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CHINA BUSINESS

THE WALL STREET JOURNAL BRIEFING

DOW JONES

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Inside

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Pressure Rises to Maintain Arms Embargo

A strong U.S. backlash has made it increasingly unlikely that the European Union will push ahead any time soon with a contentious plan to lift its arms embargo against China.

China's saber-rattling on Taiwan and continued Western unhappiness with Beijing on human-rights issues have made it harder for Britain and the EU as a whole to counter U.S. pressure.

Japanese Prime Minister Junichiro Koizumi told visiting French President Jacques Chirac on Sunday that Japan strongly opposes the lifting of the embargo.

European officials say it is now highly unlikely the EU embargo will be lifted by the end of June, as previously expected. The clash over the embargo highlights a far more fundamental divide between the U.S. and its European allies over how to best deal with a rising China.

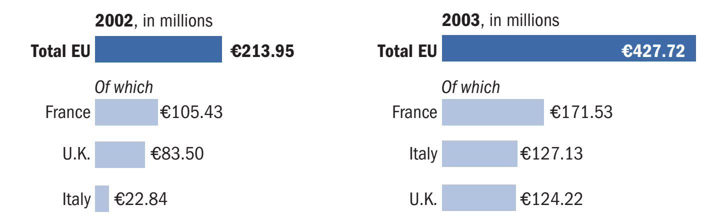
Europeans argue that, by embracing China as a rising power, they can convince Beijing that its best interests lie in cooperation, not conflict. U.S. officials say it is important to deny China a symbolic reward and keep the embargo at a time when China is ramping up military spending and making threatening noises toward Taiwan.

The EU imposed its arms embargo after Beijing's bloody crackdown on pro-democracy protesters in Tiananmen Square in 1989. The ban is vague, allowing each European country to decide what it can sell to China. Most countries sell to China dual-use technologies—commercial products that may have a military application—and many sell unassembled military components.

Pentagon officials say they would like to stem the flow of dual-use technologies like advanced communications and surveillance equipment.

Growth Market

Despite the EU embargo on arms sales to China, national governments permit some items to be sold to Beijing. The value of licenses granted for arms sales to China has soared in recent years.



Note: Includes licenses for sales to Hong Kong and Macau

Source: European Commission annual report on the EU code of conduct for arms sales and exports

GM's Top China Executive Steps Down

The top executive at **General Motors** Corp. in China has unexpectedly left the company, amid a period of declining sales in what had been one of the car maker's few profitable regions.

Phil Murtaugh, 50 years old, the chairman and managing director of GM's China Group since July 2000, resigned from the company, a person familiar with the matter said.

A GM spokesman in Detroit declined to comment.

Mr. Murtaugh, who oversaw GM's operations in mainland China and Taiwan, was at the helm during a period of explosive growth over the last few years and played a key role in the launch of Shanghai GM, GM's largest venture in China.

News of Mr. Murtaugh's departure comes at a difficult time for GM, which shocked investors by warning that it would post a substantial loss in the first quarter and by slashing its 2005 profit outlook to less than half earlier forecasts.

The company, which is also threatened with the possibility of a downgrade in its credit rating to junk-level status, has pointed to its China operations as a major success story and a source of profits for years to come.

But GM, like many car makers, has suffered a sudden drop in sales in China as a result of rising competition and efforts by the Chinese government to slow economic growth.

In January and February, GM Shanghai, the company's main joint venture, saw passenger car sales fall 54% compared with the first two months of 2004.

Profits are slipping, too. For the fourth quarter of 2004, GM posted a net income of $117 million, down from $177 million a year earlier, in the Asia-Pacific region.

"That's really all about China. And most of the story on China is about a reduction in our volume and our mix," GM Chief Financial Officer John Devine said in the company's fourth-quarter conference call with analysts.

"We think that's a reflection of the softness right now in the (large car) market. We also think it's a reflection of our product cycle," Mr. Devine said.

"We expect to improve that later in '05," Mr. Devine said. "As the second half of the year plays out in China, we'd expect an improvement in the overall market; and from our standpoint, with some new products, we'd expect to improve our market share and overall profitability."

Before gaining the top spot, Mr. Murtaugh served as executive vice president of Shanghai GM and general manager of GM China's Shanghai representative office.

Suit Alleges U.S. Firm Paid Bribes for Contracts

A lawsuit filed in California by a Chinese company alleges that an American firm paid a $1 million bribe in 2002 to the recently deposed head of one of China's largest banks in an effort to land software contracts valued at millions of dollars.

The allegation, which is denied by the U.S. company, **Fidelity National Financial** Inc., comes amid media reports of a corruption probe at **China Construction Bank**, which is supposed to list publicly in Shanghai and Hong Kong later this year.

The suit was brought by **Grace & Digital Information Technology**, a Beijing-based company controlled by a Taiwanese entrepreneur, which the lawsuit says helped **Alltel Information Services** obtain $176 million in contracts from China Construction Bank. Fidelity National Financial subsequently bought the unit from Alltel Corp. in April 2003 and renamed it **Fidelity Information Services**. The unit isn't related to Fidelity Investment, the U.S. mutual-fund giant.

According to the lawsuit, just a few months after he took over as president of China Construction Bank, Zhang Enzhao played a round of golf at California's famed Pebble Beach resort with Jim Wilson, formerly of Alltel who now heads the international division of Fidelity Information Services. Alltel needed Mr. Zhang's help, as its contracts valued at tens of millions of dollars with China Construction Bank had been frozen as authorities pursued graft charges against his predecessor, Wang Xuebing, who was subsequently sentenced to 12 years in jail.

Grace maintains that at the golf party in May 2002, Mr. Zhang and Mr. Wilson hatched a plan to cut Grace out of the software deal by coming up with a whole new set of contracts. New licensing contracts were eventually signed in September 2003.

The lawsuit alleges that Fidelity paid a kickback of $1 million to Mr. Zhang through a Hong Kong-listed company, **Prosten Technology Holdings** Ltd. It alleges that Fidelity paid for Mr. Wang's son to attend school in Britain and for traveling expenses for Mr. Wang's wife to visit their son. In addition, the lawsuit claims that Fidelity made monthly payments of $3,500 to an individual it describes as a personal friend of Mr. Zhang. That person was on the payroll of Prosten, the suit alleges.

Fidelity and Mr. Wilson, in legal submissions, deny the bribery allegations as "completely false." Fidelity maintains that Grace executives fled China and did nothing to try to salvage the business after Mr. Wang was fired. In the end, they terminated their relationship with Grace and turned to Prosten, which provided the contacts that led to the Pebble Beach outing.

