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Lujiazui Forum 2009 Special

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Top financial minds to fuel hub ambition

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Shanghai memo to be signed

Zhang Fengming

THE China Insurance Regulatory Commission is scheduled to sign an agreement with the Shanghai government to discuss building up the city's financial strength.

The top insurance watchdog is expected to sign a memorandum of understanding to strengthen cooperation with the municipality to help boost the city's position as a global financial center, Cai Jipu, deputy director of the general office of the regulator said in Shanghai.The city is also gearing up to hold the two-day Lujiazui Forum 2009, which begins on May 15, when 103 leading financial executives, economists and regulators will share their views on this year's theme — Finance and Economic Growth in the Globalized Age.

Economists such as Nobel Laureate Joseph E. Stiglitz and Stanford University Professor Ronald McKinnon as well as top executives from Goldman Sachs, the London Stock Exchange and Allianz will deliver speeches at the forum.

The leaders of China's monetary, banking, insurance and securities regulators will also attend.

"The Lujiazui Forum will help strengthen China's involvement with the rest of the world and will build up Shanghai's reputation as a leading financial center," said Xia Lingwu, deputy director of the general office of the China Banking Regulatory Commission. "It will also give us a clearer picture of current economic conditions."

Top financial minds to fuel hub ambition

Zhang Fengming and Leo Zhang

THE two-day Lujiazui Forum will open on May 15 in Pudong New Area and the high-level event will hear speeches by both foreign and domestic financial experts and regulators.

Zhou Xiaochuan, governor of the People's Bank of China, Liu Mingkang, chairman of the China Banking Regulatory Commission, Wu Dingfu, chairman of the China Insurance Regulatory Commission and Shang Fulin, chairman of the China Securities Regulatory Commission will deliver speeches at the forum.

Economists such as Nobel Laureate Joseph E. Stiglitz and Stanford University's Ronald McKinnon will also deliver speeches at the forum.

The topics to be discussed include an analytical reading of the financial crisis and the lesson for China as well as how Shanghai can take advantage of the crisis to build up its global position within a new global financial order.

The first Lujiazui Forum was held in May last year and at that time the city government invited many foreign financial experts and scholars to form an International Consultation Committee to provide advice to help the city develop into a financial center.

Shanghai Mayor Han Zheng told members of the committee that the city has already benefited from overseas experts' advice and is drafting rules to boost financial oversight, attract talent and improve its investment environment.

"The Shanghai government will offer a better environment in terms of supervision, legal systems and innovation," Han said.

"We will make Shanghai a stage for all kinds of financial institutions and talents."

The forum will also discuss alternative investments and China's commodities market.

"This year's forum will touch topics such as how to learn from the financial crisis," said Fang Xinghai, director of the Shanghai Financial Services Office.

"The development of the financial industry can't stand alone and it should grow to boost the real economy," Fang said.

"We are learning from others' lessons and work to strengthen our financial industry to better serve the macroeconomy."

The forum is co-hosted by the city government, the PBOC, the CBRC, the CSRC and the CIRC.

This year's forum attracted more than 300 government officials, financial leaders and scholars to discuss finance and economic growth in the globalized age.

The State Council, or China's Cabinet, has approved plans for Shanghai to push ahead to become a financial and shipping hub by 2020.

Forum gives boost to city plan to become world financial hub

Zhang Fengming, Winny Wang and Leo Zhang

CITY leaders and central-government regulators yesterday reaffirmed their support of Shanghai's goal to become a major international financial powerhouse while overseas experts provided advice on how to make it happen.

"As the global financial scenario changes and China's economic status is boosted, Shanghai must make every effort to use this precious chance to develop itself into an international financial center," Shanghai Party Secretary Yu Zhengsheng told the Lujiazui Forum 2009. "It is the inevitable choice for Shanghai's long-term sustainable development."

Joseph E. Stiglitz (left), a Columbia University professor and Nobel Laureate in economics, gives a book he wrote to China central bank Governor Zhou Xiaochuan at the Lujiazui Forum in Shanghai. — Wang Rongjiang

This year's gathering of more than 300 government officials, business executives and scholars — billed as China's Davos — will focus on ways to help Shanghai achieve its development plans amid the global economic downturn.

The State Council — China's Cabinet — issued a guideline in late March aimed at developing Shanghai into a major global financial and shipping hub by 2020, giving the city priority to carry out financial innovation as well as other preferential policies.

"We will work with the central government in the effort for Shanghai to become the pioneer and test site for China's financial reform and innovation," Yu told the forum at the Pudong Shangri-La hotel.

Top regulators renewed the central government's commitment to the Shanghai plan. Central Bank Governor Zhou Xiaochuan said the People's Bank of China will strongly back Shanghai's efforts on the financial front.

"The central bank and other regulators are willing to fully support the Shanghai government to step up financial center development by creating more incentives," Zhou said.

Additional effort is needed, he said, citing issues such as human resources, tax mechanisms, infrastructure and information systems. He also said the legal system, accounting rules, corporate governance and initial public offerings should be modified to achieve global acceptance.

Other regulators were also optimistic about the city's prospects.

"Shanghai has a relatively complete financial system, and it's a strategic and realistic move to speed up the establishment of a (world financial) center against the financial crisis," said Liu Mingkang, chairman of China Banking Regulatory Commission.

He said innovation is crucial for helping China's financial sector combat the world downturn, adding that all financial institutions need to enhance innovation in risk management.

Wu Dingfu, chairman of the China Insurance Regulatory Commission, said the insurance sector will play an important role in building the local financial hub.

"We are focused on developing Shanghai into an innovation and R&D center for insurance products, an insurance management and back-up service center and as a pilot city for insurance capital reforms," Wu said.

Foreign experts also offered their advice at the forum. Ronald P. O'Hanley, vice chairman of the Bank of New York Mellon, suggested that Shanghai speed up the use of securities such as fixed-income products to catch up with Wall Street and the City of London.

"The current leading financial hubs are where most of the issuance of securities takes place. There should be an acceleration of products allowed in Shanghai," he said.

Party Secretary Yu acknowledged that Shanghai faces great challenges in dealing with the global financial crisis as exports slump and industrial output declines. But he also noted that the overall economic situation is now "better than expected."

Shanghai's exports dropped 26.2 percent year on year in April to US$25.13 billion, the sixth consecutive monthly decline, compared with a decline of 16.4 percent in March.

But the city's industrial output posted hopeful performance. The decline in production eased to 5.2 percent in April, compared with a 7.1 percent loss in March.

Banks urged not to focus on 'blind' buildup

Zhang Yi

CHINESE banks shouldn't seek "blind" expansion without considering the costs and risks of new businesses, the nation's top banking regulator advised at the Lujiazui Forum.

Domestic banks should also build up a base of smaller clients to expand revenue channels and diversify risks instead of only catering to big customers, said Liu Mingkang, chairman of the China Banking Regulatory Commission, during a keynote speech at the forum.

"Chinese banks should learn a lesson from the global financial crisis," said Liu. "Lenders should boost risk controls and target core clients in core markets."

China has launched a 4 trillion yuan (US$590 billion) stimulus package to spur domestic consumption and bolster exports.

The central government has also lifted a loan quota system for banks as part of efforts to boost liquidity.

Chinese banks have extended a combined 5.17 trillion yuan in new yuan-denominated loans in the first four months of this year, which already exceeded the central government target of 5 trillion yuan for the entire year.

Liu cautioned that Chinese banks shouldn't relax risk controls or overuse leverage tools. Lenders must ensure that they only operate businesses whose risks can be contained with specific management schemes, he added.

"Banks shouldn't think that being big will definitely mean you won't lose. Sometimes being small is beautiful," said Liu, referring to the size of a bank. "We don't want to see bubbles" in the industry, Liu said.

Banks should also give priority in offering loans for projects in environmental protection, infrastructure construction and high technology sectors as they answer the government's call to increase credit support, said Liu.

Liu Mingkang, chairman of the China Banking Regulatory Commission, delivers a keynote speech at the Lujiazui Forum 2009. — Wang Rongjiang

Sharp decline in premium growth

Leo Zhang

INSURERS in China saw a sharp decline in the growth in premiums collected in the first four months of the year as an economic slowdown eroded demand from companies and individuals, the insurance regulator said.


Wu Dingfu

They collected a combined 414 billion yuan (US$61 billion) in premiums between January and April, a rise of 9 percent year on year, said Wu Dingfu, chairman of the China Insurance Regulatory Commission, in a keynote speech at the Lujiazui Forum.

But the growth rate was a dramatic fall from the year-on-year surge of 49.8 percent in the first four months of last year and a jump of 39 percent for the whole of 2008, according to figures from the CIRC.

"The outbreak of the financial crisis and its spread has brought a lot of difficulties to insurers in China," Wu told the forum. "It also made it harder for insurers to manage their assets."

Wu said that the CIRC is investigating the risk control process at Chinese insurers and conducting stress tests to decide which companies should boost capital to meet redemption requirements.

The CIRC is setting up a system to classify insurers, Wu said, adding that the regulator is boosting cooperation with overseas counterparts to contain cross-border investment risks.

Chinese insurers have identified risk control as a top priority after profit at Ping An Insurance slumped 99 percent last year to 268 million yuan as it made a 22.79 billion yuan impairment loss on its 5 percent stake in Fortis.

Domestic insurers are also allowed to invest in infrastructure projects under a pilot scheme this year.

Downturn won't prevent capital market innovation

Leo Zhang

CHINA plans to continue to innovate its capital market despite the global financial crisis as well as increase supervision and clamp down on financial crimes, the top securities regulator said.

"People tend to be conservative about financial products after the crisis but we feel the market still needs innovation," said Shang Fulin, chairman of the China Securities Regulatory Commission, at the Lujiazui Forum 2009.

"Only by conducting innovation can we improve market efficiency. We will definitely launch more futures products as well as study plans to unveil cross-border financial products," he said.

Preparations have been going on to launch the country's first stock-index futures products in Shanghai and there have also been moves to push forward other financial derivatives such as index options and single-stock options.

The central government has also allowed Shanghai to consider the introduction of exchange-traded funds to track indexes constituted by Hong Kong-listed stocks as part of measures to develop the city into a global financial hub.

Shang said the CSRC will boost supervision to deal with the impact of the global financial crisis and focus on overseeing cross-border capital flows. It will also set up contingency plans to counter emergencies.

The CSRC will also rev up efforts to clamp down on market manipulation, insider trading and illegal profit transfers between market participants in order to maintain order, Shang said.

He said rule drafting and education of investors will be revved up as plans continue to launch the Nadsdaq-like Growth Enterprise Board. The GEB is expected to be launched in Shenzhen as early as August to help small start-up companies raise capital.

"We will help smaller companies solve fund-raising problems and we will also help existing listed companies conduct mergers and acquisitions to upgrade industry structure," Shang told the forum.

The CSRC will encourage publicly traded companies to distribute more dividends to shareholders and continue to develop a bond market, Shang said. The regulator is also studying how to reform the pricing system for initial public offerings, Shang said, without elaborating.

Amid worries that a rise in stock supply would further dent investor confidence after the equity market fell sharply last year, IPOs were halted in September.

The central government has not said when IPOs will resume but experts think they will start again on the new GEB in the third quarter of this year.

Shang Fulin

Chairman of China Securities Regulatory Commission

WGC eyes launch of gold ETF trading

Zhang Fengming and Winny Wang

THE World Gold Council is working with Chinese partners to introduce a gold exchange traded fund (ETF) on China's mainland, its China manager said.

"It's a natural trend for China's mainland to introduce a gold ETF to diversify gold investment channels," Wang Lixin, the WGC's China manager, told Shanghai Daily.

Wang declined to reveal which specific exchange in China's mainland will introduce the product but said that gold ETFs are a common product traded at stock exchanges overseas.

Wang declined to give a timetable for the launch of a gold ETF, which is already traded in Hong Kong, on the Chinese mainland.

Wang Lixin

World Gold Council's China manager

Shanghai earlier this week unveiled measures to build up the city as a major financial hub by 2020, including the introduction of more derivatives, which might involve a gold ETF.

The city is home to the country's biggest bourse, the Shanghai Stock Exchange. It could be a possible platform to introduce a gold ETF, but an exchange spokesman told Shanghai Daily that there are no details about the issue.

The volume of gold sales in the first quarter in China was better than expected, he said.

"We are expecting a growth in gold sales in China this year as the first-quarter figures showed that gold sales weren't battered by the financial crisis," said Wang.

Sales of gold bullion and jewelry rose in the first quarter of the year and the high prices of gold in March also attracted people to sell gold bars back.

" It's a natural trend for China's mainland to introduce a gold ETF to diversify gold investment channels. "

Yellow hue to take up 3% of foreign reserves

Zhang Fengming

CHINA is expected to increase its gold reserves to diversify its assets from less than 2 percent of its foreign reserves to 3 percent within five years, industry veterans said in Shanghai.

"It's a difficult task to maintain this target but it is important for China to boost its gold reserves," Sun Zhaoxue, chairman of the China Gold Association and president of China National Gold Group Corp, told Shanghai Daily on the sidelines of the Lujiazui Forum in the city.

China has added 454 tons to its gold reserves since 2003 — bringing the total to 1,054 tons — through domestic purchases and the refining of scrap gold, Hu Xiaolian, head of the State Administration of Foreign Exchange, said in late April.

