

Investors develop new appreciation for art, fine wine

By KAREN YIP
CHINA DAILY

BEIJING — In April, Novel Asset Management Ltd launched a \$100 million fund that invests in rare diamonds. Twelve art funds are said to be in the process of formation in London.

INVESTMENT
The Artist Rare Instrument Fund LLC, launched late last year, invests in top-quality, rare Italian violins, cellos and violas built by Antonio Stradivari, Joseph Guarnerius del Gesu and other renowned craftsmen from the 17th and 18th centuries.

Past attempts to launch passion funds — investment vehicles that offer significant long-term returns from luxury collectibles such as art, fine wine, diamonds, rare musical instruments and mint condition comic books — aroused little enthusiasm.

Strong interest

Market volatility and severe declines have reduced the attractiveness of many other investment options, such as equities, bonds and hedge funds, so it's not surprising that investors are increasingly attracted to passion funds, said Enrique E. Liberman, president of The Art Fund Association based in New York.

"More money from Asia is going into such funds. We've heard of a rare fancy colored diamond fund targeting China. The fine wine funds are going there too," he added.

High net worth investors no longer see such investments as an indulgence in expensive hobbies. Rather, the funds allow them to diversify investment portfolios based on more traditional assets and hedge against inflation.

According to the 2010 Hurun Wealth Report, there are 875,000 millionaires in China, a rise of 6.1 percent from 2009.

The growth in the number of Chinese millionaires has been driven by a rise in property prices, the recovery of the stock market and a generally strong Chinese economy, said Hurun Report founder Rupert Hoogewerf in a statement.

"For those who have the wealth, how many homes, cars, jets and yachts can they have? For the Chinese, they are more inclined to acquire tangible assets.

"Passion funds, which are a subset class of asset investments, provide an opportunity for portfolio diversification into an area that has historically had high returns and shown a low correlation with other asset classes," said Liberman.

Strong demand from China has driven up fine wine prices as well.

Last year, wine investors had stellar returns, with prices for top vintages rising 40 percent, based on the performance of the Liv-ex Fine Wine 100 Index.



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That gain beat the return on the FTSE 100, which rose by 9 percent.

Fine wine investment specialists have forecast that the Live-ex will rise a further 21 percent this year.

Most Chinese millionaires, whose average age is 39, tend to keep a low profile. Their luxury possessions include watches, Chinese classical art and an average of three cars. Many are also drawn to art.

With China surpassing the UK as the second-largest auction house and gallery market and becoming a very important purchasing power, and with Chinese auction houses making record sales, "we see that there is an opportunity for art funds in China," said Daniela Sanchez, art advisory and investor relations associate at Fine Art Fund Group Ltd.

Although art as an investment class is still new in China, some early participants recognized the immense potential of the market: Noah Holdings Ltd, Beautiful Asset (Beijing) Management Ltd Co and Shanghai-based Terry Art Fund Management.

Chinese buyers

"Nearly all buyers in the Chinese art market are of Chinese descent, with Chinese buyers worldwide numbering somewhere between 5 percent and 15 percent and growing.

"The entry of mainland Chinese collectors has renewed the interest of Western, Taiwan and Hong Kong collectors," said Sergey Skaterschikov, chief executive officer and founder of Skate's Art Market Research, an art investment research house.

As the value of Chinese art continues to rise exponentially, funds investing in this asset class will need to raise increasingly large amounts of money to have an impact in the market.

What would be considered a large fund by US and European standards, perhaps exceeding \$250 million, could become more commonplace, said Michael Plummer, a principal at ArtVest Partners LLC, an investment advisory firm.

According to Artprice.com, an art market information center, art global auction revenues nearly doubled in 2010 to \$9.36 billion. China accounted for 33 percent of the total.



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Chery Automobile Co Ltd's booth at an auto show in Beijing. The company aims to sell 120,000 vehicles overseas this year, which would be an increase of more than 30 percent.