The suit alleged that the golf game violated the U.S. Foreign Corrupt Practices Act, which outlaws bribery of foreign officials. It seeks payment of the full $58 million in commissions it says Grace is owed.

Think Tank Puts 2005 Growth at A Slower 8.8%

China's economic growth is expected to slow to 8.8% year-to-year in the first quarter, from 9.5% growth in the fourth quarter, but pricing pressures remain, a government think tank said.

Gross domestic product should reach 3.08 trillion yuan ($372.14 billion) in the first three months of this year, underpinned by double-digit year-to-year growth in value-added industrial output, fixed-asset investment, and exports and imports, the State Information Center said in a research report.

Consumer prices are forecast to rise 2.7% in the January-March quarter from a year earlier, which would be less than the government forecast of around 4% for all of 2005.

The center said the March increase in consumer prices is expected to be around the level seen in the first two months of this year, 2.9%, adding that "the growth won't be great . . . [the] first quarter this year should be a time when inflationary pressure will be relatively lighter."

State Hikes Gasoline Price, First in Months

China's top economic planning agency last week announced the country's first hike in retail gasoline price since August, in an effort to ease cost pressures on oil refiners because of surging international oil prices. The National Development and Reform Commission said it decided to increase the ex-refinery price of gasoline by 300 yuan ($36) a metric ton and the retail price of gasoline by the same extent. The NDRC said the price of diesel remains unchanged.

The price hikes are aimed at "increasing the enthusiasm of oil refineries, guiding the imports of finished oil products, ensuring the domestic supply, and curbing unreasonable demand," according to the NDRC. China regulates fuel prices based on movements in a reference basket using international benchmarks. But a substantial lag between upward movements in the basket and local fuel prices has hurt the country's oil majors, which have been unable to pass their higher import costs on to users.

Hoteliers Join Hands in Macau Gambling Strip

At least eight hotel operators and investors have agreed to join **Las Vegas Sands** Corp. in an ambitious project to build a Las Vegas-style strip of casinos and luxury hotels in Macau.

About half the group, including **Starwood Hotels & Resorts Worldwide** Inc., will invest a total of $1.5 billion in the project's initial phase, which is set to open in 2007 with at least 10,000 rooms, Sands Chairman and Chief Executive Sheldon Adelson said.

Four other participants—**Marriott International** Inc., **Hilton Hotels** Corp., **InterContinental Hotels Group** PLC and **Four Seasons Hotels** Inc.—plan to operate hotels at the site, dubbed the Cotai strip, without taking equity stakes. Las Vegas Sands would operate casinos at many of the hotels. The remaining three participants are **Dorsett Hotel Group**, **Regal Hotels International** and **Harilela Hotels** Ltd.

"We're all making the same assumption—that what Asia needs is an Asian Las Vegas," Mr. Adelson said.

IN BRIEF

Siemens, Huawei Betting on 3G Wireless Standard

Siemens AG and **Huawei Technologies** said they plan to set up a joint venture to develop products based on China's home-grown wireless standard.

The company, to be known as **TDTech.** Ltd., will develop the TD-SCDMA standard for third-generation mobile telephone systems. TD-SCDMA is one of three 3G wireless standards competing for approval from China's telecommunications regulators. TDTech. Ltd. will be initially capitalized at $100 million, TDTech. Chief Executive Klaus Maler said. He also said Siemens had invested $170 million in the development of TD-SCDMA technology in the past five years.

"We wouldn't have invested in this technology if we had doubts about its success," he said.

The joint venture's first commercial products should be launched "before the end of the year," said Peter Weiss, executive vice president of Siemens China.

Air Canada Cargo Service to China Takes Off in May

Air Canada intends to expand cargo services to China following the success of its dedicated freighter services within Canada and to Europe launched in 2004.

Air Canada has signed a two-year lease agreement with **World Airways** for an MD-11 cargo freighter to increase its cargo capacity to the fast-growing China market, the airline said.

Air Canada plans to deploy the freighter three times weekly between Canada and Shanghai beginning May 2005, subject to government approval.

The addition of the MD-11 freighter to Air Canada's existing daily Shanghai service will triple available weight capacity on the route in response to customer demand, the airline said.

COMPANY INSIDER

Private Equity Angling for Lenovo Stake

Three private-equity firms—**Texas Pacific Group**, **General Atlantic** LLC and the **Newbridge Capital** LLC affiliate of Texas Pacific and **Blum Capital Partners**—are close to taking a stake in China's **Lenovo Group** Ltd.

The firms are putting up about $350 million, according to people familiar with the matter, with contributions of $200 million from Texas Pacific, $100 million from General Atlantic and $50 million from Newbridge Capital, these people say.

Their plans to invest in Lenovo come shortly after hearings in Washington over **International Business Machines** Corp.'s $1.25 billion sale of its personal-computer business to the Chinese computer maker.

The form of the deal couldn't be determined. The possibilities include issuing debt with warrants or issuing preferred stock, these people add. Texas Pacific had been one of the bidders when IBM put its PC unit on the block last year.

American companies increasingly are entrenched with Chinese interests. IBM retains a stake in the operations it sold to Lenovo. Because Lenovo is partly government-owned, the Committee on Foreign Investment in the U.S. reviewed the IBM sale and approved the deal earlier this month.

Lenovo's newest investors will give the company expertise in helping it carve out the IBM PC business from its former parent. In addition, they will play a role in helping meld two diverse cultures, one American and one Chinese.

Last year Lenovo had sales of almost $2 billion, competing head-on with such global powerhouses as **Dell** Inc.

Unicom Revamp Appears Increasingly Likely

The sluggish 2004 earnings performance reported last week by China's No. 2 wireless operator, **China Unicom** Ltd., raises new questions about whether Beijing might restructure the company—or dissolve it altogether.

Such a restructuring has been rumored for months, and some industry analysts suggest it is now more likely because Unicom has failed to deliver solid profit growth, prompting fresh concern over its unimpressive financial performance.

Unicom, a subsidiary of state-controlled **China United Telecommunications** Corp., consistently has been a laggard in China's fast-growing mobile market because it is saddled with maintaining two competing wireless networks. Most mobile-phone companies can focus on just one. That is the case for China's biggest wireless carrier, **China Mobile Communications** Corp., which has outperformed Unicom over the past few years.

Now, the gulf between the two companies looks even wider: Last Thursday, Unicom reported a 4% rise in net profit. China Mobile's publicly listed arm, **China Mobile (Hong Kong)** Ltd., said earlier this month it logged an 18% profit increase for 2004.