It was the first public comment on the top-secret gold holdings in the past six years. China now ranks fifth in gold reserves, behind the United States, Germany, France and Italy. The US, the biggest gold holder, has a reserve of more than 8,000 tons.

Despite the announced increase, China's gold stockpile amounts to less than 2 percent of its total foreign reserves, based on gold's current price of about US$900 an ounce.

China holds the world's biggest foreign-exchange reserves, backed by its strong trade growth in the past decade. China's forex reserves stood at US$1.95 trillion by the end of last year, up US$417.8 billion from the year earlier.

Meanwhile, Sun also said that China is expected to keep its position as the world's biggest gold producer this year by producing about 290 tons of gold in 2009, up from its output of 282 tons last year.

Sun Zhaoxue

Chairman of the China Gold Association and president of China National Gold Group Corp

Despite the announced increase, China's gold stockpile amounts to less than 2 percent of its total foreign reserves, based on gold's current price of about US$900 an ounce.

Allianz stays committed to China

Maggie Zhang

ALLIANZ SE will continue to invest and expand in China despite the financial crisis, which has seen weaker demand for financial products, a senior executive said in Shanghai.

Its life-insurance joint venture, Allianz China Life Insurance Co, will maintain its geographic expansion, Werner Zedelius, a member of the board of Allianz SE, the world's biggest insurer by market value, told Shanghai Daily.

The insurer will also boost its property and casualty insurance services in China and doesn't rule out opportunities for mergers and acquisitions of local firms in the long run, he said.

But the life insurer is seeing less demand for financial products due to the economic downturn in China, Zedelius said yesterday.

"The Chinese insurance market is more investment-driven rather than protection-driven," he said, indicating that the financial crisis and the fallout from China's stock market have a negative impact on the company.

" The Chinese insurance market is more investment-driven rather than protection-driven. "

The crisis will see the insurer sell fewer investment-linked insurance policies and more protection policies in China. Meanwhile, the shift of product focus to protection-based is also in line with the Chinese insurance regulator's encouragement to trim the investment portion of insurance products.

Allianz China has expanded into eight provinces in the mainland and the company is planning to start a new branch in Shandong Province within a month.

Zedelius declined to comment whether the German insurer will further dispose of its interest in Industrial and Commercial Bank of China.

Werner Zedelius

Member of the board of Allianz SE

ANZ targets to go local this year

Zhang Fengming

THE Australia and New Zealand Banking Group hopes to be locally incorporated on the Chinese mainland this year, its chief executive said in Shanghai.

The bank hopes that it will be locally incorporated this year, Michael Smith, chief executive officer of the banking group, told Shanghai Daily on the sidelines of the Lujiazui Forum 2009.

Local incorporation allows overseas banks to fully tap the mainland's retail banking sector, sources said.

The bank hopes that it will be locally incorporated this year.

ANZ, which is now formalizing its hiring plan for the planned local incorporation, is already asking headhunters to expand its head count in Shanghai, sources said.

Michael Smith

Chief executive officer of the Australia and New Zealand Banking Group Ltd

ANZ has hired Christine Ip, a former Standard Chartered Bank senior retail executive, as its China chief executive officer to spearhead its expansion.

It said earlier in March that it will open more than 20 outlets by 2012 on China's mainland after it has obtained the go-ahead to be locally incorporated.

The fourth biggest bank in Australia focuses on three regions on the mainland — the Yangtze River Delta, the Pearl River Delta and Bohai Bay.

BEA seeks yuan bonds, share sale

Zhang Fengming

THE Bank of East Asia is strongly interested in issuing yuan-backed loans and selling shares on the Shanghai Stock Exchange, a senior banker said.

"The bank is awaiting the rules and regulations to further clarify the application procedures and related issues," Chan Kay-cheung, vice chairman of BEA China, told Shanghai Daily on the sidelines of the Lujiazui Forum 2009.

The bank has already contacted the People's Bank of China, the central bank, on the matter and is poised to be among the first batch of lenders to start the trial, he said.

The State Council, or Cabinet, earlier this year issued rules to propel Shanghai's growth as a financial hub by 2020, including more trial programs such as letting overseas banks sell yuan bonds.

The Shanghai government has recently issued rules including allowing overseas banks to be locally incorporated in the city in order to sell yuan bonds, supporting the central government rules.

The Hong Kong-based bank is among the first group of four overseas banks, including HSBC, Citi, and Standard Chartered, to set up local incorporation on the Chinese mainland, a legal status allowing overseas lenders to fully launch retail yuan services on the mainland.

The issuance of yuan debt can help them boost their capital and support their expansion, sources said.

Chan Kay-cheung

Vice chairman of BEA China

How can Shanghai catch up to be a leading financial center?

Lu Hongjun, president of the Shanghai Institute of International Finance:

The biggest challenge is the structural lack of financial talent. We are not short of financial professionals but lacking those who are experienced in risk control and compliance. Shanghai should make more breakthroughs in attracting those talents, including improving incentives. We should not only woo those talents from abroad but also nurture our own homegrown talents. Shanghai could be successful in rising as a world leading financial center once every participant of the industry is concerned about the issue.

Bill Lu, director of China Operations, chief representative China, Tudor Investment Corp:

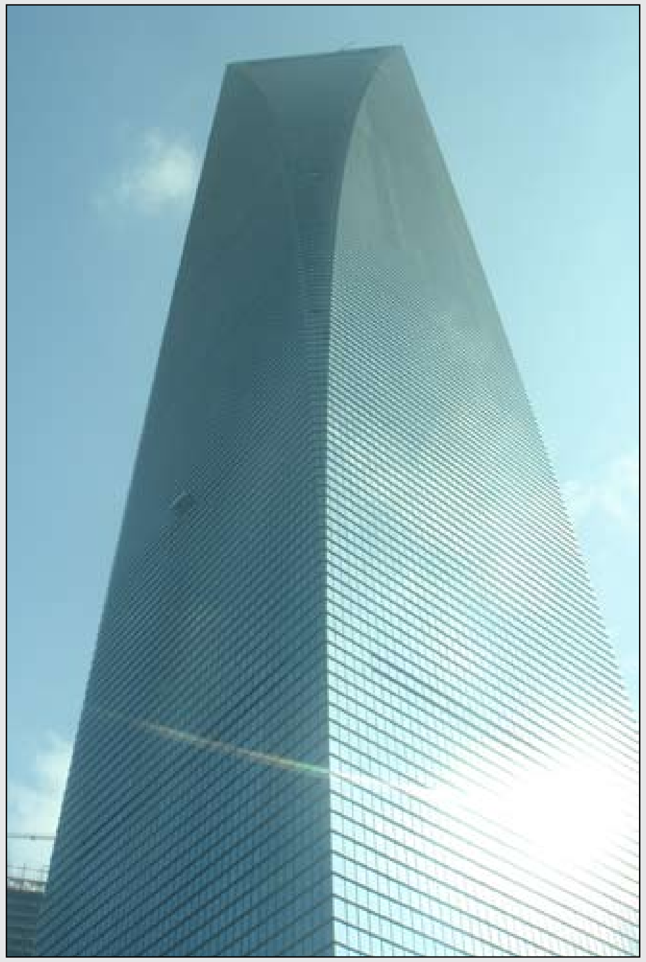
China's economy is the strongest backup for Shanghai to rise up as a leading financial center in the world. The convertibility of the yuan will be important for Shanghai to achieve this aim. The convertibility of the yuan is a complex issue.

Andrew Sheng, chief advisor, the China Banking Regulatory Commission:

Hong Kong has some advantages, such as tax and infrastructure, in its current position as a financial hub in Asia. Whether Shanghai will surpass Hong Kong depends on the markets' choice. It's better to have more exchanges between the two cities to promote more cooperation. Exchange is really important.

Fred Hu, managing director, Goldman Sachs Asia Pacific:

It's a good chance for Shanghai to narrow the gap with international financial centers in developed countries as they were greatly hurt by the financial crisis. But Shanghai still needs to develop more financial products and be more open to overseas investors, such as allowing overseas firms to list on the Shanghai Stock Exchange, to achieve the target.



City outlines steps to develop global financial center status

Zhang Fengming and Zhang Yi

SHANGHAI will step up efforts to lure more talent, beef up development of its legal system and improve its credit database as part of efforts to develop a global financial center, Vice Mayor Tu Guangshao has said.

The city will also enable financial markets and institutions to play an important role in financial innovation and make the Pudong New Area a pioneer for financial reforms, Tu told the Lujiazui Forum in Shanghai.

"To realize our goals, we need a combination of forces," said Tu. "We need guidance and support from the central government in terms of rules' drafting and coordination. We also need financial markets and companies to make contributions."

Shanghai must have "breakthrough and innovation" in its measures to attract financial talents, the most important element in building the city into an international financial hub, Tu said.

Tu Guangshao

The city should also have a solid financial legal system and the municipal government is working to improve the arbitrary, hearing and verdict processes of financial cases, according to Tu.

He added that local government will cooperate with the People's Bank of China to improve the city's credit environment. One focus will be the establishment of a credit ratings system for small- and medium-sized enterprises to facilitate fundraising, Tu said.

Xu Lin, Party Secretary of Pudong New Area, told the forum the district will shore up its preparation for financial innovation, including establishing an over-the-counter equity exchange for start-up technology firms.

Pudong will also trial programs to settle cross-border trade using the yuan and to set up consumer finance companies to fund people's purchases of durables such as home appliances and electronics.

Xu also noted that Pudong will fast track the development of financial services for the shipping industry as China pursues building Shanghai into an international financial and shipping hub by 2020.

"The district will encourage capital from

From left: Xu Xiaonian, professor of CEIBS, Hu Zuliu, chairman of Goldman Sachs China, Xie Guozhong, board member of Rosetta Stone Advisors, Ha Jiming, chief economist of China International Capital Corp and Wang Qing, chief economist of Morgan Stanley China discuss issues at the Lujiazui Forum yesterday.
— Xu Xiaolin

various sources to help innovation and upgrade industry," Xu said. "More credit support will be given to small companies in terms of innovation."

Financial experts attending the two-day Lujiazui Forum, which ended yesterday, called on the city to take more measures to retain talent and financial institutions.

"The major European and US markets are reshuffling after the crisis and it has created a good opportunity for Shanghai to lay a sound basis and infrastructure for rising as an international financial center," said Laura Cha, deputy chairman of the Hongkong and Shanghai Banking Corp.

"We should learn lessons from them and avoid the mistakes they have made."

Shanghai is still lagging behind in terms of financial talent both in quality and quantity, she added.

She suggested shoring up the city's financial high education sector and rotating financial talents to develop more overseas experience.

Lenders to boost support to SMEs

Leo Zhang

CHINA has directed its national lenders to set up special subsidiaries to cater to small- and medium-sized enterprises and boost credit support to them, a senior banking regulator told the Lujiazui Forum.

The country's big five state-owned lenders and joint-stock banks must set up separate departments to provide services to SMEs by the second quarter, said Jiang Dingzhi, vice chairman of the China Banking Regulatory Commission.

"The banking regulator places high importance in boosting financial support to SMEs, especially high-tech start-up firms," Jiang said. "In particular, we encourage smaller lenders to shift their business focus to SMEs to avoid competition with big lenders for big clients."

