

ONE US\$ DEQUALS

▼ RMB 6.3721

▲ HKD 7.7540

■ JPY 78.24

▼ EUR 0.8171

▼ GBP 0.6429

■ JD 0.9502

▼ INR 55.90

▲ CAD 1.0020

▼ KRW 1134.25

▼ THB 31.57

▼ BRL 2.0487

## More trial trading zones to help boost equity market

By CHEN JIA  
chenjia1@chinadaily.com.cn

The State Council has approved the expansion of a pilot share-trading platform into three more development zones, in an effort to breathe life into China's tumbling stock indexes.

**POLICY** The new third board, as it is being called, is an over-the-counter equity trading system aimed to help emerging businesses shore up their finances, the China Securities Regulatory Commission said on Friday.

The new market is designed to be a platform for fledgling high-tech and growth enterprises.

The move comes as China's tumbling stock indexes have started to seriously affect investor confidence, already weakened by slowing macro-economic conditions, according to an unnamed official from the Commission.

"The mainland stock market has been falling since May, and many investors remain worried about the grim international financial situation, and how the deepening European debt crisis could mean a serious adverse effect for domestic economic growth," he said.

The Shanghai Composite Index has fallen 13 percent from the year's peak on March 2. On Friday, the market closed at 2132.80, a one percent increase on the day, and only 0.2 percent up on the week, after a six-week losing streak.

The stock gauge dropped to 2100.25 on July 31, reaching a three-year low as investors lost confidence.

The unnamed commission spokesman confirmed that the State Council had approved plans for expanding the new third board pilot into the Zhangjiang High-Tech Industrial Development Zone in Shanghai, East Lake High-Tech Development Zone in central China's city of Wuhan and the Tianjin Binhai High-Tech Industrial Development Area.

Figures show that in the first seven months of the year, just 122 companies issued IPOs, compared with 187 in the same period a year earlier.

New share issues raised 86.1 billion yuan (\$13.51 billion) from January to July, a 53 percent year-on-year drop, according to data released by the CSRC.

"The market is the main force behind influencing IPO num-

bers and scale," said the CSRC official, pledging that more market-based share issuing system reforms are planned to help improve sentiment.

To boost the secondary market, the CSRC previously suspended IPO approval in 1995, 2001 and 2004. "But the effects were very limited," added the official.

"Now the average price-earnings ratio of the mainland market has dropped to a historic low," he said.

According to CSRC data, the dynamic PE ratio of the A shares reached 12.72 times on Thursday, even lower than that on June 6, 2005, when the Shanghai Composite Index fell to 998.

In addition, the PE ratio of the country's blue chips is lower than most shares in overseas markets, reported the CSRC.

Meanwhile, blue-chip dividend yield ratios are relatively high in emerging countries.

Last year, the ratio of shares tracked by the CSI 300 Index was 2.35 percent, compared with 1.53 percent of the Indian SENSEX 30 Index and 2.11 percent on the Standard & Poor's 500 Index.

"That indicated that the long-term investment value of the country's stock market is increasing," the CSRC official said.

As well as the new third board pilots, the securities regulator is preparing to inject more money from qualified foreign institutional investors to boost the mainland market, a CSRC official from the fund management department said on Friday.

In the first half of this year, the total quota of The Qualified Foreign Institutional Investor had grown by \$5.69 billion, of which the State Administration of Foreign Exchange had approved \$4.43 billion for 36 new investors, while 10 existing QFII companies got \$1.42 billion more from last year, the CSRC data showed.

At Friday's close, 147 foreign institutional investors had received the QFII quota of \$28.53 billion, 123 of which have injected \$21.3 billion into the mainland market, it said. In the first half year, the CSRC approved QFII licenses for 37 new companies.

On Thursday, the CSRC announced a cut in the transaction fees on share trading by 20 percent, a move expected to save investors 600 million yuan in the final four months of the year, a move which saw stock market increases on the day.



Gu Feng (right), chairman of Yancheng Rainbow Arts and Crafts Co, in his factory in Yancheng, Jiangsu province, surrounded by the mascots he has produced for the London Olympics.