Unicom's troubles have fanned speculation that the government could force the company to sell off one or both of its networks to other Chinese phone concerns.

Beijing also is considering some sort of consolidation in the phone industry because it wants to reduce the number of companies that will build new 3G phone networks.

PetroChina Looks Overseas

PetroChina Co. said its net profit for 2004 rose 48% from a year earlier, and the oil and natural-gas producer added that it is considering expansion overseas by forming a joint venture with its parent company.

The joint venture with **China National Petroleum** Corp., which has close to 30 oil-and-gas projects outside China, is likely to be set up "very soon," said PetroChina's chairman, Chen Geng. In 2004, PetroChina's crude-oil production rose just 0.5% to 778.4 million barrels.

However, high global crude-oil prices and strong demand for petrochemical products in China helped increase the company's 2004 net profit to a record 102.93 billion yuan ($12.44 billion).

PetroChina's revenue last year rose 28% to 388.63 billion yuan.

"Profits in all four business segments recorded historical highs," Mr. Chen said.

The segments include exploration, refining, chemical products and natural gas and pipelines.

Operating profit for exploration and production rose 36% and accounted for 86% of the company's total operating profit of 146.59 billion yuan.

PetroChina's oil-and-gas output target for 2005 is 955.3 million barrels of oil equivalent, up from 918.6 million barrels of oil equivalent produced in 2004.

The company has earmarked 97.5 billion yuan as capital expenditure, up from 95.35 billion yuan in the previous year.

Wang Guoliang, chief financial officer of the company, expects the oil price to remain high in 2005, and says he is confident the company's net profit in 2005 will exceed 100 billion yuan within this environment.

Toll Road Operator Looks West

Chinese toll road operator **Shenzhen Expressway** Co. said it will acquire a 55% stake in a highway operator in central China for HK$654 million ($83.85 million).

The remaining 45% of **Hubei Magerk Expressway Management** Pte. Ltd. will be concurrently purchased by investment firm **Shenzhen International** Ltd. for HK$535 million.

Hubei Magerk has the rights to operate the 70.3 kilometer-long Wuhuang Expressway in Hubei province for 25 years from 1997.

The deal is Shenzhen Expressway's first acquisition in Hubei province. The company mainly operates toll roads in southern China. In February, it bought a stake in a highway operator based in Guangdong province.

FOCUS

Australians Find Allure in Chinese Gold Mines

Several Australian companies are eyeing Chinese gold mines as new investment opportunities.

Golden Tiger Mining NL Managing Director Greg Kater said his company has picked Guangxi province in southwestern China, where its joint venture with the local government has been granted exploration rights in a 15,500-square-kilometer "exclusive area."

The area contained 70 known gold deposits, Mr. Kater said. Golden Tiger's partner is the commercial arm of the Guangxi Ministry of Geology and Mineral Resources.

Recent exploration works in the area focused on three projects, all of which "show strong potential for large-size, high-grade deposits with favorable metallurgy," Mr. Kater said.

With prospects to "find high-grade gold" in these fields and thanks to very low cost of labor and "tax-free" equipment brought into China, the company's average cost of producing gold will be well below $100 per ounce, compared with similar players mining in Australia at around $270 per ounce, Mr. Kater said.

Gold mining in China is mostly done by small, primitive and often illegal operations.

Michelago Ltd. has signed up **Australia & New Zealand Banking Group** Ltd. to guarantee the Australian gold company's $20 million share of working capital for the BioGold gold plant in China.

ANZ's signature clears the way for Michelago to complete the acquisition of an 82% interest in the 170,000-ounce-a-year plant.

BioGold buys most of its ore from about 20 small producers in Shandong province at a percentage of the gold price, processes ore into gold using bacterial oxidation technology, then sells the finished product at spot.

China produces around 200 tons of gold a year, next to Australia's 300 tons.

BROADCASTING

Cable-TV Network Plans An Upgrade to Digital

State-run **China Electronics** Corp. is considering injecting its cable-TV network into its Hong Kong-listed unit to diversify and strengthen the revenue of the listed vehicle.

At the same time, plans are under way to upgrade China Electronics' network—the only nationwide one—to digital broadcasting in an initial $480 million investment as the country prepares for the 2008 Olympic Games.

"Our aim is to inject good quality assets into the Hong Kong-listed company, but we are still in the planning process and have made no decision," said China Electronics Chairman Yang Xiaotang in an interview.

The listed company, **China Electronics Corporation Holdings** Co., manufactures mobile handsets for **Philips Electronics** NV, and produced 16.8 million units for the Dutch electronics company in 2004.

Mr. Yang said China Electronics started its network upgrade last month by paying 450 million yuan ($54.4 million) for a 45% stake in a joint venture, **China Cable Television Network** Co.

CCTN's cable network extends 61,000 kilometers and is the only network that covers all provinces in China. It has a subscriber base of three million.

"At the moment," Mr. Yang said, "only part of the network supports digital broadcasting, but CCTN's aim is to upgrade the network so that when the Olympic Games come in 2008 we can do national digital broadcasting."

He said CCTN will need to produce the equipment that households must have to receive digital broadcasts. "Viewers will need set-top boxes to convert the signal for their analog TVs," said Mr. Yang, adding that CCTN is also in the business of manufacturing set-top boxes.

"CCTN has earmarked four billion yuan for the initial development stage," Mr. Yang said. He said it will likely take one year to prepare a detailed development plan.

Coke Splits its Asia Division, Appoints Exec

Coca-Cola will split its current Asia division into two separate units and realign some of its European business.

The new North Asia, Eurasia and Middle East Group—which will include the critical markets of China, Japan and Russia—will be headed by Muhtar Kent, 52, a former Coca-Cola executive in Europe and Turkey.

In 1997, Mr. Kent reached a settlement with the Australian Securities Commission following an investigation into allegations of insider trading while he was a managing director of Coca-Cola Amatil Ltd., a large Coca-Cola bottler. He sold short 100,000 shares of Coca-Cola Amatil prior to an earnings announcement from the company.

Mr. Kent agreed to repay the profits he made on selling the shares plus $50,000 to cover the cost of the securities investigation. A spokeswoman for Coca-Cola said the issue was resolved in the past and wasn't a factor in Mr. Kent's appointment.

State Calls on Businesses in Fighting AIDS

The Chinese government is urging companies and nongovernmental organizations to play a larger role in halting the spread of AIDS, underscoring a heightened sense of urgency about a national epidemic that Beijing had until recently sought to play down.

Combating AIDS isn't just a government obligation, "but also the common responsibility of society as a whole, including business," Vice Premier Wu Yi said in a speech to government and corporate representatives gathered for a summit on AIDS in Beijing.