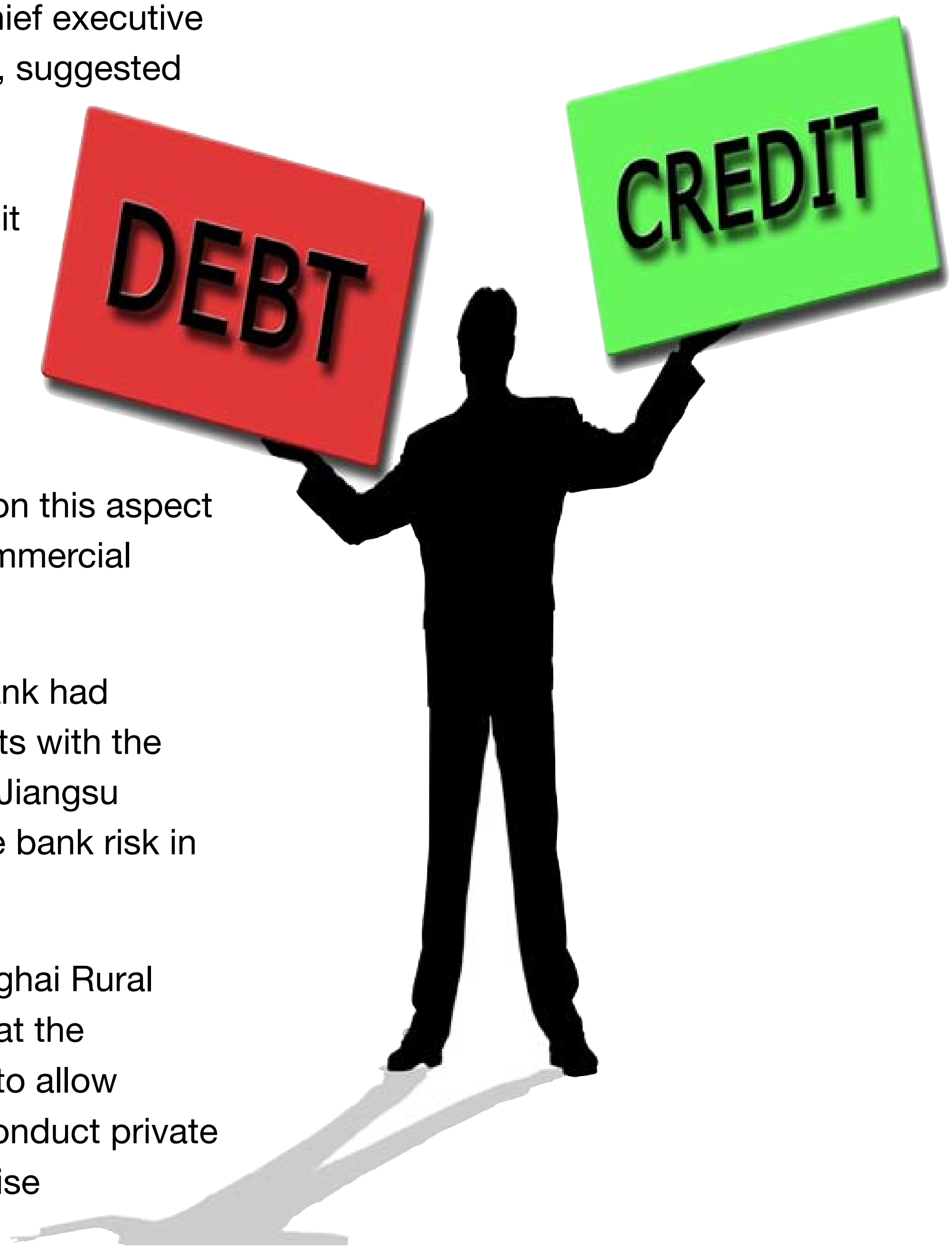
Banking executives attending the forum yesterday called for more government policies to help lenders reduce costs for loans to SMEs and curb risks.

Ma Weihua, president and chief executive officer of China Merchants Bank, suggested that the government should give preferential tax policies to banks that are willing to give more credit to SMEs.

"The costs and risks of lending to SMEs are higher than to large clients," said Ma. "Favorable government polices on this aspect will surely be encouraging to commercial lenders."

Ma said China Merchants Bank had already reached initial agreements with the governments of several cities in Jiangsu Province who are willing to share bank risk in lending to SMEs.

Hu Pingxi, chairman of Shanghai Rural Commercial Bank, suggested that the government should study plans to allow smaller commercial lenders to conduct private equity business to help SMEs raise capital.



Futures trading rules to be tough

Leo Zhang

CHINA will introduce strict entry thresholds for investors in the country's first stock index futures to contain risk and prevent speculation, the head of China Financial Futures Exchange said.

An investor should own cash of at least 500,000 yuan (US$73,000) to qualify to trade index futures, said Zhu Yuchen, chief executive officer of the financial futures exchange, at the Lujiazui Forum.

The so-called "qualified investor" system will also require investors to pass a knowledge test about financial futures and undertake trial trading organized by the bourse for at least five sessions, Zhu said.

"The requirements are set to curb risks and protect the interest of small investors," he said during a forum panel discussion. "We are very serious about the product launch and high thresholds will benefit the market's growth in the initial stage."

China has been preparing for its first stock index futures for about three years. It launched the financial futures exchange in Shanghai in September 2006 but it has yet to trade any product.

The bourse's first index futures will be based on the country's benchmark CSI 300 Index, which tracks the biggest 300 firms listed in Shanghai and Shenzhen by market value.

HSBC discusses Shanghai bourse listing

Maggie Zhang

THE Hongkong and Shanghai Banking Corp has indicated its interest to China Securities Regulatory Commission in listing in Shanghai, Vincent Cheng, chairman of HSBC, said in Shanghai.

The bank also wants to issue yuan-backed bonds, Cheng said on the sidelines of the Lujiazui Forum. He declined to disclose the scale of issuance.

The bank will continue its expansion on the Chinese mainland and support Shanghai's rise as a major financial hub by 2020 but will also keep its strong base in Hong Kong, he said.

"Shanghai and Hong Kong are the two most significant cities for us and we won't drop our development in Hong Kong with the rise of Shanghai," he said.

HSBC China, the locally incorporated arm of HSBC, will move into a new office building in Shanghai with more space in 2010 in line with its expansion on the mainland.

"We hope to increase our credit and business on the mainland," he said.

HSBC said in March that it would be adding jobs and speeding up network expansion on the Chinese mainland this year.

The number of employees will rise by 1,000 from the current 5,500 by the end of the year. The bank had 79 outlets on the mainland at the end of last year and intends to increase that to 100 by 2010.

Meanwhile, the global accounting firm Deloitte will continue it expansion in China despite the economic slowdown, its China chief executive said yesterday at the forum.

The company will cautiously continue to grow, although the financial crisis and ensuing slowdown have curbed growth, said Chris Lu, chief executive officer of Deloitte China.

"Our current network of 11 offices is for sure not enough when we consider the huge China market," Lu said. "Expansion is definitely necessary. But when and where really depends on lots of factors."

The big-four accounting firm opened a Hangzhou office earlier this year and another office is in the pipeline within one month, he said.

The accounting firm will develop further into western China, such as Sichuan Province, he said.

Deloitte had adopted a no-pay holiday rule to keep talent rather than directly chop jobs.

Exchange envisions more cross-border instruments

“ We will continue to develop ETFs based on overseas equity indexes. All the efforts are aimed at allowing investors to better allocate their assets. ”

Leo Zhang

THE Shanghai Stock Exchange plans to step up efforts to build itself into an international bourse by launching more cross-border financial products and beefing up cooperation with overseas counterparts, its president said.

The stock exchange is also proceeding on setting up an international board and allowing foreign companies to issue shares in Shanghai, its president Zhang Yujun said during a panel discussion at the Lujiazui Forum.

Zhang Yujun
President of the Shanghai Stock Exchange

“We hope the Shanghai Stock Exchange can let people buy financial products from all over the world through cross-border trading arrangements,” Zhang said. “It will make Shanghai one of the global asset-pricing centers.”

The central government has also allowed Shanghai to explore the introduction of exchange-traded funds to track indexes as early as this year.

“We will continue to develop ETFs based on overseas equity indexes. All the efforts are aimed at allowing investors to better allocate their assets,” Zhang noted.

Zhang added that he met senior executives of overseas stock exchanges during the forum and they all agreed to boost communication with the Shanghai exchange to help it expand its global influence.

“Although we have solid hardware systems and our development is fast, we should learn from them on how to become a globalized stock exchange,” Zhang said.

Quick development

Zhang Fengming

CHINA will speed up the development of re-insurance, shipping insurance and individual pensions in Shanghai to shore up the city's financial hub status, said the vice chairman of the China Insurance Regulatory Commission.

"We will quicken market development especially in the reinsurance segment by opening up reinsurance companies and insurance brokerages," said Zhou Yanli, vice chairman of the top insurance regulator.

The city is already reaching out to global insurers.

Lloyd's of London, the world's leading specialist insurer, set up its first subsidiary in Shanghai in 2007. Lloyd's, a society of members, is home to 44 managing agents and 62 syndicates.

Shipping insurance is another front as more innovation and products are expected to serve the industry and help build the city into a shipping center by 2020.

At the end of 2008, shipping premiums totaled 3.9 billion yuan (US$571 million), 2 percent of the country's total. Shipping premiums collected in Shanghai sat at about 600 million yuan.

Zhou Yanli

Vice chairman of the China Insurance Regulatory Commission

Stock bourse listing can accelerate reform and opening up

Maggie Zhang

SHANGHAI'S rise as a financial hub plays a key role in China's opening up and the listing of the Shanghai Stock Exchange can accelerate progress, said a key banking regulatory advisor.

"The stock bourse plays a key role in helping Shanghai stably enter the global stage and international experience shows that transferring bourses into corporations is a global trend," said Andrew Sheng, chief advisor of the China Banking Regulatory Commission.

Since 2000, it's been a global trend for big bourses to merge and list, or run as corporations.

Since then, bourses in Hong Kong, Singapore and Australia went public.

The Shanghai Stock Exchange, among the top five stock bourses in the world in terms of turnover, can also learn from these experiences and follow suit, Sheng said.

Andrew Sheng

Chief advisor of the China Banking Regulatory Commission

The Shanghai Stock Exchange can make a tighter link, or even ally with bourses in Hong Kong and Shenzhen.

The financial industry should better serve the development of the real economy and that can't be achieved with an oversized banking industry and a weak and fledgling capital market.

The capital market can help companies raise funds and trim risk. Running stock bourses as listed companies can improve the capital market, said Sheng.

" The stock bourse plays a key role in helping Shanghai ... and international experience shows that transferring bourses into corporations is a global trend. "

Bank of Communications

Diversification the key

BANK of Communications plans to further diversify its businesses and offer bigger credit support to air carriers and shipping companies as it hopes to play a larger role in Shanghai's development into a financial hub, its chairman said.

The Shanghai-based bank hopes to make further achievements in exploring sectors such as domestic insurance, securities and asset management, Chairman Hu Huaibang said during the Lujiazui Forum.

"Our bank would like to be a pioneer in developing the city into a global financial hub," Hu said. "We have mapped out strategies in line with this concept. We will enhance financial innovation and launch more diversified products."

Hu said that BoCom will set up a special department to provide financial services to shipping companies as the city is also expected to be a global shipping center by 2020. The lender will continue to beef up its strategic cooperation with large Chinese air carriers including China Eastern Airlines and China Southern Airlines, according to Hu.

BoCom earlier this month signed an agreement to offer a credit line of 15 billion yuan (US$2.2 billion) to China Southern Airlines. The two parties will also cooperate in aircraft leasing and financing. (Leo Zhang)

Baosteel Group Corp

Structural problems

CHINA'S steel industry may post a loss this year as oversupply persists, said Xu Lejiang, chairman of Baosteel Group Corp.

Xu blamed severe structural problems in the industry, which had an annual production capacity of 660 million tons at the end of last year, 160 million tons more than 2008 output.

"Such problems will emerge sooner or later. The financial crisis made it happen earlier," Xu said.

China's big and medium-sized steel makers have posted an aggregate loss of 3.3 billion yuan (US$484 million) in the first quarter of the year, prompting the government to crack down on overproduction by ordering banks to lighten loans for producers that keep raising output.

Xu said Baosteel will pursue further consolidation and restructuring in the domestic market. (Fu Chenghao)

Deloitte China

Expansion plan continues

DELOITTE will continue its expansion in China despite the slowing economy, its China chief executive said in Shanghai.

"Our current network of 11 offices is for sure not enough when we consider the huge China market," said Chris Lu, chief executive officer of Deloitte China. "Expansion is definitely necessary. But when and where really depends on lots of factors."

The accounting firm opened a Hangzhou office earlier this year and another office will open within one month, according to Lu.

Deloitte will also expand into Sichuan Province, he said.

Lu said that the accounting firm is considering reevaluating its payment system in the second half of this year, which could mean fewer raises but more bonuses for employees. (Zhang Fengming)

Editor's note:

China's State Council in late March drew guidelines to help Shanghai build up into a major global financial and shipping hub by 2020. The city government recently hosted a work meeting, acquainting officials with steps it will be taking to develop itself into such a hub. Shanghai Party Secretary Yu Zhengsheng and Mayor Han Zheng presided over the meeting. Shanghai Daily reporters Zhang Fengming, Fu Chenghao and Ding Yining attended the meeting to report on the city's proposed steps to realize its goals.

Shipping tax break extended

Ding Yining

SHANGHAI will extend a tax break for foreign-registered ships until June 30, 2011, the city government said, following the State Council's approval for it to be built into a major international financial center and shipping hub by 2020.

Shipping companies registered in the Yangshan Deep-water Port will also be exempt from paying a business tax on their international shipping revenue. The tax from revenues of logistics companies and warehouse operators will also be exempt.

The city government is also planning to set up trial zones in Yangshan Deep-water Port to boost the international shipping service sector.

More favorable policies are expected to be granted to registered companies in the zones. With Nanhui District merged into Pudong New Area, there will be less curbs on the allocation of land resources.

The city government will also allow companies in Yangshan port to open offshore bank accounts and will waive the business tax for transport companies located in the port.

Shanghai-registered insurers also don't have to pay business tax on income derived from their international shipping insurance operations.

"We'll carry out research together with the city government concerning tax exemption and the setting up of a modern transportation system," said an official with the Committee of Shanghai Urban Construction & Communications. More details about the tax exemption are expected to be unveiled later this year.

"The development of Shanghai port can no longer be merely dependent on increasing throughput and the trial zone will provide a platform for port operators as well as shipping companies to develop new business," said Chen Xuyuan, president of Shanghai International Port (Group) Co Ltd.

" The development of Shanghai port can no longer be merely dependent on increasing throughput. "

The operator of the Shanghai port handled a total of 28 million TEUs (twenty-foot equivalent units) last year, a rise of 7.1 percent from 2007. The throughput of dry bulk goods totaled 580 million tons last year.

"We hope to see the throughput this year remain almost unchanged compared with that of last year with the (expected) economic rebound in the second half of the year," Chen added.