## London mascot maker feels pinch of rising labor costs

By CHENG YINGQI  
chengyingqi@chinadaily.com.cn

Gu Feng, whose company has made around 500,000 sets of Wenlock and Mandeville, the London 2012 Olympic Games mascots, is worried as he looks ahead to the 2016 Games in Brazil.

The 55-year-old chairman of Yancheng Rainbow Arts and Crafts Co in East China's Jiangsu province said his plant is under pressure because of workers' pay rises and the depreciation of the US dollar.

Although this should be the peak season for selling toys, Gu's plant is not busy because of a shortage of new orders — except for the Olympic ones.

"We were lucky to get the Olympic orders this year. But who knows what will happen four years later in Rio de Janeiro?" he said.

"I mean, if the franchisee emphasizes nothing but low price, we might lose our advantage to the Southeast Asian countries where labor costs are low."

Gu started Rainbow 15 years ago, and it is now the oldest toy plant in the city of Yancheng. Other toy plants that opened during the same period have closed down.

"When I started Rainbow, I had only 12 workers and

seven sewing machines," Gu said. "But the export demand was great, and we expanded quickly."

His business enjoyed enormous growth between 2002 and 2008, when market rules and the logistics system were improved in Yancheng, a coastal city. In 2008, the plant had 157 million yuan (\$24.64 million) in export sales.

In the 2010 Olympic Winter Games in Vancouver, Canada, Gu sold 2 million stuffed mascots.

"When the mascot was unveiled, the organizing committee did not give out the manufacturing design, which meant we had to design the toy based on the image by ourselves," Gu said.

The design process was expensive. Gu's designers changed a number of molds for example, to find a proper nose for the mascot, and each mold cost 3,000 yuan.

"Making the samples of a mascot named 'Mukmuk' alone cost over 50,000 yuan. We send the samples to Vancouver for adaptation, and it took more than 20 attempts to reach a satisfying result," he said.

Gu said the prolonged design process might have scared away some plants, but the experience helped him to win the order in London.

"Lucky for us, the franchisee of the London Games, a company named Golden Bear, focuses more on quality rather than the extra 2 or 3 yuan (apiece) they will pay," Gu said.

He sent a design team to London to discuss and determine the toy design, and after receiving a Golden Bear inspection team, obtained the order in a few months.

However, things did not go as smoothly as Gu hoped they would. In January, a UK newspaper, The Sun, accused the company of using slave labor, saying it forced workers to put in 358 hours a month and while paying only \$145.74. But Gu said the report was not true.

"The salary of our workers is \$300 to \$400 a month, and actually, you cannot find any workers for your plant in Yancheng lower than that price. And we had never forced the workers to work long hours," he said.

The wage surge is not unique to Yancheng. In fact, labor costs shot up 20 percent each year for the past four years, and China's coastal provinces are losing their power to find workers, according to a recent report in The Economist.

"We can see the trend that more and more manufacturing is moving to other countries and regions — more and more textiles industry to Bangladesh, Sri Lanka, Thailand — where

the cost of manufacture is much lower, whereas electronic products move to Taiwan and Malaysia," said Graeme Read, group managing director of Antal International, a global executive recruitment organization.

But Read also said that in comparison with other countries in the region, China still retains a manufacturing advantage in terms of better logistics and an abundant labor force with engineering diplomas, and China manufacturing is moving up the value chain.

Gu said some toy plants in Yancheng moved to central China, and some moved to other countries.

He added his business setup in Jiangsu has both advantages and disadvantages.

"Because the industrial chain is complete here, from a button on the toy to the packing case, you do not have to waste time buying the smallest parts."

"But I know I will have to move sometime anyway. It is the trend."

Gu said he has considered moving to other industries, but that takes time.

"For example, I tried to invest in photovoltaic material, but ended up losing money. Now I wish I had chosen real estate instead of toys when I started my own business 15 years ago."

## VC, PE sector sees strong growth in numbers

By CAIXIAO  
caixiao@chinadaily.com.cn

New figures show that the number of venture-capital and private-equity companies in China, and the value of assets they handled, both increased significantly last year.