According to Chinese official statistics, about 840,000 people in the country were living with HIV/AIDS at the end of 2003. Experts inside China and abroad say the number of infected people is probably far higher. United Nations officials have said the epidemic could explode to 10 million cases by 2010 if the government doesn't take forceful action.

Japanese Joint Mission to Combat Piracy

Japan will send a mission of government officials, police and business executives to China to discuss piracy issues sometime this spring, says Mika Iihama of Japan's Ministry of Economy, Trade and Industry.

The delegation, which will include business executives representing industries such as automobile, electronics and music, is going to be led by Yoshihide Munekuni, a former chairman of **Honda Motor** Co., Ltd.

The visitors, who will meet with China's Ministry of Commerce, Ministry of Public Security, and others, plan to suggest ways in which Japan can help the Chinese government tackle copyright infringement.

Ideas include providing a list of Chinese counterfeiters that Japan has identified, donating digital cameras to store pictures of copied goods in a database, and sharing Japanese regulatory experience.

VW Wants to Change How People Buy Cars

The China auto-finance unit of **Volkswagen** AG plans to broaden its reach beyond Beijing to build on the almost 500 loans it has recorded since launching operations in the country in September, its general manager said.

China agreed to open its state-bank dominated auto-financing market to foreign competition as part of its entry into the WTO in 2001. Units of auto companies **General Motors** Corp., **Toyota Motor** Corp., and **DaimlerChrysler** AG also have received government approval to offer auto-finance services in China.

"Within five years, we want to cover the majority of Volkswagen car sales in China," said General Manager Klaus-Uwe Schaffrath.

Volkswagen aims to boost the percentage of car buyers that seek loans in China. While at least 80% of cars sold in the U.S. and 60% in Europe are financed, in China it is 10% or less, the VW GM said.

FOCUS

Chinese Seaweed Destined for Japanese Sushi

China will begin exporting nori, the dried seaweed eaten with sushi, to Japan next month.

Japan, which currently imports the product only from South Korea, is set to lift restrictions on seaweed import on April 1.

Japan will maintain an import limit to protect domestic seaweed growers, but is raising the cap to 400 million sheets from the current 240 million in the fiscal year beginning April 1.

South Korea has called on Japan to abolish the import quota, and has prompted the World Trade Organization to set up a panel to resolve related disputes.

South Korea is expected to face competition from Chinese products in both pricing and quality. Wholesalers pay about 3 yen (under 3 U.S. cents) per sheet of Chinese seaweed, compared to 7 yen for the Korean product and 10 yen for the Japanese.

China's seaweed export business was originally developed by Japanese investors, who in the late 1980s began shipping to the United States and Europe a Chinese product considered comparable in quality to the Japanese original. Korean nori is considered rougher, with a salty, oily taste.

Some Japanese traders, however, are not sure yet if they will quickly shift to Chinese seaweed. **Itochu** Corp., which imports about 10 million sheets a year from South Korea, will wait to see what Japanese consumers think of the Chinese product "before we make a big shift," says company spokesman Hajime Kaneko.

Japanese consume about 10 billion sheets of dried seaweed every year.

China is so far the only country outside of South Korea to show interest in exporting seaweed to Japan since the country announced it would open its import market, according to an official at Japan's Ministry of Agriculture, Forestry and Fisheries.

Corporations Law to Create Opportunities

The National People's Congress, China's highest legislative body, plans to draft or amend a total of 76 laws and regulations during its five-year tenure, which runs through 2007. The Wall Street Journal Briefing *is presenting a series of regular features on legislation that affects the business environment in China.*

China is overhauling its 1993 corporate law, making the creation of corporations easier and their regulations more clearly defined. The changes will also increase the possibilities in the establishment of foreign joint-venture enterprises.

A draft of the law is ready for a second review by the Standing Committee of the National People's Congress.

While the law concerns Chinese companies, some of the proposed elements would have an impact on foreign investors as well.

In one significant shift, the draft increases the limit of intangible assets held by a company to 70% from 20%. The 20% cap required foreign investors to "pay extra money besides their intangible strength to set up companies," says Stephen Ye, an associate at the Guangzhou office of Stephenson Harwood & Lo.

The draft also raises the ceiling on a Chinese company's outside investment to 70% of net assets, instead of 50% previously stipulated.

"This would leave more room for cooperation between domestic and foreign partners, increasing flexibility and the probability of success," says Ye.

There are three laws already on the books governing foreign investment in China, so the new law will have only a secondary impact on foreign investors, says Laetitia Tjoa, a partner of Coudert Brothers LLP Beijing office. "For example, equity interest may account for registered capital, which makes an equity swap possible," she says.

In another change, the draft allows all qualified companies to issue bonds. Previously, only joint-stock companies and state-owned or controlled companies could issue bonds.

The draft allows corporations to be established by an individual; previously, two to 50 people were required. It lowers the minimum registered capital to 30,000 yuan ($3,625) from the previous 100,000 yuan.

In other changes, one-third of the directors on the board of a listed company must now be independent, according to Li Shuguang, vice dean at the China University of Politics and Law, who helped to amend the law and is familiar with the draft.

Senior executives and directors of listed companies will have fiduciary obligations, whereas in the past there were no stipulated fiduciary duties.

In additon, stockholders will be empowered to file lawsuits against management and directors, whereas there is currently no stipulation for this.

State Moves to Improve Coal Industry Regulation

China has taken one more step in the effort to amend the legislation that regulates its coal industry, as the country faces soaring demand, energy shortages, environmental degradation and daily mining fatalities.

The policy-making National Development and Reform Commission has posted a notice on its official Web site inviting the public to make suggestions directly to the team that is drafting the new law, an occasional practice in China.

Coal is China's biggest energy source, and the country is the world's largest coal producer and the largest supplier after Australia. The current law, enacted in 1996, is not sufficient to regulate today's massive coal industry, said Si Po Sen of the China Coal Information Institute, who has been involved in drafting new legislation.

The revision is expected to improve punishment of illegal mining, raise the bar on entering the industry, and improve environmental protection and worker-safety. Comments can be sent to fgwcoallaw@yahoo.com.cn.

NDRC Repeats Tough Line on Fertilizer Pricing

China has reiterated that it will implement tough administrative measures to check a further rise in chemical fertilizer prices, in an effort to ensure stable grain production and safeguard the interests of farmers.

The National Development and Reform Commission said for the third time in two weeks that it aims to stabilize chemical fertilizer prices during the plowing season in spring.