The State Council has urged Shanghai to build a modern transport system of highways, railways and waterways.

"The development of a shipping hub not only requires the integration of port resources but also a network that combines highway as well as railway as major means of container transport," Huang Rong, director for the Committee of Shanghai Urban Construction & Communications, said. "This is a crucial strategy for Shanghai and it will serve the Yangtze Delta region and the country."

Harbor facilities stand at Shanghai's Waigaoqiao port area. Shanghai will extend tax breaks for foreign-registered ships until June 30, 2011, following the State Council's approval for it to be built into a major international financial center and shipping hub by 2020. — Wang Rongjiang

Study into launch of ETFs

Winny Wang

SHANGHAI will explore the introduction of exchange-traded funds to track indexes constituted by Hong Kong-listed stocks as part of the city's efforts to build itself into an international financial center.

The Shanghai Stock Exchange will deepen cooperation with its Hong Kong counterpart to list ETFs of the Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng China-Affiliated Corporation Index on the mainland, according to a guideline issued by the Shanghai government. But the guideline didn't specify a timetable.

The ETFs, also called index-based products, enable investors to buy or sell shares in an entire benchmark portfolio.

The Shanghai bourse in January signed a closer cooperation agreement with Hong Kong Exchanges and Clearing Ltd in information sharing, product development and personnel training. The two exchanges are also looking at dual-listed ETFs and related derivatives, including A-share related options and futures. The Shanghai bourse tried to launch the ETF based on China's benchmark CSI300 Index, which groups the biggest 300 mainland-traded firms by value, in Hong Kong this year.

The city government also encouraged the Shanghai bourse to list overseas companies and red-chip firms, according to the guideline.

More securities joint ventures will be allowed to trade in A-shares and investment consultation as a trial, and fund joint ventures will be able set up subsidiaries in Shanghai and launch innovative products, the guideline said.

Nearly a dozen overseas companies, including Goldman Sachs and UBS AG, have set up fund management firms on the Chinese mainland while domestic firms, such as China Western Securities Co, also seek to tie up with overseas partners.

The Lujiazui area, seen as Shanghai's financial center, is expected to play a key role in the city's ambition to become a major global finance hub.

Thumbs-up to issue of yuan bonds by local foreign banks

Zhang Fengming

SHANGHAI supports locally incorporated foreign banks to issue yuan-denominated bonds, according to a city guideline.

"We support locally incorporated foreign banks in Shanghai to issue yuan bonds to meet their long-term capital needs and Shanghai will launch a trial to allow overseas companies to issue yuan bonds," the guideline said.

The guideline was issued after the State Council, or China's Cabinet, decided to develop Shanghai into a major financial and shipping center by 2020.

Ling Tao, a senior official at the Shanghai headquarters of the People's Bank of China, said yesterday that several foreign banks have already shown interest to issue yuan bonds. But he declined to name them.

Seventeen locally incorporated overseas banks have started operations in Shanghai by the end of 2008, including HSBC, Citi, Standard Chartered, Bank of East Asia and DBS.

The assets of the 17 banks in Shanghai totaled 845.1 billion yuan (US$123.7 billion) by the end of 2008, contributing to 84.8 percent of the country's total.

Shanghai will also develop financial derivatives products despite the ongoing global financial crisis.

The guideline mentioned derivatives including stock index futures, T-bond futures, foreign exchange futures, stock index options, interest rate options and gold exchange traded funds. But no timetable for their launch was given.

Shanghai Mayor Han Zheng said the city will focus on strengthening its financial market system, financial products innovation and open the market wider.

The city already is home to the country's major metal futures exchange, sole bourse for gold, diamond and foreign exchange and the country's biggest stock exchange.

Domestic demand to spur recovery

Zhang Fengming

CHINA'S better-than-expected economic performance in the first quarter may ease the need for looser monetary policy but a strong rebound in exports and domestic demand is needed for a solid recovery, analysts said.

China's gross domestic product rose 6.1 percent from a year earlier to 6.57 trillion yuan (US$939 billion), the weakest growth since 1992, when quarterly figures were first released.

However, economists said GDP and other recently released economic data raise hopes that China's slowdown may be bottoming out.

"Despite the new low in year-on-year GDP growth, data at the end of the first quarter showed renewed strength in production, investment and demand as stimulus efforts kick into higher gear," said Ken Peng, a Citibank economist in Shanghai.

Industrial production in March rebounded to 8.3 percent on a year-on-year basis from 3.8 percent for the first two months, while fixed-asset investment surged 30.3 percent last month and 28.8 percent for the quarter.

Foreign direct investment in March dropped 9.5 percent to US$8.4 billion on a year-on-year basis, compared with a 15.8 percent decline in February and a 32.6 percent tumble in January.

Major lending

"China's economic stimulus package is already paying off with positive changes evident in the economy," Premier Wen Jiabao said on April 18 at the Boao Forum for Asia annual conference.

China has announced a 4-trillion-yuan stimulus package, along with higher rebates on export taxes, a boost in credit and more subsidies for rural economic development.

The central bank, the People's Bank of China, eased monetary policy in November to counter the effects of the global financial crisis.

Since September, the bank has cut interest rates five times and relaxed its reserves requirement four times.

The economy grew 9 percent last year though it tailed off to an annualized 6.8 percent in the final quarter.

Economists said quarter-on-quarter growth in the first three months of this year may have accelerated on a seasonally adjusted basis.

"The March quarter results were reassuring to policy makers so the need for further monetary loosening has eased," said Sherman Chan, a Moody's Economy.com economist.

Chinese banks have heeded government calls to help finance earmarked state projects. They extended 1.89 trillion yuan in local-currency loans in March, bringing the first-quarter total to 4.58 trillion yuan, close to the government's full-year target of at least 5 trillion yuan.

That helped lift annual growth in the broad M2 measure of money supply to a record 25.5 percent in March on a year-on-year basis, up from 20.5 percent in February and easily exceeding economists' expectations of a 21.3 percent rise.

"Credit growth has been strong, and there is little need for the authorities to make the lending environment even more encouraging," said Chan. "Controlling loan defaulting and monitoring a potential return of inflationary pressure may be the new focus of China's financial regulators and central bank from now on."

Economists are concerned the huge supply of credit in the first quarter may translate into a surge of bad loans and they expect authorities to be more prudent on expanding credit.

Fourth-quarter fears

Tommy Xie, an OCBC Bank economist, said the central bank will keep its foreign-exchange and interest-rate policies consistent with first-quarter economic indicators. He expects the Chinese yuan to remain stable for the next few quarters.

" The best scenario for China is that private investment starts to catch up with public investment in the second half. "

"The latest signs of recovery in China's leading economic indicators have limited the possibility of an outright yuan depreciation," Xie said.

On the interest-rate front, the latest pickup in yields on China's bills and bonds suggests less possibility of further easing of interest rates.

Economists, though, caution that rapid economic growth stoked by central-government investment won't be sustainable.

"The best scenario for China is that private investment starts to catch up with public investment in the second half," Xie said.

China's domestic demand is viewed as critical for any rebound in private investment as forecasts for Western economies remain poor.

Some economists expect a U-shaped or even W-shaped recovery in China's economy though some optimists said the first-quarter data are a prelude to a V-shaped recovery in the second quarter.

OCBC's Xie said the risk for the Chinese economy is that growth may slow again in the fourth quarter after picking up in the second and third quarters, if the onus for growth doesn't shift to domestic demand.

Some analysts think China may announce a second stimulus package though that idea lost some steam after the first-quarter data were released.

Xie said he thinks it more important for China to focus on implementing the first stimulus package before a second one is contemplated.

China applies golden touch to diversify forex reserves

Zhang Fengming

CHINA'S revelation that it has been stockpiling gold signaled it may accelerate the diversification of its foreign-exchange reserves as a hedge against the global economic downturn, but it's unlikely to stop buying US-dollar assets, analysts said.

China has added 454 tons to its gold reserves since 2003, bringing the total to 1,054 tons, through domestic purchases and the refining of scrap gold, Hu Xiaolian, head of the State Administration of Foreign Exchange, said in late April.

It was the first public comment on the top-secret gold holdings in the past six years. The figure confirmed what many gold bugs have suspected for years — that China has been quietly amassing a stockpile of the precious metal.

"The gold reserve increase doesn't come as a surprise given gold's safe-haven status," said Wang Lixin, China manager of the World Gold Council. "It's especially reasonable against the global financial crisis as China is seeking safe investments. Gold has outshone other assets in the global downturn."

China is the world's biggest gold producer. It now ranks fifth in gold reserves, behind the United States, Germany, France and Italy.

"Safety is the priority in forex reserves, and diversification is an effective means to hit your target," said Hu, who is also deputy governor of the People's Bank of China, the central bank.

China recently reported the change in its gold holdings to the International Monetary Fund and will include the figures in central bank reports and balance of payment statistics, Hu said.

Gold prices have more than doubled since 2003. In the past year, the precious metal has risen just under 4 percent after dropping to as low as US$712 a troy ounce in November and touching US$995 in February.

"We are closely monitoring developments at other central banks to determine whether they will follow China's bold leadership move, particularly those in Asia," said Aram Shishmanian, chief executive officer of the World Gold Council.

Still, gold remains a minor investment for China.

Despite the announced increase, China's gold stockpile amounts to less than 2 percent of its total foreign reserves, based on gold's current price of about US$900 an ounce.

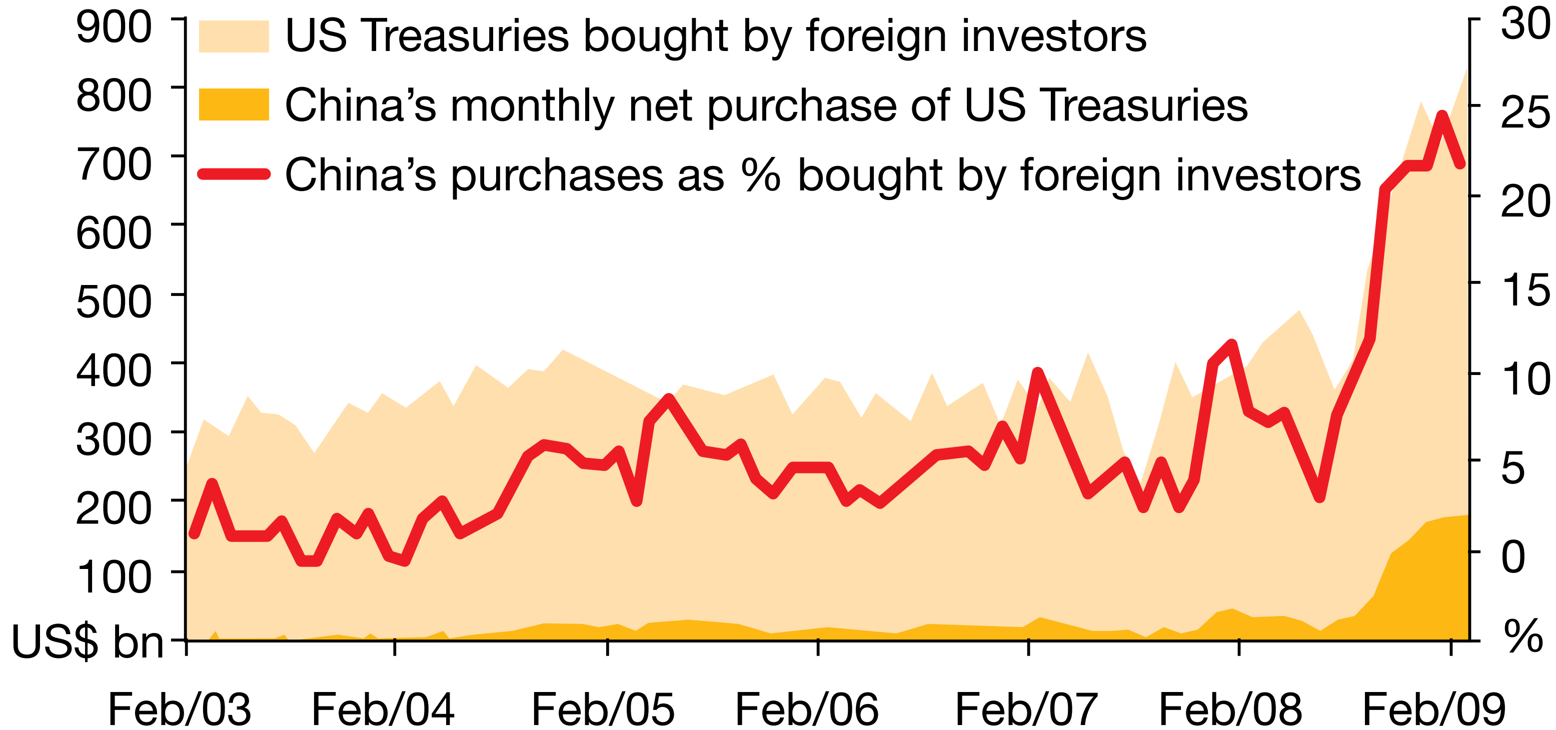
The US had 8,133.5 tons of gold at the end of March, accounting for almost 79 percent of its total forex reserves, according to the World Gold Council.

In the eurozone, the European Central Bank has allocated 15 percent of its reserve asset portfolio to gold.