According to the National Development and Reform Commission, there were 882 VC and PE firms registered with the Commission at the end of 2011, a 34.3 percent rise compared to 2010, and the value of assets managed by them had increased 41.5 percent to 220.7 billion yuan (\$34.6 billion).

Feng Zhongsheng, deputy director at the Department of Fiscal and Financial Affairs of the NDRC, said: "The Chinese VC and PE market continued to grow last year, and its development became more healthy."

According to Feng, the most popular investment target sector was financial services, followed by traditional manufacturing, new energy, and materials.

He added that private investment grew 2.3 percent during the year, and investment from non-State institutions grew by 2.4 percent; but more was actually invested by individuals.

"By the end of 2011, the accumulated investment value for the VC and PE companies was 120.4 billion yuan, a 30.7 per cent increase year-on-year."

"There were 1928 new deals made in 2011, 53 more than in 2010," said Feng.

There were 507 exits from registered VC and PE firms, 119 more than 2010.

Feng said VC and PE firms made a major contribution to China's economic development because their investment during the year was worth 29.7 billion yuan, representing added value to the companies they invested in around 17 times.

Zhang Wei, the chairman of leading Nanjing-based VC firm Govtor Capital Group, said that it had been investing in overseas core high-tech technologies.

## Latest lawsuit attacks Apple's warranty conditions

By HE WEI in Shanghai  
hewei@chinadaily.com.cn

Apple Inc has come under renewed fire in China for not abiding by the country's consumer protection laws, after a local court accepted the first lawsuit filed by users against its after-sales services.

**TECH** The Lixia District People's Court in Jinan, capital of East China's Shandong province, confirmed it had received a petition from an iPod user claiming the US tech giant violated his consumer rights by refusing to update the warranty after repairing two devices he had bought.

The court will hear the case on Sept 14, Liu Ke, the court's public relations officer, told China Daily on Friday.

The buyer Bi Jiao said his

gadgets malfunctioned last year and he had them fixed by Apple. But the warranty periods for the new devices were both shortened to three months afterwards, violating the regulatory requirement of at least one year.

Ma Liwu, Bi's lawyer at the Shandong-based Kang Qiao Law Firm, said Chinese law requires that when companies replace damaged products, they need to update the warranty period accordingly.

"But in this case, Apple failed to renew the warranty, citing the firm's internal rules. That limits the customer's rights and violates Chinese law," Ma said.

Apple's franchised maintenance contractor in Shandong, Bybon Electronics Technology Co Ltd, had suggested the dispute be settled in private last month, Ma said, but Bi refused.

Ma claimed the latest move marks a major step toward fighting what many think are unfair market practices by the American company in China.

Sales of iPhone products in China have rocketed four fold since last year, according to Apple's second-quarter results.

In June, China Consumers' Association condemned the company for replacing damaged parts in iPhones with other used or remanufactured parts. The company claimed that "consumers are deemed to have given up the ownership of a product if they fail to collect repaired products from Apple within a certain period of time."

A report co-released by the association and local associations in Beijing, Tianjin, Shanghai, Chongqing, Jiangsu and Shandong, claimed that some of the terms it includes in its

customer agreements "reduce or exempt Apple's compensation liability and limit consumers' rights".

Last week, the association released another report suggesting that Apple had violated consumer protection laws through offering insufficient after-sales care service.

That study referred specifically to an iPhone owner who found his smartphone broke down during the warranty period; the company replaced many of the device's parts, except for the case and battery charger, but refused to renew the warranty.

Also in July, a consumer advocacy group in the southern province of Guangdong blacklisted Apple for abusing its conditions of sale.

Liu Junhai, vice-chairman of the consumers' association,

said that it was "highly disturbing" that Apple has now been accused of failing to apply a universal standard for its maintenance terms.

"In certain countries such as Japan and Australia, Apple adopted unique rules to bring the company in line with local laws and regulations. Apparently they have double standards," he said.

In another similar case, a lawsuit was filed by an iMac user in March who complained of a dust problem on his computer screen.

Apple claimed the problem was caused by the dust in the air in China, rather than a quality or design flaw.

Such disputes are not specific to China, said Wang Zhiyuan, a consumer-right specialist at the consumers' association in Shandong.



Headquarters of China Securities Regulatory Commission in Beijing.