"Stabilizing fertilizer prices is in farmers' interests and is also helpful in terms of increasing grain production, bolstering the security of state food (supply), boosting rural economic development and aiding social stability," said the NDRC, a ministry-level agency in charge of industry policy and price regulation.

Restraining chemical fertilizer prices is "top priority," it said.

Makers and traders of chemical fertilizers that don't follow the government's pricing guidelines will be "severely punished," the NDRC said late last year.

Prices of key chemical fertilizers have been rising since late 2003 due to higher production costs and robust demand.

As a result, any boost in farmers' incomes stemming from government subsidies and agricultural tax cuts last year was largely offset by the high cost of raw materials used in agriculture production, the NDRC said earlier this month.

In 2004, urea prices in the market were as high as 1,800 yuan ($217) a metric ton.

The government raised the benchmark urea price to 1,500 yuan a ton in December from 1,400 yuan. This means producers can only set a maximum price of 1,650 yuan a ton.

IN BRIEF

Foreign Travel Agencies Can Now Set Up Anywhere

China's National Tourism Administration has eased restrictions on foreign travel agencies, removing geographic restrictions and lowering minimum registered capital to 2.5 million yuan ($300,000) from 4 million yuan as earlier stipulated.

Foreign investors are now free to set up travel agencies anywhere in China. They were previously limited to Beijing, Shanghai, Shenzhen, Guangzhou, Xian and national holiday resorts, which were opened to foreigners in 2003.

Upon entering the World Trade Organization in 2001, China has said it would lower the capital threshold within three years and eliminate geographic restrictions within six years.

Securities Body Unveils Rules

China's securities regulator has unveiled rules describing the investment scope of money market funds.

The average outstanding maturity of portfolios of money market funds can't be longer than 180 days every trading session, the China Securities Regulatory Commission said.

Money market funds are forbidden to invest in floating-rate bonds with fixed-deposit rates as benchmarks.

Money market funds can have no more than 20% of their net assets in funds borrowed through repurchase agreements each trading session, unless they are facing bulk redemptions.

If, due to bulk redemptions, money market funds have more than 20% of their net assets in funds borrowed through repurchase agreements, fund managers should make adjustments to lower the ratio below 20% within five trading days.

The CSRC said the notice is aimed at "normalizing investment operations" and "protecting the legal rights of fund investors."

THE YUAN

New Currency Czar is Vocal on Reforms

A woman who has consistently called for overhaul of China's capital controls—although not adjustment in the yuan's exchange rate—was named yesterday to head the agency that carries out the country's currency policy.

Hu Xiaolian moves to the State Administration of Foreign Exchange from China's central bank, where she had been one of three deputies to central bank Gov. Zhou Xiaochuan since August. The 46-year-old, though not the first woman to head the agency known as SAFE, is now one of the highest-ranking women in the government hierarchy.

A graduate of the central bank's university, Ms. Hu started at SAFE in the early 1990s and was its deputy director between 2001 and 2004.

SAFE's mandate is to manage China's more than $600 billion in foreign-exchange reserves and to set parameters for the government's domestic currency policy. "Ms. Hu is a firm supporter of bringing in more flexibility to the foreign-exchange mechanism and eventually liberalizing the renminbi," or yuan, said Zhong Wei, an economist at Beijing Normal University.

Ms. Hu has been immersed in currency and financial-system policy in China since graduating from the central-bank graduate school in 1985. She has also been moved into key posts for brief periods. Ms. Hu temporarily ran a company that SAFE set up in late 2003 to invest $45 billion of Beijing's reserves in China Construction Bank and Bank of China.

Hu Xiaolian

Ms. Hu has said repeatedly that China needs to adjust the controls on its currency to better reflect supply and demand. A fixed exchange rate such as that which China has had since 1994 leads to economic distortions, she has said, while stopping short of saying the exchange rate itself should be adjusted.

Instead, Ms. Hu has said rule changes on who can buy or sell yuan are a way that China's currency policy can be made to "reflect the changing world."

Some of the overhauls she has promoted in the past year are now being put into practice, such as instituting a market-maker system for the local currency exchange system and allowing banks to trade global currencies inside the country.

Last June, SAFE issued a statement quoting her as saying that currency futures and other derivative products should be introduced. And she has echoed comments from the central-bank governor, Mr. Zhou, that China has been too slow in allowing the market to influence interest-rate levels.

Ms. Hu will remain only one voice on major currency-policy questions for China—in particular whether to revalue the yuan. But her past comments could give pause to anyone reading personnel changes at SAFE to suggest China is ready to abandon the 11-year-old grip it has held on the yuan's exchange rate.

Regulator to Investigate Loans By "Big Four" State Banks

China's banking regulator plans to investigate loans granted by the country's "Big Four" state-owned commercial banks as part of its efforts to prevent illegal and irregular banking activities.

"In light of the recent occurrence of banking cases, the commission will launch special cleanup activities to prevent irregularities and crimes," the China Banking Regulatory Commission said.

The CBRC said it issued the statement after a meeting it held recently with heads of the Bank of China, China Construction Bank, Industrial and Commercial Bank of China, and Agricultural Bank of China.

The regulator will investigate personal consumer loans and loans related to land and fixed-asset investment projects granted by the "Big Four" state-owned commercial banks, the statement said.

The CBRC urged Bank of China and China Construction Bank to establish sound corporate governance. The two banks were converted into stockholding companies in 2004 as part of preparations for a long-anticipated share offering.

The banking regulator also urged ICBC and Agricultural Bank of China to speed up internal reforms.

Earlier this year, the CBRC rebuked the Bank of China over suspected fraud involving several hundred million yuan at a branch in the northeastern city of Harbin.

The chairman of the China Construction Bank, Zhang Enzhao, stepped down earlier this month for "personal reasons" amid unconfirmed reports he is under investigation for allegedly taking bribes (See article on Page 2). And last week the CBRC said some managers and employees of Agricultural Bank of China were involved in illegal conduct.

Japan May End Aid to China, Says Minister

Japan's foreign minister said his country could soon end a large part of its development aid to China, amid growing concerns in Japan that it is helping build an emerging economic and political rival.

Speaking to a committee in the Diet, Japan's parliament, Foreign Minister Nobutaka Machimura said Japan could end yen-based loans to China before 2008, when Beijing will host the Summer Olympics.

The loans have made up some 90% of Japan's development aid to China in recent years.

Last year, the loans accounted for 96.7 billion yen ($900 million), of Japan's 108-billion-yen aid package to China.

Experts say Japanese aid has contributed to China's spectacular rise. For instance, Beijing's modern glass-and-steel airport, was built with Japanese financial assistance.