"China will stick to major currencies and high-quality assets when diversifying its foreign-exchange reserves," Hu said.

China's purchases of US debt – a peak?

According to the latest data, China's net purchases of US Treasuries in February accounted for 21.85% of the total amount sold to foreign investors.



Sources: US Treasury, Bloomberg, SCB Global Research *Shanghai Daily*

World currency

China holds the world's biggest foreign-exchange reserves, backed by its strong trade growth in the past decade. China's forex reserves stood at US$1.95 trillion as of the end of last year, up US$417.8 billion from the year earlier.

China managed to make money on its reserves last year despite the financial turmoil, Hu said, but she also noted that returns on foreign reserves slowed in 2008 from previous years against the backdrop of the worst financial crisis since 1929.

Hu said in late March that China will continue to buy US Treasuries but will monitor price fluctuations.

Premier Wen Jiabao said in March that China is concerned about its US-denominated assets, mainly US Treasury bonds, and wanted assurances about their safety.

More recently, China suggested a move toward a world currency system linked to the International Monetary Fund's Special Drawing Rights.

It was viewed as a move to get away from the greenback's dominance as a global currency.

Economists said China's concerns for its US-dollar assets are understandable since the US economy is experiencing a prolonged recession and financial market turmoil. Still, no one believes that China wants to see a major capitulation in its biggest export market.

"These worries are not expected to stop China from accumulating more assets in the US," said Sherman Chan, a Moody's economy.com economist. "It is in China's interest to support the US economy."

The central government has already announced a two-year stimulus package of 4 trillion yuan, or 16 percent of China's economy, to bolster domestic growth.

The health of the US economy is crucial to the global environment and has direct implications for international trade, analysts said. A sound recovery in China can't be achieved without the revival of US demand, they said.

"The longer the US stays in recession, the more stress is felt by China's exporters," Chan said. "A US recovery is the only cure for the tumble in exports and manufacturing.

"Knowing that the US government needs foreign funding to implement its stimulus measures, the Chinese have an incentive to get behind the plan," Chan added.

Based on Standard Chartered Bank's calculation, the total sum of China's US Treasury holdings is still rising, though growth in purchases has slowed along with exports and overall foreign reserves.

In the first quarter of this year, China's forex reserves grew about US$47 billion, compared with US$100 billion a year earlier, Standard Chartered estimated.

"China is not reducing its stock of US securities, but is switching from long-term to short-term securities, or tenures of less than one year," it said in a recent report.

Stephen Green, Standard Chartered's head of research in China, said the bank believes another big current account surplus is shaping up for 2009, so he still expects China's forex reserves to grow by US$400 billion this year.

"US Treasuries are still an investment safe haven. The relatively safer place for China to store its war chest for the long term is certainly the US," said Chan.

Domestic firms to drive realty sector

Cao Qian

CASHED-UP banks, insurers and other domestic companies are expected to be the engines of growth for Shanghai's investment property market as interest from foreign firms wanes amid the global financial crisis.

"While overseas investors continue to be a dominant force in the local real estate investment market, there is no doubt that domestic players are much more aggressive in wanting to acquire buildings," said Edward Cheung, chief executive officer of DTZ's Chinese mainland operations, which helped conclude more than 70 percent of major commercial property transactions in Beijing and Shanghai last year.

"The central government's recent approval for domestic insurance companies to invest in real estate will definitely underscore the trend for the rise of Chinese players," Cheung said.

He said he expects domestic investors to account for 40 percent or more of activity in the commercial market this year and double their previous share.

Shanghai Lujiazui (Group) Co Ltd, a state-owned real estate giant, broke a six-month drought in transactions involving large commercial buildings last month when it acquired the 34-story POS Plaza office building in Pudong New Area from South Korea's Posco Engineering & Construction Co Ltd for 1.76 billion yuan (US$257.68 million).

Lujiazui Finance & Trade Zone Development Co Ltd, a listed subsidiary of Lujiazui Group, announced the purchase in a statement to the Shanghai Stock Exchange last month.

The price was about 40 percent lower than the original asking price, said industry insiders, who expect the purchase to trigger even more activity in the sector.

CITIC Capital Holdings Ltd, an investment arm of CITIC Group, China's largest financial conglomerate, is in talks to acquire a high-end residential project in downtown Jing'an District from Macquarie Group, Australia's largest investment bank.

The 34-story POS Plaza building in Shanghai's Pudong New Area. Lujiazui (Group) Co has acquired the building from South Korea's Posco Engineering & Construction Co Ltd. — Gong Si

CITIC Capital might pay 250 million yuan for the 16,000-square-meter City Apartments, a serviced-apartment development located at the intersection of Yan'an and Shaanxi roads.

Good chance

"The deal has been under discussion for quite a long time and has very good chance of being finalized," confirmed one industry insider who declined to be identified.

Macquarie Group bought the 90-unit residential project in September 2005 for 400 million yuan and was reported earlier to have slashed its asking price to about 300 million yuan to attract buyers, mirroring the tougher credit pressures on many global institutional investors.

A decline in the Australian dollar in recent months may help Macquarie trim some losses for its exit, industry analysts said.

If the deal goes through, it would be the second major building complex acquired entirely by a Chinese investor in the city this year.

"Transactions involving domestic players are expected to increase as domestic insurance companies enter the market and cash-rich investors take a long-term view and look to acquire assets," echoed Greg Hyland, head of investment for Jones Lang LaSalle's Shanghai operations.

An industry source told Shanghai Daily last week that a major Chinese bank is also close to purchasing an office building under construction in the city. Many Chinese insurers are already on the prowl for properties after receiving the green light from the central government to invest in real estate assets.

"It could take as soon as six months for such deals to be concluded since detailed rules guiding insurers' real estate investments haven't been published yet," said the source, who declined to be identified because of the sensitivity of the negotiations.

Insurance firms will be looking to buy modern office buildings in prime locations to boost their corporate images. They are expected to rent out space they don't occupy.

The state of play marks a turn for a property market long dominated by overseas firms.

Last year, overseas investors spent 16.3 billion yuan on real estate investments in Shanghai, down 26 percent from 2007, according to Jones Lang LaSalle statistics released in January.

Indeed, DTZ predicted earlier that Shanghai will likely suffer a decline in overseas real estate investment this year, with acquisitions expected to decline to about 5 billion yuan.

In terms of preferred asset types, most industry officials told Shanghai Daily that they expect commercial properties, such as office buildings and retail outlets, as the most preferred types.

"Prime office buildings in the city will continue to be one of the major investment targets in 2009, while retail properties will also find favor," said Andrew Zhu, senior managing director for China operations at CB Richard Ellis.

Prime offices accounted for 21.8 percent of major purchases by overseas investors in Shanghai last year, said the real estate consultant.

Major Real Estate Investment Deals in Shanghai Since 2008

Date	Property Name	Use	Purchaser	Vendor
2008.1	Chateau Pinnacle Block C	Residential	Grosvenor	Yefeng Real Estate
2008.2	Shama Luxe (Lakeville Regency Block 18)	SA*	Mirae Asset	Gateway Capital
2008.2	No. 8 Ji'nan Road	SA*	Carlyle Group	Samlin
2008.2	Guangdong Development Bank Building	Office +SA* +Retail	CBRE Investor	HK Taiqi International Investment (95%), Guangdong Guangfa Shiye Investment (5%)
2008.3	Wantai Building	Office	Shanghai Industrial Investment (Group) Co Ltd	China Enterprise
2008.5	The Centre	Office	Asia Pacific Land Limited	Hutchison Harbour Ring Limited
2008.5	Global Finance Tower	Office	East Asia Bank	Shanghai Gao Peng Real Estate Development Co Ltd
2008.6	Jianhua Oriental Apartment	Hotel	Far East Consortium International Ltd	Shanghai Jianhua Property Development Co Ltd
2008.6	Changshou Mall	Retail	Blackstone	VXL
2008.7	Ivy Building	Retail	ING Real Estate	Deluxe Family
2008.7	Novel Plaza	Office	Not Available	CSI
2008.8	Fuxi Mansion	Office	China Commercial Aircraft	China Enterprise
2009.3	POS Plaza	Office	Shanghai Lujiazui	Posco Engineering & Construction

Source: Compiled by Shanghai Daily

* Serviced Apartment

Signs city's market is bouncing back

Cao Qian

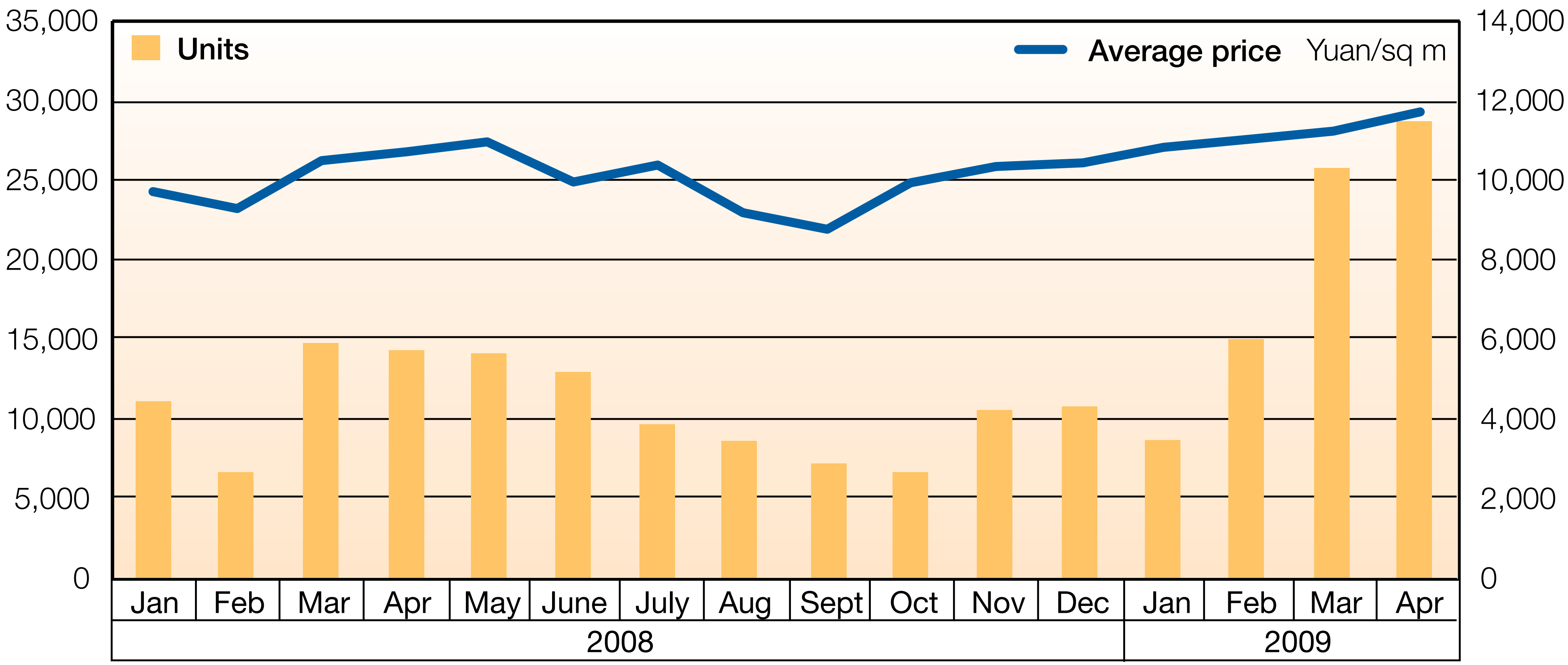
THE strongest weekly home sales in 19 months and revived optimism among property developers signal that Shanghai's real estate market may be on the mend after the bubble burst in 2008, industry analysts said.

In the week ended May 10, 512,600 square meters of new homes, excluding those built for people displaced by urban redevelopment projects, were sold in the city, the highest weekly volume since October 2007, according to E-House (China) Holdings Ltd.

"I believed that the worst might have passed and the market is picking up strength again," said Xue Jianxiong, an analyst with E-House, one of the country's largest integrated real estate service providers.

"Of course, it might fluctuate a bit in the coming months due to seasonal factors," he added, "but robust sentiment

Second-hand home sales in Shanghai



Source: Century 21 China Real Estate *Shanghai Daily* among home buyers could mean that we have seen the bottom."

The boom in sales followed two recent real estate fairs held in the city. Organizers said the feedback they received from those who attended was very positive.

