghai Daily; Global Insight Daily Analysis; Business Standard; Reuters News; Business China of the Economist Intelligence Unit; Dow Jones News and Bloomberg News.* We believe the sources of information to be reliable, but we cannot represent that they are complete or accurate and we accept no responsibility for any errors this publication may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies on it.

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