FOCUS: SHANGHAI

Central Bank May Relocate Divisions To Financial Hub

China's central bank is expected to relocate a number of divisions and bureaus from its headquarters in Beijing to Shanghai although Beijing has so far been vague about its plans.

Central-bank Gov. Zhou Xiaochuan said this month that clearing of central-bank transactions and credit systems will be moved to Shanghai, state media reported.

His vice governor, Wu Xiaoling, muddied the waters by subsequently saying that a study is yet to begin on the division of work between the central bank's Beijing headquarters and a possible deputy office.

A spokesman for the central bank declined to comment further.

But financial-market participants based in Shanghai already are looking forward to increased access to central-bank decision-makers and hope for a more responsive central bank after the move.

What they want is a central-bank office in Shanghai that has sufficient power to approve or discuss financial-sector matters that might arise in their day-to-day operations, such as the central bank's weekly open-market operations that even out the flow of liquidity through the country's banking system.

"The central bank sits in Beijing, far from Shanghai. Its sense and speed of reaction to us isn't ideal," said Zhu Delin, secretary general of the 102-member Shanghai Banking Association.

Mr. Zhu expects the central bank's operations to prevent money laundering may be among six or seven divisions and bureaus that eventually shift to Shanghai.

But the China Banking Regulatory Commission and the State Administration of Foreign Exchange, which are offshoots of the central bank, are likely to remain in Beijing where government policy and Communist party decisions and approvals are made.

Investors Quiver as Internet Stocks Fly

Several Chinese Internet stocks have taken off in recent weeks following news that online-gaming giant **Shanda Interactive Entertainment** could make a play for Chinese Web portal **Sina**.

Now, some investors reckon other companies, including portals **Netease.com** and **Sohu.com**, could be takeover targets as well.

But don't bet on it. While some analysts tout Netease's prospects, others say the best buys in the Chinese Internet business right now might be Web outfits that don't figure into takeover talk and whose shares haven't gotten a lift lately—including smaller companies that provide entertainment and other services to mobile-phone users.

Among such companies are Beijing-based **Tom Online**, backed by Hong Kong tycoon Li Ka-shing, and **Linktone**, headquartered in Shanghai and run by Silicon Valley-trained entrepreneur Raymond Yang.

The wireless-Internet sector in China has been extremely risky, and some big investors still won't touch it. The main damper has been a continued regulatory crackdown by the Chinese government, which has been trying for nearly a year to stamp out unethical marketing and billing practices in the industry.

But much of the cleanup is now done, and China's wireless market remains huge, with more than 340 million subscribers. While the market has been volatile for some of the stocks, "things will stabilize," predicts William Bao Bean, an analyst with Deutsche Bank in Hong Kong. "The underlying point is that demand for these services is still quite strong."

Indeed, Tom Online, a company that derives about 92% of its revenue from wireless services, earlier this month reported a 73% profit increase for 2004. Despite changes in the regulatory environment, wireless content remains "a profitable, sustainable business model" in phone-happy China, says Wang Lei Lei, Tom Online's CEO.

U.K. Equity CEO Plans Major Portfolio Growth

U.K.-listed private equity and venture capital firm **3i Group** PLC plans to increase by five times its investment portfolio in Asia to around $1.2 billion-$1.5 billion over the next five years, focusing on China and India.

In an interview, 3i Asia Pacific PLC Managing Director Jamie Paton said the company plans to open offices in China and India this year as part of its expansion.

"We believe in the next five to 10 years there will be opportunities to build big and strong businesses in China that will complement the rest of 3i," he said.

3i, which has operations in 14 countries around the world and a portfolio of more than 1,700 companies, focuses on three business lines: venture capital, growth capital and buyouts. Its total portfolio size is more than $12.5 billion.

Mr. Paton said 3i will invest in high-growth companies. It doesn't target specific industries, but tends to go for those that aren't overly regulated and companies that are leaders in their particular fields, he said.

He said 3i will be looking to invest between $20 million to $100 million per company in China.

He said growth capital has been the most popular deals for private equity firms, followed by venture capital deals.

"In all geographical zones and all sectors, 3i sets an internal rate of return of 20% for buyout and growth capital deals and 35% for venture businesses," said Mr. Paton.

On average, 3i exits its investments in about six years after the initial investment.

Among 3i's existing direct investments in China are stakes in electronic digital outdoor and indoor advertising firm **Focus Media (China) Holding** Co., chip foundry **CSMC Technologies** Corp. and lithium ion battery manufacturer **Amperex Technology** Ltd.

3i's current total investment in China is more than $50 million.

Deloitte China to Merge with Local Accountancy

Deloitte Touche Tohmatsu International's merger with accounting firm **Beijing Pan-China** may be its first union in China, but it won't be its last, Deloitte's China CEO said. The merger will take effect June 1, with full integration to take between three and six months.

Around 65% to 70% of the $150 million Deloitte said in June it will invest in China over the following five years will go toward acquiring other companies and hiring local accountants, Deloitte China CEO Peter Bowie said.

By the end of that five-year period, it hopes to increase its local staff to 8,000 employees and to boost revenue four- to five-fold.

"No one knows how big China's market is, but the potential is enormous," Mr. Bowie said.

He said there will be further mergers in the future, but added that no other unions have been finalized yet.

Deloitte's main target clients in China are large state-owned enterprises, private companies, multinational corporations and high-potential rapid growth enterprises, particularly in the tech sector. The firm hopes to offer services such as help with overseas listings and tax preparation.

Mr. Bowie added that with China's economy growing by over 9% each year and Chinese companies going global, there is no shortage of companies that will be looking for listings overseas.

He estimated Deloitte China could prepare 500 public listings for China companies in Hong Kong and New York in the next five years.

He singled out telecom companies, insurance companies, airlines and banks as the sectors with the greatest potential for overseas listings.

The number of Deloitte employees in China has grown from 800 two-and-a-half years ago to 3,200 in eight offices across the country. Deloitte's main international rivals in China are **PricewaterhouseCoopers** and **KPMG International**.

IN BRIEF

Mobile Phone Use Continues Growth

China's mobile phone users increased by 9.25 million in the first two months this year, bringing its total to 344.07 million at the end of February, the Ministry of Information Industry reported.

Over the same period, the country's fixed-line users increased by 7.23 million to 319.68 million, according to the ministry's data.

China's telecommunications services market is dominated by four major state-owned companies. **China Mobile Communications** Corp. and **China United Telecommunications** Corp. are mobile network operators, while **China Telecommunications** Corp. and **China Netcom** Corp. provide fixed-line services.

Revenue for postal and telecommunication services rose 7.6% on year to 97.64 billion yuan ($11.8 billion) in January and February, the ministry said.