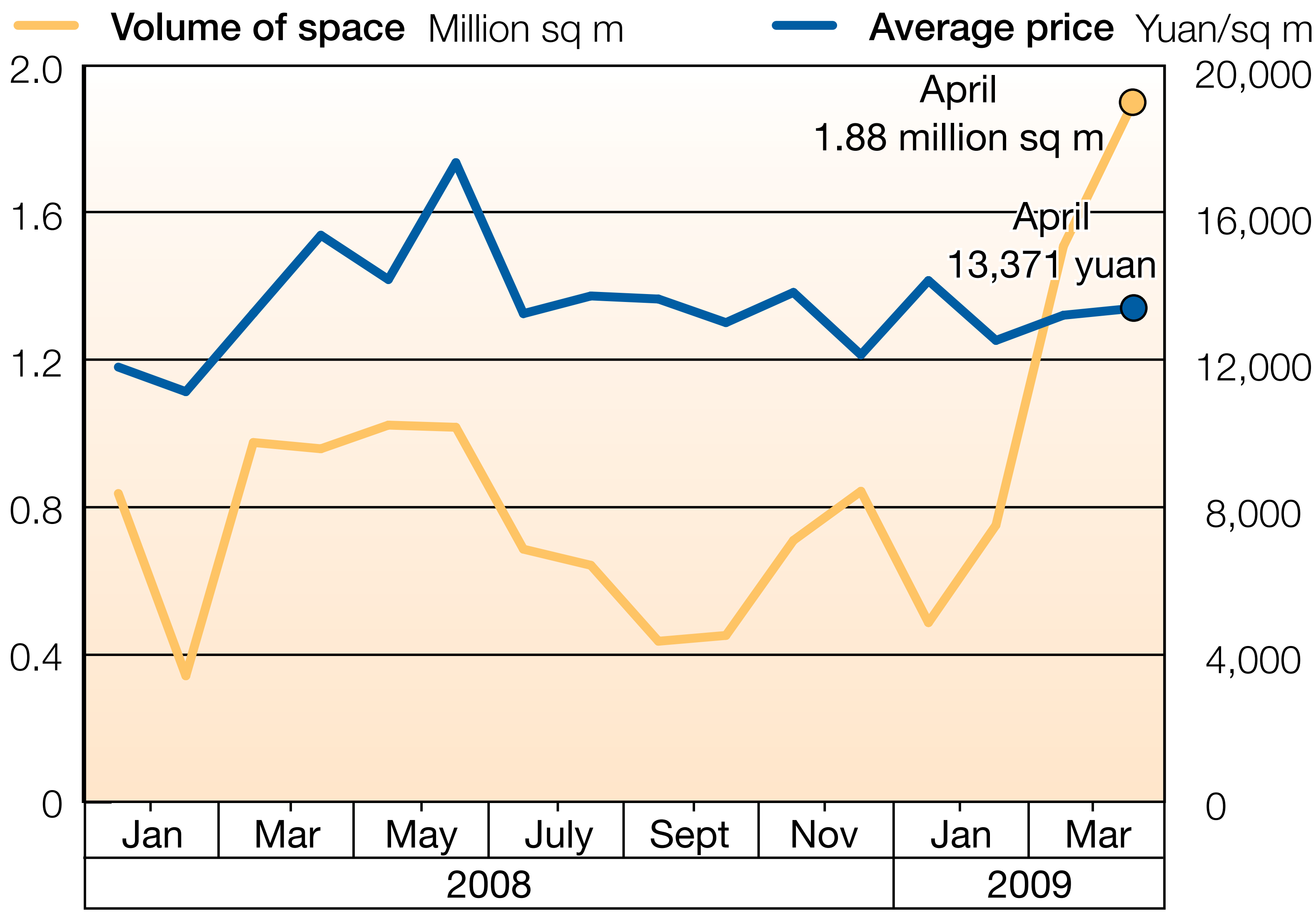
Visitors to the larger fair, which featured 200 exhibitors at the Shanghai Exhibition Center, more than doubled to 170,000 people from a year earlier, and transactions valued at about 1.92 billion yuan (US$281 million) were signed during the four-day event. That was more than three times the deals concluded at the same event a year earlier.

A smaller fair, held in the eastern area of Pudong, drew 60 exhibitors and 48,000 visitors.

Industry analysts said the market started perking up as early as February, just after the week-long Spring Festival, a traditionally slack season for home sales.

According to Shanghai Uwin Real Estate Information Services Co Ltd, sales of new homes in April totaled 1.89 million

New home sales in Shanghai



Source: Shanghai Uwin Real Estate Information Services Co *Shanghai Daily*

square meters, up from 1.5 million square meters in March, 787,600 square meters in February and 480,000 square meters in January.

"Transaction volume of new homes has been maintaining a two-digit growth rate in the past three months, and the April figure surpassed the monthly average of 1.73

million square meters recorded during the overheated market period of 2007," said Lu Qilin, deputy head of research at Uwin.

"Market fever could possibly return if the volume continues to soar," he said.

Price reductions in residential developments, mainly mid- to low-end apartments, helped shore up sales. New measures introduced late last year by both the local and central governments, including cuts in taxes and fees, and more favorable loan terms, contributed to a revival of interest in the market — more from homebuyers than investors.

Existing homes

Aside from a spurt in new home sales, the existing home market is also showing signs of renewed life.

According to Century 21 China Real Estate, about 28,600 existing homes changed hands in the city in April, the highest monthly figure since 2006. That compares with about 25,700 units in March and 15,000 units in February.

" I believed that the worst might have passed and the market is picking up strength again. "

Wang Jianjun and Yang Peizhi, a couple in their late 50s, were among the local buyers who contributed to rebounding statistics.

The couple used to live in a 60-square-meter apartment on the 5th floor of an old building in Pudong. In February, they moved to a 77-square-meter space they purchased in the northern district of Yangpu, ideally located 2 kilometers from their daughter and newly born grandson.

"It's much more convenient for us to go to our daughter's home now and take care of our grandson, since both our daughter and her husband are very busy," Wang said. "We are getting old and we really need an elevator, which our old place didn't have."

Wang and his wife found the market favorable for their move. They paid about 1.3 million yuan (US$190,500) for their newer apartment in Yangpu where apartments of similar size in the same development once required as much as 1.4 million yuan during the heyday.

Whether it's to upgrade their housing or start out fresh as newlyweds, individual homebuyers have been the dominant force in the market in recent months, analysts said.

The rebounding market is also enlivening sales at the top end of the market, they said, which indicates the recovery might gain momentum.

High-end sales

About 672 new apartments costing 30,000 yuan a square meter or more were sold in the city in April, a month-on-month increase of 44 percent, according to E-House statistics.

Meanwhile, the volume of existing apartments priced between 30,000 yuan and 40,000 yuan a square meter also jumped in March, according to Shanghai Centaline Property Consultants Ltd, which operates the city's largest realty chain.

"We saw quite a few transactions priced at more than 5 million yuan each in April, particularly in prime locations such as Xintiandi and Biyun," said Ma Ji, head of research at Centaline. "We expect the trend to continue through May."

Rising home sales have been accompanied by a more upbeat attitude among property developers, many of whom view the current environment as a ripe time to buy land.

One of the latest examples was Gemdale Corp, a company based in the southern city of Shenzhen, which successfully beat nine foreign and domestic competitors in bidding for a development site in Shanghai's western district of Qingpu.

"We think it is a good time to purchase land now because the market has become more rational than it was during the bubble of 2007," said Zhao Hanzhong, vice president of Gemdale and chairman and general manager of its Shanghai operation.

"We feel very optimistic about the housing market in Shanghai as well as the whole Yangtze River Delta region and will certainly increase our portfolio in the region over the coming years," he said.

Gemdale paid 560 million yuan for the 83,645-square-meter site, which translates to about 5,500 yuan a square meter. That compares with a price of more than 7,000 yuan per square meter during the overheated market in December 2007.

Shanghai's property market suffered major setbacks in 2008 when the bubble burst, with many available development sites going begging. Many of the country's developers, pinched by sluggish sales and a lack of cash, chose not to participate in land auctions.

"It's a promising sign that a rare parcel of land in the downtown Changning District is coming up for auction," said Ma. "That could be a move by the local government to further boost the local housing market."

During the first quarter, the Shanghai Urban Planning, Land and Resources Administration Bureau announced 97 land parcels will go to auction, 35 percent of them designated for residential development. That's a higher proportion dedicated to homes than in the same period a year earlier, industry people said.

Women still spend to look like a million dollars

Pan Xiaoyi

THEIR pockets may not be bulging as they once did, but young women in China still want to look like a million dollars. That's proving a boon for the cosmetics and toiletries industry.

"I've bought fewer new clothes and had my hair done less often, but I haven't reduced my spending on cosmetics because I consider them a necessity in my daily life," said Vivien Tang, a Shanghai white-collar worker in a multinational company.

Tang is only one of many women who refuse to compromise their beauty even as an economic slowdown in China bites into consumer spending. International cosmetics companies have long regarded China as their strongest bet for growth, and vanity means vibrancy in sales despite a global recession.

Sales of makeup, skin-care products and other cosmetics in China ranked third in the world, behind Japan and the United States last year. The China Association of Fragrance, Flavor and Cosmetics Industries said it expects nationwide sales of 130 billion yuan (US$19.1 billion) this year.

Euromonitor International, a market research and consulting firm, is forecasting almost 11 percent growth a year in skin-care products in the five years ending 2013, while the growth rate for makeup in that same time period is pegged at almost 10 percent.

L'Oreal Group, the world's largest cosmetics and beauty company, achieved sales of 6.95 billion yuan in China last year, up 28 percent from a year ago. The French company said that equated to 35 percent growth in terms of the euro, given the strengthening yuan.

"We are confident China's cosmetics market will sustain a relatively fast growth, judging from the sales performance in the first quarter," said Paolo Gasparrini, president of L'Oreal China. But "growth might not be as fast as last year."

In fact, as individuals began to tighten

their purse strings, industry analysts say they see evidence of the "lipstick effect," which refers to the tendency of consumers to purchase small, comforting items during a recession even if they have to cut back on more upscale spending.

"We are finding sales of (makeup)

foundation in China enjoying faster growth than that of lipsticks actually,'" said Liang Weijia, director of communications for Sasa International Holdings Ltd, a leading cosmetic retailer in Asia. "Foundations are showing the fastest growth among cosmetics products."

Liang said skin-care products are also performing well. Sales of cosmetics in Sasa outlets chalked up double-digit growth in the first three months of this year.

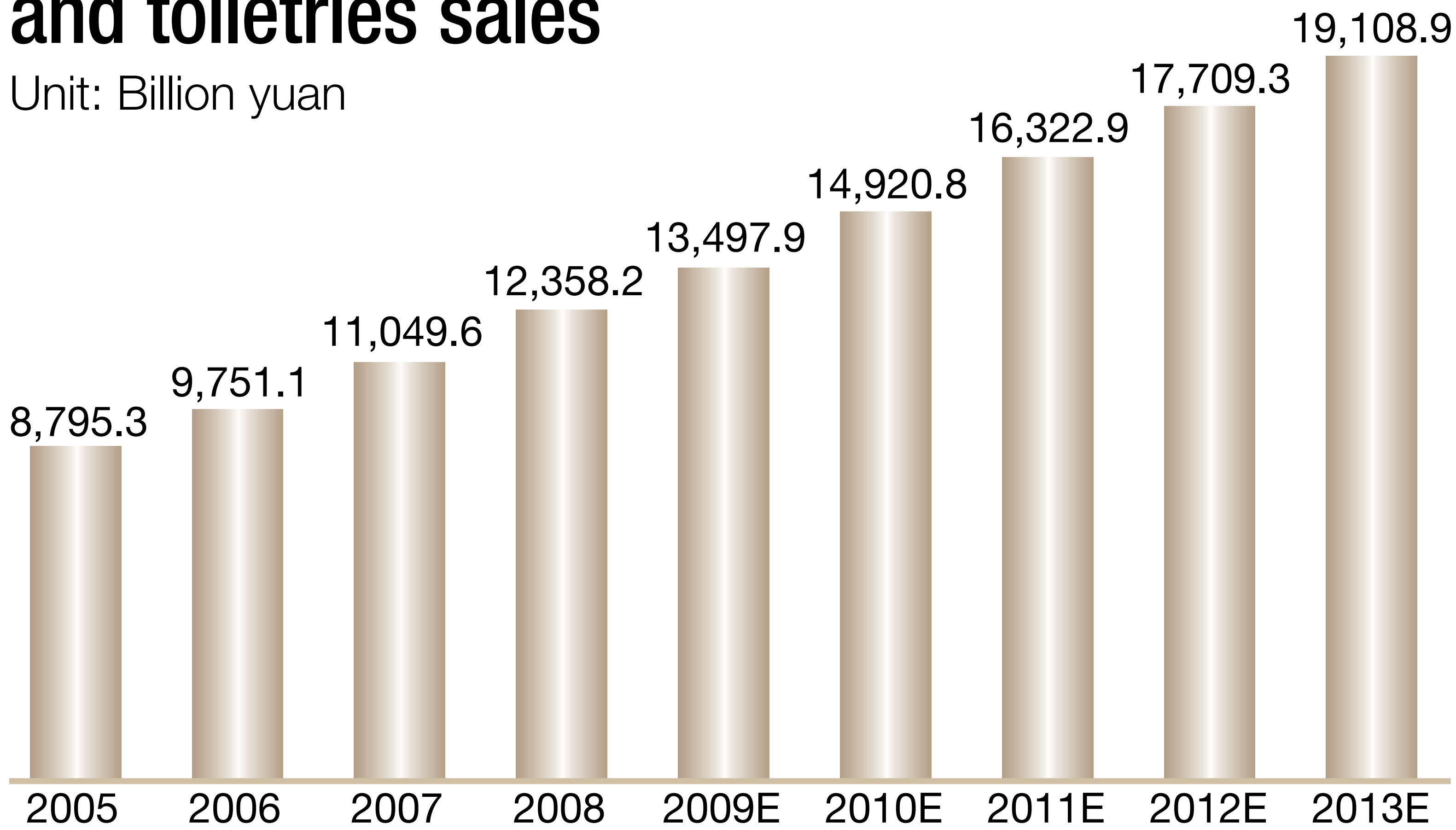
"Chinese consumers pay a lot of attention to their skin," said Lillian Liu, director of public affairs and corporate communications at Estee Lauder China Affiliate.