Chery to open Kenyan plant

Automaker tries to secure \$50m to fund its new East African facility

By BEATRICE GACHENGE
REUTERS

NAIROBI, Kenya — Chery Automobile Co Ltd is to become the second Chinese vehicle maker to build an assembly plant in Kenya. The move will see Chery Automobile join the truck manufacturer Beiqi Foton Motors Co Ltd as the companies attempt to tap East African demand and will further strengthen Chinese links with the continent.

AUTO "They (Chery) are discussing with the (Chinese) government so that they can get some \$50 million to invest in Kenya through an assembly plant," said Justus Nguu, the director of Stantech Motors Ltd, Chery Automobile's franchise holder in Kenya.

China has made big inroads in Africa, where it is seeking to secure energy, minerals and food.

Chery Automobile, which started selling cars overseas in 2002, and is now China's biggest auto exporter, aims to set up its plant next year. In 2010, the company tested the market by venturing into Kenya through a franchise.

The automaker sold a modest 120 cars last year, but aims to produce 1,000 units in 2013

at its plant which will serve Kenya, East Africa's biggest economy, and other countries in the region.

Chery Automobile, China's largest indigenous automaker, aims to increase exports by more than 30 percent this year to 120,000 vehicles. The firm is targeting developing nations in Southeast Asia, the Middle East, South America and Africa.

Chery operates 16 assembly plants overseas.

The Chinese will have to battle Japanese vehicles, which have saturated the Kenyan car market.

Toyota Motor Corp controls about 65 percent of the market, mainly through the second-hand segment.

The truck business is domi-

nated by established players CMC Holdings Ltd and the Kenyan unit of General Motors Co.

General Motors East Africa Ltd, Associated Vehicle Assemblers Ltd and Kenya Vehicle Manufacturers Ltd are the established players in Kenya's motor vehicle assembly sector.

Analysts said proximity to growing markets was the key driver for the companies planning to set up in Kenya.

"(The delay in) lead time for orders ... has made it strategically important for auto manufacturers targeting Africa to want a serious presence in Africa," said Hanningtone Gaya, an independent regional vehicle analyst based in Nairobi.

China's truck maker, Shanghai-listed Beiqi Foton Motors, a unit of Beijing Automotive Industry Holdings Co (BAIC), plans to begin construction of an assembly plant in Kenya this year, to help it nudge up sales on the continent.

The company plans to double sales in Africa to 20,000 units by 2013 from last year by ramping up sales to economies that require heavy commercial vehicles for use in the construction of their infrastructure projects, including roads, rails and ports.

"When you look at the international markets, we are still young. Africa is a good market for us," Calvin Guo managing director of the Kenyan subsidiary of Beiqi Foton Motors.

Vehicle parts firms on acquisition road

By MARK CLOTHIER
BLOOMBERG NEWS

SOUTHFIELD, Michigan — Makers of car seats and dashboards, including Magna International Inc and Lear Corp, are among those most likely to make acquisitions this year, as automakers seek suppliers to handle global projects.

DEALS With more than \$5 billion in cash, suppliers are adding assets that help automakers develop interior features tailored to fast-growing markets such as Brazil and China. Magna, Lear and Johnson Controls Inc will be among the more aggressive acquirers,

said PRTM, a global consulting firm based in Waltham, Massachusetts.

Vehicle interiors are key differentiators among competing vehicles, like kitchens and bathrooms are for house shoppers. Suppliers that specialize in seats, dashboards and related components are looking at distressed companies in Europe to help boost their ability to serve automakers such as General Motors Co and Volkswagen AG in local markets around the world.

"The average customer all over the world is buying by exterior looks and interior experience," Dietmar Ostermann, director of PRTM's automotive practice, said in

an interview. "Significantly more vehicle manufacturers are changing the look of cars to appeal to local markets."