Telecom revenue contributed the bulk of the total, or 88.63 billion yuan, up 7.9% on year. Postal revenue was up 5.4% at 9.01 billion yuan.

Ernst & Young Float A Raft of IPOs

Ernst & Young LLP's China practice is working on more than 50 potential offerings that could take place in China or overseas by the end of 2005.

Despite a sluggish domestic market, Ernst & Young's partners expect a return of IPOs to the local bourses.

"The outlook for the second half of this year should improve," said Ernst & Young China Business Development General Manager Conway Lee.

Among Ernst & Young's largest clients with the strongest potential for overseas listings are state-owned enterprises **Dongfeng Automobile** Co. Ltd. and **Shanghai Electric Power** Co. Ltd., Mr. Lee said.

Hong Kong is the most popular destination for the listing of state-owned enterprises, said Mr. Lee.

THE TEXTILE TRADE

Post-Quota Surge in Apparel Exports Fuels Backlash

China's apparel exports surged 147% into the U.S. and 188% to Europe in February, the second month after the end of global quotas—a result that likely will add fuel to efforts by U.S. and European trade groups to impose new limits on the goods.

The jump was particularly pronounced in product categories where China had little U.S. market share before this year. These include cotton knit shirts, which increased 603% to $1.6 million; cotton pants, which rose 548% to $60 million; and fiber shirts, which leapt 283% to $15 million. For Europe, the totals were similar.

These figures make it increasingly likely that fresh curbs—called safeguard quotas—will be placed on China-made garments by the first half of this year.

U.S. Commerce Department officials last week said the Bush administration would institute a more efficient system to monitor apparel imports so that safeguard measures, if instituted, could be enacted swiftly.

"There could be a serious embargo on goods by the middle of the summer," said Tom Glazer, head of Asian sourcing at Greensboro, N.C., apparel giant **VF** Corp., which owns clothing labels including Lee jeans and Nautica.

If safeguards are instituted, China's export growth likely will be limited to 7.5% above shipments in the most recent 12 months.

China had agreed as part of the conditions of its entry into the World Trade Organization to allow member countries to impose safeguard quotas for as long as three years after the expiration of the decades-old global quota system, which restricted each country's access to lucrative U.S. and European markets.

Turkey, Argentina and the U.S. already have instituted safeguard measures against China on certain products.

Free-trade proponents say such measures prevent global consumers from enjoying lower clothing prices and merely delay the inevitable dominance of countries such as China and India in global garment production.

Rival garment-producing countries maintain, however, that the sudden and drastic loss of jobs in these sectors would be destabilizing. Many also maintain that Chinese apparel makers enjoy an unfair advantage, with below-standard labor practices and an undervalued currency.

U.S. industries that make yarn, fabric and apparel shed an estimated 10,400 jobs in January and February, the first two months after the Chinese quotas were lifted, according to the Bureau of Labor Statistics, although this job loss isn't unusual. During the previous three years, the industry shed an average of 14,400 jobs in January and February. During the past decade, the sector lost more than 700,000 jobs, owing to import pressures from around the globe and automation of American factories.

Nonetheless, industry lobbyists are pressuring the U.S. government to expedite the process by which safeguard quotas can be placed on Chinese exports into the U.S.

Analysts expect global pressures will push Chinese authorities to impose additional measures to rein in their manufacturers, including a minimum pricing plan now under discussion, although garment practitioners say such a plan would be difficult to execute, given the wide product differentiation in clothes.

China in January responded to global pressures by imposing tariffs on several clothing categories, although critics said the rates, which are about $0.024 to $0.036 per piece, were too low.

While U.S. and EU textile makers worry about the import surge, consumers benefit. In part because of imports, apparel-price increases in the U.S. already have lagged behind those in other goods and services.

PIRACY

Sleuths Teamed Up to Stop Shanghai DVD Pirate

In late 2001, movie-studio attorney Laura Tunberg was browsing on eBay when something caught her eye: the entire collection of James Bond movies in a boxed set. Her employer, **Metro-Goldwyn-Mayer** Inc., wasn't selling boxed sets at the time, but Randolph Hobson Guthrie III was—from his penthouse in Shanghai. Ms. Tunberg asked an assistant to order the collection anonymously. It soon arrived from Mr. Guthrie with an MGM logo, official-looking holograms, and text in Chinese and English.

"All our stolen artwork was on the front," recalled a surprised Ms. Tunberg. When the assistant e-mailed Mr. Guthrie asking how many James Bond collections he could provide, the reply came quickly. "I can sell you as many as you want," Mr. Guthrie wrote.

That transaction triggered a three-year investigation that pulled in the Motion Picture Association of America, a special unit of U.S. Customs and Chinese police. It marked the first time U.S. and Chinese agents worked together to dismantle a counterfeiting network, one that showed manufacturing muscle and global reach. In the early hours of July 2, 2004, the joint operation culminated in a televised raid of Mr. Guthrie's apartment-turned-warehouse, in which Shanghai police seized 210,000 pirated DVD movies, mostly high-quality copies made by Chinese DVD replicators, many of them originally recorded illegally in a movie theater.

Mr. Guthrie and three employees were tried in late January, and a verdict is expected within weeks. Mr. Guthrie's case marks the latest twist in the U.S. government's campaign to tame the world's biggest counterfeiter, China. Though Chinese DVD pirates rarely spend time in jail, Mr. Guthrie, the scion of a wealthy Manhattan family, if convicted, faces up to 15 years for hawking his knockoff Hollywood movies overseas, mostly to Americans. Some suspect the 38-year-old heir is in store for tough treatment so Beijing can score political points with Washington.

Looming over China's booming exports to the U.S. is a booming trade in fakes. China far outstrips any other exporter of counterfeit products, accounting for 58% of all fake goods seized in the first half of 2004, according to U.S. Customs. Washington is now conducting a special review of China's protection of intellectual property, and some U.S. trade officials warn that piracy is straining ties.

Foreign companies have joined the fray, banding together in industry groups to support investigations and raids. In early February, six U.S. golf-equipment makers—including **Callaway Golf** Co. and **Nike Golf**—successfully urged Chinese inspectors to raid four factories and 18 retailers in southern China selling fake clubs, bags and clothing.

Chinese antipiracy personnel still lack training, funds and other resources, acknowledges Zhang Qin, the deputy director of the State Intellectual Property Office of China, in Beijing. "But foreign companies can't just rely on the government to solve their problems," he says. "They need to go out themselves to investigate and collect evidence. We should work together and improve step by step."