"They are very interested in skin-whitening products, sun guards and anti-wrinkle creams," she said. "Seventy-five percent of cosmetics sales in China came from skin-care products, while in Western markets it's more 50-50. That's why you see pages and pages of skin-whitening products in magazines recently."

Indeed, the importance of skin care in

China's cosmetics and toiletries sales

Unit: Billion yuan



Source: Euromonitor *Shanghai Daily*

the daily routines of many young Chinese women accounts for a large part of China's cosmetics market, said Liang.

"I still buy some cosmetics which I think are essential," said Xia Yulin, a young Shanghai worker who cares about her appearance as well as her purse even after her bonus was recently halved.

Avon joins Ungaro

"I choose whatever works best on my face and my skin, regardless of the brand," Xia said. "I would pick the cheaper one if two products both worked well for me."

Avon Products Inc launched the fragrance U by Ungaro for Her in February, in cooperation with the leading luxury brand Emanuel Ungaro, to cater to consumers who have had to tighten spending. The fragrance is sold for less than 200 yuan, much lower than most quality perfumes on the market.

"We wanted to introduce affordable luxury to fulfill young women's desire for beauty," said Nicole Pan, marketing director of Avon Products China.

Sasa International has also adjusted its product line to include more middle-priced products in a bid to drive up sales, and L'Oreal said it plans to develop more price-friendly products globally to compete in a tighter market.

It introduced skin-care products under the affordable Maybelline brand last year to snare the middle and lower end of the market.

"We see a balanced performance between the upper and lower ends of the market," Gasparrini said. "Chinese consumers don't seem particularly keen on mass-marketed goods and they don't want to give up spending on high-end products. Upmarket sales have remained fairly stable."

Estee Lauder, whose five brands in China are all targeted at the affluent, said sales remain strong in Asia, and China maintained double-digit growth in the fourth quarter of last year. "China is strategic among emerging markets," Liu said.

L'Oreal is also upbeat and plans to introduce its upmarket Kiehl's line into the Chinese market in July.

"We have seen so many mainlanders go to Hong Kong to buy our products," said Joanna Lee, director for the Kiehl's brand. "So we decided to enter the market despite the ongoing financial crisis. We are confident about the market here."

Pollster Nielsen survey confirmed the resilience of the Chinese market. A recent survey found that 47 percent of respondents said the next 12 months will be a good time to buy things they need, while only 20 percent said they are switching to cheaper brands.

"I wear foundation, eye shadow and eye-liner to work everyday so that I look more professional," Tang said. "But I have been more careful in choosing cosmetics."

The Lipstick Effect

The "lipstick effect" is a marketing theory that believes consumers will be willing to treat themselves to life's little luxuries even during a recession, while forgoing more lavish items.
Leonard Lauder, chairman of Estee Lauder Co, coined the phrase after seeing a huge jump in lipstick sales after September 11. However, the theory was first identified in the Great Depression and has also occurred in other recessions.

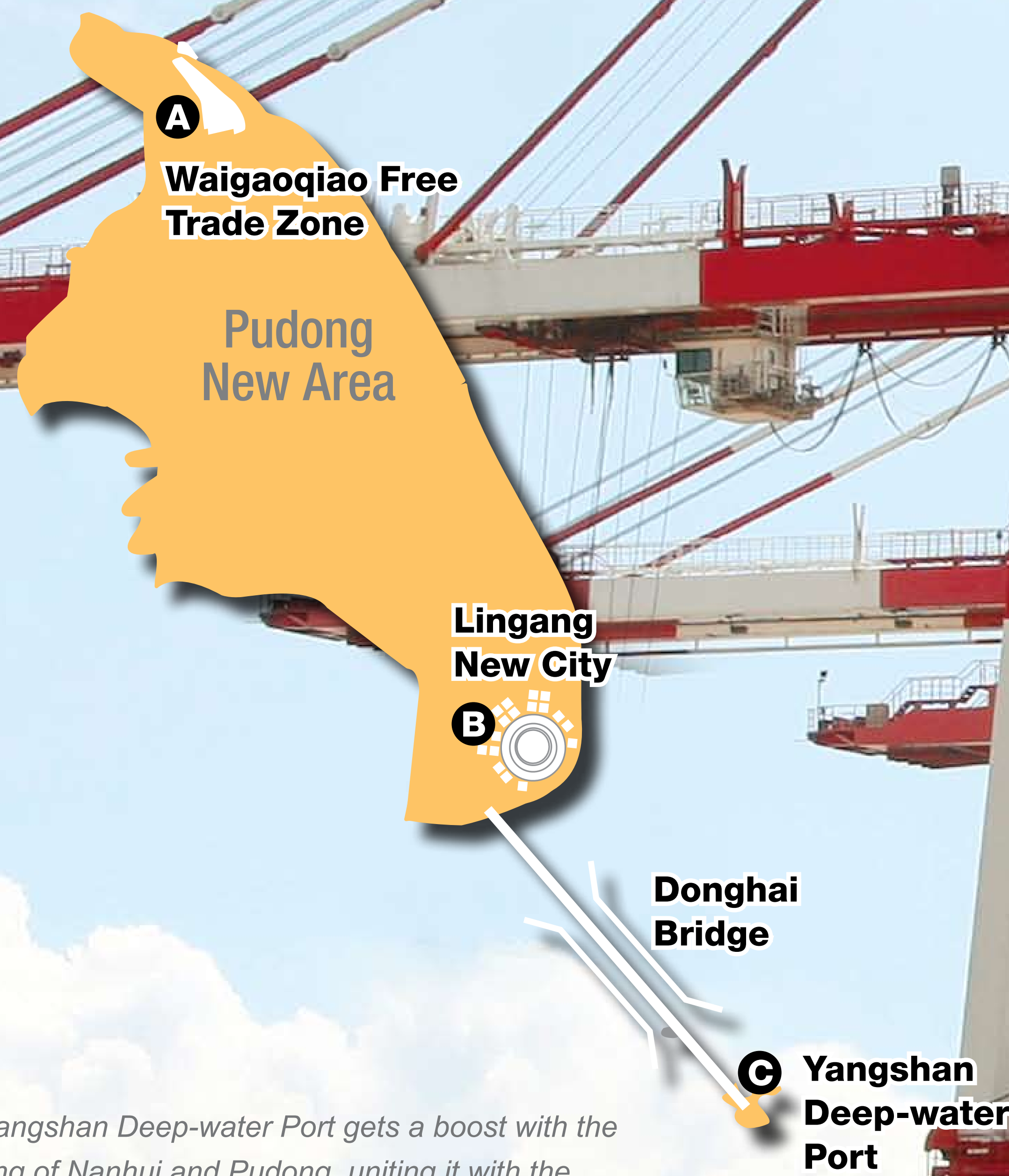
Boost for the port

Ding Yining
and Winny Wang

THE merging of Nanhui District with Pudong New Area will help accelerate Shanghai's development in shipping, business and manufacturing.

The merger should speed up development of Shanghai as a port and should benefit shipping companies with more favorable policies expected, industry insiders said.

The Yangshan Deep-water Port and the Waigaoqiao Free Trade Zone will both come under one government entity.



The Yangshan Deep-water Port gets a boost with the merging of Nanhui and Pudong, uniting it with the Waigaoqiao Free Trade Zone.

Logistics and shipping companies registered in the Waigaoqiao Free Trade Zone are expected to have more access to land in Nanhui District.

Yang Zhouyi, Secretary-General of the Development and Reform Research Institute for Pudong, said the merger will give Pudong more land for industry to expand.

The continued development of Shanghai as an international financial center and shipping hub will be helped by shipping companies and financial institutions coming under the one jurisdiction.

The advanced manufacturing industry and the modern service sector will be able to set up in the new district, speeding up urbanization, Yang said.

Yang, a member of the Shanghai People's Political Consultative Conference, told Shanghai Daily that he and other industry experts proposed to the city government to build a metro line to connect Waigaoqiao and Lingang New City.

"This will make easier for city residents to go to work in the New City and an increasing number of companies will be willing to set up offices in the district," Yang said. "We will be able to lure more higher-end service providers and big shipping groups to be located in Lingang New City and this will do more benefit than raising the throughput of containers at the ports of Shanghai."

The free trade zone in Waigaoqiao is almost filled so the city government needs to speed up the development of Lingang New City. "That is how we think the merging of Nanhui and Pudong New Area came into being and efforts from the government of the Pudong district alone is not enough," Yang said.

The transport of cargo through inland waterways instead of highways will also be facilitated now that the two districts are merged.

Carbon dioxide emissions from waterway transport are five times less than those associated with highway transport, said Yu Hongsheng, the deputy director of the Urbanization Research Center of the Shanghai Academy of Social Sciences.

Lingang New City has special function zones including a logistics park and heavy machinery park. Combined with the Waigaoqiao Free Trade Zone and the Lujiazui financial hub, the area may become the major driver of Shanghai's development in the next 10 years to 20 years.

The merger of the two districts will also help the country develop its home-made passenger jet and compete globally.

The Aviation Industry Corp of China, China's largest aerospace company, has chosen Lingang New City as the base for designing and making engine parts for China's first 150-seat passenger plane.

The research and development center for the project will be located at Zhangjiang High-Tech Park in Pudong New Area.

"The merger of the two districts is expected to simplify the procedures for the company to settle its assembly center," said an industry source.

A Waigaoqiao Free Trade Zone

Established in 1990, it was the first free trade zone in China and is still the largest in terms of output. Trade, logistics and machinery are the three main businesses. By the end of 2006, 9,550 projects had been approved, accounting for US$13.05 billion in investment. With 104 of the world's top 500 companies having set up offices here, the area employs 170,000, including 8,600 foreigners. The zone added 66.6 billion yuan to the economy in 2006, accounting for 47.7 percent of the nation's free trade zones.

B Lingang New City

Established in 2003, the complex industrial zone of Lingang incorporates manufacturing, logistics, export processing, research and development and residential areas. By the end of last year 119 projects were based here and 52 foreign enterprises invested in the area.

C Yangshan Deep-water Port

Construction started on the port in 2002 and the major section was completed at the end of last year. The 16 berths have a handling capacity of 9.3 million 20-foot-equivalent units (TEUs). When completed, the 30 berths should be able to handle 15 million TEUs by 2020.

Locals want to keep their peach trees

Wang Yanlin and Zha Minjie

MERGING Nanhui District into Pudong New Area is aimed at creating a larger powerhouse to spur Shanghai's economic growth but there may be many changes for the people of Nanhui.

The biggest benefit for the more than 743,100 residents in Nanhui could be wages.

In Pudong, the minimum salary is 1,060 yuan (US$155) per month, compared with 980 yuan in Nanhui.

Nanhui residents are also expected to be given access to education, health care and other social resources in Pudong.

"(The merger) will help accelerate the urbanization process of Shanghai" to create more favorable living conditions, said Ren Xianzheng, a member of the Chinese People's Political Consultative Conference Shanghai Committee, who proposed the merger to the city government in January.

Tourists look at peach blossoms during the peach blossom festival in Nanhui. — Zhang Suoqing

But some Nanhui residents are concerned about possible higher living costs.

Party Yan, a 22-year-old student from Nanhui's Xuanqiao town, said her parents were wondering whether their public utility bills would increase in line with those of Pudong.

Households in the city's fringes are entitled to a lower public utility rates, including water and electricity. For instance, water in Nanhui costs 1.76 yuan per cubic meter, compared with 1.93 yuan in Pudong and other downtown districts.

"There are many stories of future water fees going around the neighborhoods these days, too many for most people to follow," Yan said.

Officials with Pudong's reform and development commission, the district's public utility fare coordination body, were not available for comment.

Peaches, which Nanhui is famous for, might be another nagging topic for natives of the disappearing district.

Since 1991, Nanhui has been holding a peach blossom festival, which has been a magnet for tourists every Spring.

Festival organizers changed the event's name from "Nanhui Peach Blossom Festival" to "Shanghai Peach Blossom Festival" seven years ago.

"No matter what the administrative region is called, I'll always introduce myself as a Nanhui native," Yan said.

Nanhui real estate boom coming soon

Cao Qian

THE central government's recent approval to merge Nanhui District into Pudong New Area will create opportunities and spur property development in Nanhui.

Nanhui will enjoy Pudong's preferential policies, such as tax breaks to lure professional talent and streamlined investment procedures.

Pudong, a special economic zone established in 1990, will now double in size to 1,210 square kilometers.

"The huge land resources in Nanhui, located to the south of Pudong's financial zone and covering a total area of 677 square kilometers, will definitely bring a whole lot of opportunities for real estate development," said Li Zhanjun, director of Shanghai Pudong Real Estate Economics Research Center.

"More importantly, Pudong's master-planning expertise will help Nanhui improve its planning and construction and finally enhance its overall strength as part of a larger economic powerhouse."