Auto-parts companies may make as many as 250 acquisitions worldwide this year, compared with 268 last year, which was the second-highest total, PRTM forecast. That number may be reduced by 12 percent if Standard & Poor's downgrade of US debt increases interest rates and caution among investors, he said.

Deal value may increase this year, to about \$60 billion from about \$45 billion last year, PRTM forecasts in its study, which examined data and executive comments to assess the potential roles of

565 automotive suppliers as buyers, sellers or financially distressed companies.

Of the 165 companies studied that make parts for vehicle interiors, 32 are "strong" buyers and 26 are "strong" sellers or distressed, PRTM said. Magna, North America's largest auto supplier, and Lear, both makers of seats, are among the most-improved potential buyers, the study said.

Lear may consider seat-frame makers Kongsberg Automotive Holdings ASA, Austem Co or Mitsuba Corp, which makes electric motors for seats, PRTM said. Lear is considering \$100 million to \$200 million acquisitions of companies that make seat

mechanisms and fabrics, said Matt Simoncini, who takes over as chief executive officer Sept 1, in an interview on Wednesday.

Magna is eyeing a range of acquisitions, from smaller technology companies to joint ventures to larger buys, CEO Don Walker, said last week in an interview. He declined to comment on specific acquisition targets.

Based in Aurora, Ontario, Magna had \$1.74 billion in cash and \$1.9 billion of an unused credit line as of June 30.

The company, which makes everything from rear-view mirrors to entire cars, probably won't diversify further, he said.

Huayi H1 profit surges on box office revenue and tie-ins

By HUANG YING
CHINA DAILY

BEIJING — Huayi Brothers Media Corp (HBMC), the first publicly traded movie company on the Chinese mainland, reported on Wednesday night that its first-half revenue surged from a year earlier.

EARNINGS Revenue reached 330.66 million yuan (\$51.67 million), up 63.2 percent year-on-year, while net profit increased 125.1 percent to 63.65 million yuan, the company said in a statement.

According to the statement,

the movie business generated 141 million yuan, up 133 percent year-on-year, accounting for almost 43 percent of total revenue.

"Our prudent and strict selection mechanism for movie projects helped to ensure our growth," said Wang Zhongjun, chairman of HBMC.

Director Feng Xiaogang's *If You Are The One 2* contributed the most to total first-half revenue.

The film grossed 75.83 million yuan from box office receipts and copyright sales, plus 22.29 million yuan in tie-ins, which together accounted

for about 30 percent of the revenue.

In addition to the movie business, the company has expanded into different cultural activities in recent years.

Huayi signed an agreement in February with the Shanghai Jiading Industrial Zone to build a cultural complex in the area, primarily for use as a film production base.

It also invested with other partners to construct its first Huayi Brothers movie theme park in the Suzhou Industrial Park in May. Total investment is estimated at 3 billion yuan.

HBMC has so far expanded

into online games, the music industry, movie theaters, TV dramas, talent agencies and cultural parks, while maintaining its core focus on the big screen.

Its expansion has attracted other investors.

Tencent Holdings Ltd invested 450 million yuan for a 4.6 percent stake in the Shenzhen-listed media company in May, becoming the movie giant's biggest institutional investor.

Tencent hopes to establish a close strategic relationship with HBMC to explore areas such as movies, TV and new media, Tencent President Martin Lau said in May.

"At present, we do have some communications with Tencent in five areas including movies, TV dramas and talent agencies," said Hu Ming, deputy-president of HBMC.

Some projects are under discussion, she added, though she wouldn't disclose any details.

HBMC is also the partner of US film studio Legend Pictures LLC, having invested in Legend's joint venture in China — Legend East — which will be based in Hong Kong.

Huayi will co-produce movies with Legendary East and take charge of their distribution in China.



NAN SHAN / FOR CHINA DAILY

The Huayi Brothers headquarters in Beijing. The Shenzhen-listed movie company reported a 125 percent rise in its net profits for the first half of this year.