In responding to an estimated $3.5 billion in global losses a year, Hollywood has set up a sophisticated antipiracy task force. The Motion Picture Association of America now has special laboratories to analyze DVDs, teams of investigators combing the Internet for clues and undercover operatives to assist police in surveillance and raids.

China's prosecutors charged Mr. Guthrie with violating article 225 of the Chinese criminal code, "operating an illegal business," which carries a maximum sentence of 15 years in prison.

Mr. Guthrie now awaits a verdict from a six-meter-by-three-meter cell at a Shanghai detention center that he is sharing with several other prisoners. The cell is designed to hold eight to 13 people, according to a U.S. Consulate official in Shanghai. Each cell has a toilet, a sink and a window to the outside. The windows are kept open day and night, says the U.S. official, so it "can be chilly."

China Prepares its Major Airlines for Global Competition

While most Chinese relaxed during last month's Lunar New Year holidays, **Air China**'s chairman, Li Jiaxiang, tucked into an 86-page report on the bankruptcies of major U.S. and European airlines. As head of China's unofficial flag carrier, he had compiled the study to learn from the mistakes other carriers have made in an industry buffeted by high fixed costs, excess capacity and stiffening competition.

The verdict? "Maybe it will be unending research," Mr. Li says.

Beijing is trying to strengthen the country's three major state-controlled carriers—Air China, **China Eastern Airlines** and **China Southern Airlines**—through deregulation. It hopes to prepare them for the international competition that China's air-service agreements with the U.S. and other nations will bring. With economic growth of 9.5% last year, China needs an efficient airline network to transport passengers and goods and to meet the standards of foreign business travelers. Yet, without the cushion of state support, some carriers could falter.

China's three big airlines have undertaken a juggling act, forced to increase their operations, both at home and abroad, even as they integrate the smaller domestic carriers they acquired in mergers that Beijing directed to consolidate the industry. A serious stumble by any of them could have a broader impact on the economic growth that feeds them passengers and cargo.

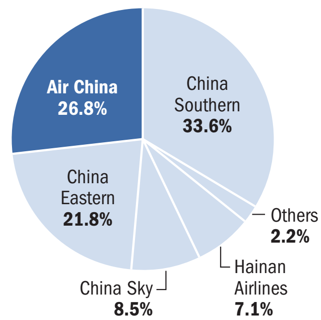
As with other industries in China, vestiges of central planning linger over efforts at deregulation. For example, China's airlines must buy most of their jet fuel at fixed prices from a government agency and can hedge only the fuel needed for overseas flights. They also struggle with such obstacles as military constraints on air space. Chinese commercial aircraft must fly each route at a predesignated altitude even if they could save fuel by flying higher or lower.

"It's a very backward phenomenon," said Wu Rongnan, president of the regional carrier Xiamen Airlines.

If China's airline deregulation has its risks, it certainly has demonstrated rewards as well. In the space of just three years, Beijing has transformed a welter of ramshackle and unprofitable state-owned carriers into one of the country's most dynamic industries and a powerful force in global aviation. The three biggest airlines have all issued shares and are moving fast to modernize their fleets. Aircraft manufacturers are lavishing attention on what they see as the world's fastest-growing market for passenger jets. The number of air passengers in China as a percentage of total population is less than 4% of what it is in most developed countries.

Taking Flight

2003 passenger market share among Chinese airline groups



Source: FitchRatings

But the competitive vise is tightening. U.S. heavyweights **Continental Airlines** and **American Airlines** last month became the latest foreign carriers approved to fly to Chinese cities. Under a pact the U.S. and China reached in June, the number of flights between the two countries will multiply almost fivefold by 2010.

At the same time, smaller Chinese carriers are carving out profitable niches on regional routes, and four new privately owned Chinese airlines plan to offer limited domestic service of their own.

That is why Air China's Mr. Li is studying every angle. The company sees improved service, especially in the more profitable front end of its planes, as the best way forward. Last year it earmarked $85 million for cabin improvements such as fully reclining seats.

Air China has reserved two planes for training pilots, while **Cathay Pacific** has started teaching Air China flight attendants to be more attentive to passengers.

As the foreign airlines and local upstarts rev their engines, cross-turf rivalry among China's big three remains restrained.

But Michael Chan of BOC International, the Bank of China's investment-banking unit, says he expects to see full-blown competition erupt at home within the next three years.

"There are enough passengers to carry" right now, he says. "They don't have to go after one another's business—not yet."

Pension Fund Looks Overseas

China's state pension fund plans to invest hundreds of millions of dollars in stocks overseas, a move spurred by demographic changes, weak domestic markets and efforts to avoid adjusting the exchange rate of China's currency.

Beijing agreed in principle to the global-investment push by its social-security administration in February 2004. Since then, the administration has been working with state agencies to draft a set of rules to govern such investments.

The agencies must sign off on the draft rules before the pension fund, which oversees $20.5 billion in assets, gets the final go-ahead to invest in overseas markets.

"Sometime this year, we'll probably get it," says Gao Xiqing, a vice chairman of the administration.

The plan to invest in overseas shares reflects challenges facing China, where for the first time, more people are retiring than are entering the work force.

China's social-security fund already is authorized to put money into shares of companies on the Chinese exchanges, but it doesn't put much. Most of the pension money is in more stable investments like bank accounts and Chinese government bonds.

"What we would like to do is diversify our investment rather than put all our eggs in one basket," Mr. Gao says. Initially, at least hundreds of millions of dollars will be placed with money managers for investment in Hong Kong and elsewhere overseas.

The stock market is one of the key avenues China plans to use to tackle economic challenges posed by a one-child policy adopted in 1980, namely the fast-rising numbers of retirees requiring financial support.

China expects that in 2030 it will have about four retirees for every 10 workers.

National Oil Corp. Offers Blocks

China National Offshore Oil Corp. is offering 10 offshore oil and gas blocks for exploration and development to foreign companies this year, the company said.

The blocks cover a total area of more than 66,666 square kilometers in Bohai Bay, the Yellow Sea, East China Sea and South China Sea, with water depths ranging from 10-200 meters.

Foreign companies can buy data packages on the blocks at CNOOC's offices in Tianjin, Shanghai and Beijing, Guangzhou and Zhanjiang.

CNOOC, the parent of Hong Kong-listed CNOOC Ltd., has exclusive rights to explore for, produce and market China's offshore oil in cooperation with foreign companies.

Block 07/33 in Bohai Bay covers 2,440 square kilometers with a water depth of 20-30 meters.

Block 11/34 in the northern trough in the Yellow Sea basin covers 10,843 square kilometers with a water depth of 20-30 meters.

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