In particular, Lujiazui, Waigaoqiao, Zhangjiang and Jinqiao — the state-owned groups responsible for developing four major zones in Pudong — will benefit most from the merger as they have been running out of land, Li added.

Demand for properties, meanwhile, may also rise following the merger, industry analysts said.

"Foreseeably, some industries in Pudong might be relocated to the larger Nanhui in the future under an integrated scheme and therefore drive more people southward," said Yang Hongxu, deputy director of E-House (China) R&D Institute.

"Such movement will naturally spur demand for property development in those areas."

China's solar power industry faces competition with newer technologies

Fu Chenghao

CHINA'S solar-cell production industry, the largest in the world, is facing some headwinds as newer technologies compete with more established methods of tapping the sun as a power source.

The challenges posed by price and efficiencies of competing technologies were evident this week at the SNEC PV Power Expo in Shanghai, as Shanghai Daily found out when talking to industry principals.

Eric Peeters, global executive director of Dow Corning Solar Solutions, said the solar market was going to be "really large" and many technologies would co-exist.

On one side are companies using newer thin-film technologies, which require larger upfront initial investment but utilize cheaper raw materials. On the other are users of the more traditional crystalline silicon-based technologies that underpin 90 percent of the industry. Polysilicon prices have been falling, upsetting the balance between the two rivals.

Price isn't the only factor driving the industry. There's also efficiency to consider.

The best thin-film technology in mass production has only about half the efficiency of crystalline silicon-based solar cells, which provide 17 percent to 23 percent sunlight conversion, according to a UBS report. That means a thin-film panel would need an area twice the size of a traditional solar panel to yield the same power output.

Shi Zhengrong, founder and chief executive of Suntech Power Holdings Co, which uses polysilicon technology, said thin film panels won't be competitive in terms of efficiency and may end up being another bubble bursting.

"I don't think it's competitive with efficiency at 6 to 8 percent now," said Shi, a scientist-turned-businessman. "They should at least reach 10 percent, which I fear is unrealistic for most."

Chinese thin film-based players, such as ENN Solar Energy Co and Baoding Tianwei SolarFilms Co, defended their technology at the exhibition.

They expressed confidence that their technology has a bigger role to play in the solar-cell industry and that the efficiency of their product could reach 10 percent in two years or three years.

Rick Wan, general manager of Langfang, Hebei Province-based ENN Solar, said thin film and polysilicon each had advantages.

"Crystalline-based cells are good for rooftops because they don't occupy large spaces, while cheaper thin film is more competitive in large scale utilities as well as building integrated projects as it can be designed as see-through type," Wan said. Aside from being cheaper, thin-film products work better than silicon-based panels in areas that are very hot, such as the desert, and in weak light environments.

Dow Corning Corp, the global silicon-based technology specialist that supplies polysilicon to crystalline-based cells, announced last December it would begin manufacturing high purity monosilane, a key specialty gas used in the production of thin-film cells.

Since the key issue of solar power lies in the cost of electricity generation, the costs of installation, operation and maintenance loom large alongside solar cell efficiency and the ability to capture energy.

Sha Xiaolin, chairman of QS Solar, which uses thin-film technology, said he won't consider technology upgrades that will help improve efficiency but significantly add to costs.

"Cost rules, not efficiency," he said.

QS Solar has announced its products could reach grid parity — the price at which solar power becomes competitive with coal-fired electricity — within three years with improvements in production scale and technology.

In Shanghai, where local government

Technologies and Efficiencies

Within the thin film arena are the main amorphous silicon (a-Si) technology and those based on cadmium telluride (CdTe), and copper indium gallium diselenide (CIGS).

United States company First Solar Inc is a leading thin-film company that uses CdTe with an efficiency at 10.7 percent. CIGS is very new and not yet in mass production but may become an interesting thin-film technology as its theoretical efficiency can be close to 20 percent.

Technology	Operational efficiency (%)	Theoretical efficiency (%)
Thin film (a-Si)	6-10	17.8
Thin film (CdTe)	9-12	16.5
Thin film (CIGS)	11-16	19.9
Crystalline silicon	17-23	29

Source: UBS *Shanghai Daily*

officials have recently completed a study on the city's solar power industry, thin film may emerge as a key industry on the municipal development agenda.

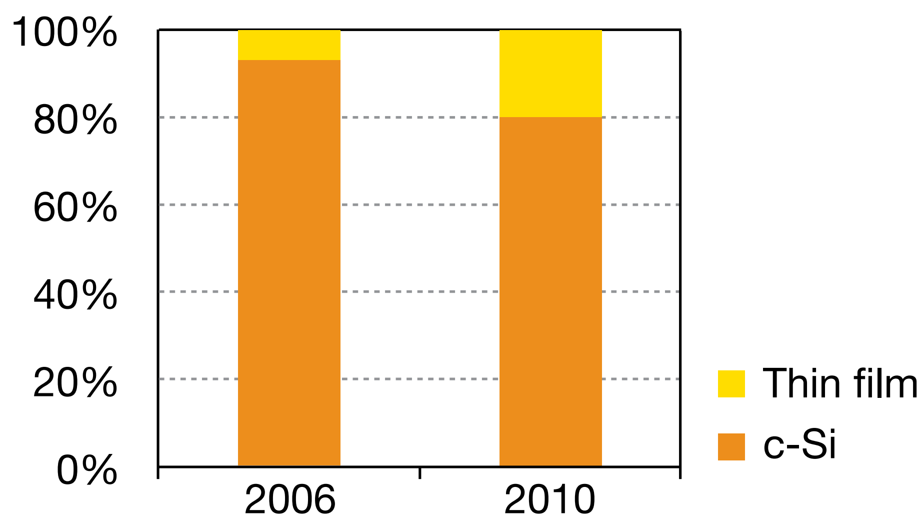
"Thin film makes more sense than polysilicon for Shanghai because you have the application market and more importantly, the city's mature semiconductor industry," said Sun Haiyan, China head of Oerlikon Solar, a Swiss company that offers equipment and end-to-end manufacturing lines for the production of thin-film silicon solar modules.

Oerlikon Solar has announced in Shanghai that it passed all tests for its micromorph thin-film solar photovoltaic modules by German certification agency TUV Rheinland, which enables customers to reduce their time to market from six months to less than six weeks.

The micromorph process could improve solar cell efficiency by up to 50 percent and increases overall module power, the company said. Certification is crucial for solar cell makers wanting to export the majority of their products. "It wasn't possible for the government to consider thin film back in 2005, but now the technology is much better known," Sun said.

Market shares of main technologies

Crystalline silicon still king but thin film is catching up



Source: European Photovoltaic Industry Association (EPIA)
Shanghai Daily

> *" Thin film makes more sense than polysilicon for Shanghai. "*

Still, financing could be a challenge for thin-film companies amid the global credit crunch. QS Solar's Sha said last month that his company hadn't secured any bank loans to fund expansion and a planned initial public offering in the United States has been postponed.

"Lenders are still uncertain about thin film and are not willing to lend to a private firm like us," he said. The company plans to expand annual production to 500 megawatts by the end of next year from 100MW at present.

Vroom, vroom as luxury car makers smell high sales

Jin Jing

ZHANG Qian loves luxury cars and he has the means to afford these expensive toys. The 30-something owner of a toy factory in Wuxi in Zhejiang Province drives a BMW 745Li and also owns a Bentley luxury sedan. He was among the 600,000 car enthusiasts who attended the Auto Shanghai 2009.

"I am interested in Porsche's Panamera, a four-seat sports car that offers both driving pleasure and a spacious interior for my family," said Zhang, "I wanted to have a closer look at it and see if I might have the opportunity for a test drive."

The global financial crisis has taken its toll on the auto industry worldwide and on the revenues of Chinese exporters like Zhang, but wealth hasn't disappeared completely and neither has the dream of getting behind the wheel of a luxury vehicle.

That is a heartening sign for Porsche, Rolls-Royce and other high-end auto makers who are banking on sustained China sales.

Lamborghini Murciélago LP 670-4 SuperVeloce

Crisis impact less

"Although China has been impacted by the economic slowdown, generally speaking, the effects have been less spectacular than in the traditionally largest markets for luxury car makers, in particular in the United States and Europe," said Klaus Paur, regional director of the automotive division at TNS China, a consulting firm.

"Signs of recovery can already be seen (in China), while the mature markets appear to be taking much longer to recover," he said. "The commitment to China is a long-term investment into the future."

Indeed, the Shanghai Auto Show highlighted that trend, with several premium and luxury brands on display, some making their Asian or even world debuts. The gloom of the economic downturn took a backseat to a market that's still showing relatively strong revving power.

Porsche AG chose the Shanghai show for the world premiere of its first four-door grand tourer, the Porsche Panamera. The debut of the sports car was postponed at the Geneva Auto Show, and Klaus Berning, executive vice president in charge of Porsche sales and marketing, said it was the first time in the company's history that a new model was being introduced outside Europe or North America.

"Although in operating terms we are set up better than many other manufacturers, we too feel the global slump in demand," Berning said at the launch ceremony on the 97th floor of the Shanghai World Financial Center. "China is a significant growth market for Porsche."

Last year, Porsche delivered 7,600 vehicles to the Chinese mainland, a jump of 145 percent from a year earlier, and compared to around 400 units in 2004.

The Panamera would be Porsche's fourth product series in addition to the existing 911, Boxster-Cayman and Cayenne. The German car maker is expected to sell the model between 1.85 million yuan (US$270,468) and 2.5 million yuan, depending on engine options, when it hits the Chinese market in the fourth quarter of this year.

" Luxury car ownership is a good opportunity to express one's affluence, and Ferrari, Lamborghini, Porsche and Rolls Royce are benefiting from that. "

Berning said Porsche expects about a third of its forecast 20,000 Panamera sales a year to come from China and the rest of Asia.

Ferrari is equally optimistic about the Chinese market. It had its latest sports car, the California, on exhibit at the Shanghai show. The California will be priced at around 3.4 million yuan in China. A company official said sales of Ferrari rose 20 percent to 212 in the Chinese mainland last year.

Maserati launched the Asia debut of its GranTurismo S Automatic and officially launched the Quattroporte Sport GT S in China at the show too.

Last year, Maserati sold 350 vehicles to the mainland, making it the fastest growing market among the 59 markets it operates in.

Rolls-Royce unveiled its RR4, or Ghost, at the Shanghai show, a luxury sedan that may cost more than four million yuan when it is launched at the end of this year. With sales of 106 cars last year, the mainland became the manufacturer's third largest market after the United States and Britain, surpassing Japan as its major Asian market for the first time.

That's not to say that the luxury car market in China hasn't suffered some pangs from the economic slowdown. Sales of Mercedes-Benz, BMW and Audi slowed from their average 30-percent growth in the second half of last year as even the wealthy curbed their spending, especially in Guangzhou and Shenzhen in Guangdong Province where many factories have been forced to close.

The luxury car market also has to contend with plans to levy higher taxes on cars with large engines, which will increase their purchase price.

"Without favorable government policies, it's still questionable whether the luxury car market will rebound to its former high-growth levels in the absence of improvement in the global economy," said Lin Huaibing, an analyst at Global Insight.

Long-term prospects

"We are seeing less profit because consumers are demanding higher discounts," Fire Fung, director of Rolls-Royce Motor Cars Shanghai. "We have held back our plans to open new dealerships in the East China region this year to ensure existing dealers would be able to make money under the current circumstances."

Longer-term prospects, however, look good.

China's robust economy has created millionaires at a fast pace.

The nation is home to 51,000 people who are worth more than 100 million yuan (US$14.7 million), according to a study

The Porsche booth is packed with luxury car fans during the Auto Shanghai 2009, which has held at the Shanghai New International Expo Center. — Zhang Suoqing published by Hurun Report, a business magazine best known for its "China Rich List." One in every 1,700 people on the Chinese mainland has more than 10 million yuan in personal assets, according to the magazine.

Encouraging sales

"The economic situation doesn't mean all rich people are in dire straits," said Xu Qun, publisher and editor of Car & Driver and Mr Modern.

"But they have become more selective when buying luxury vehicles. They do more comparison shopping. They want to know everything about the car, and they want a test drive."

At the auto show, Bentley, the premier affiliate of Volkswagen AG, said it sold 15 vehicles including all models on display.

Company officials from Porsche, Ferrari, Maserati and Maybach declined to give sales figures chalked up at the auto show, but most of them said sales exceeded expectations.

Maserati GranTurismo S Automatic

Lamborghini said it received more than 10 orders for its models, including one for its LP670SV sports car that costs more than 7.5 million yuan, even though buyers will have to wait a year for delivery. About 18 Rolls-Royces also were sold, including the RR4 luxury sedan that will hit the market later this year.

TNS China's Paur said the country's nouveaux rich likes to flaunt their wealth. "Luxury car ownership is a good opportunity to express one's affluence, and highly inspirational brands like Ferrari, Lamborghini, Porsche and Rolls Royce are benefiting from that."

"Chinese consumers are also very fond of new products and the latest technologies," he added.

Luxury car makers revving up business in China have had to adapt to Chinese tastes in vehicles.

BMW's and Audi's longer wheelbase luxury sedans are specially designed for the Chinese market because consumers think bigger is better, particular for business use.

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