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## This Week in China

### China's Economy Gives Reason for Optimism

While most economies are being squeezed by a credit crunch, Chinese bank lending jumped 21 percent from a year earlier to a record 1.62 trillion yuan in January, almost a third of all new lending in 2008, as the government pressed state-owned banks to lend as an economic stimulus measure.

In addition, the purchasing managers' index, a gauge of manufacturing activity, increased in January for the second straight month.

The fact that medium- and long-term lending has increased at a similar pace as short-term

lending strongly suggests that the government's stimulus package has started to kick in.

The central government plans to finance only 30% of the 4 trillion yuan (\$585 billion) infrastructure package; banks are expected to provide much of the rest. Some shovel-ready projects are already under way.

According to Tim Condon, at ING, transport infrastructure spending in December was already 61% higher than a year earlier.

The expectation of increased spending on roads and railways has helped to lift raw-material prices. Chinese prices of

steel have risen by 20% since November, and the Baltic Dry Index, a measure of shipping rates and hence the demand for commodities, has more than doubled.

China can quickly mobilize lending for two reasons. First, the big banks are state-owned and their chairmen appointed by the government, so they tend to follow Beijing's orders. Second, as Tao Wang of UBS argues, domestic debt has fallen relative to GDP in recent years; banks' loan-to-deposit ratio of 65% is low by global standards; and firms, banks and households have relatively clean balance-sheets.

*Source: Economist*

### China Spending May Double, Spur Investment Boom

China's fiscal stimulus plan may be doubled over the next three years, creating an investment boom similar to the one triggered by Deng Xiaoping in the early 1990s, said Sun Mingchun, an economist with Nomura International.

The increased stimulus spending, which could reach "seven or eight

trillion yuan" from the original four trillion yuan (\$585 billion), would come from additional programs launched by the central and provincial governments, said Sun, who was speaking at a conference in Beijing.

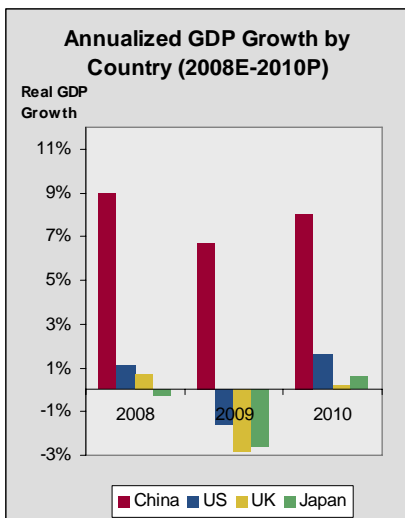
Stimulus spending and a surge in bank lending in December and January would fuel growth of at least 8 percent this year, said Sun.

"China will easily maintain

investment growth at 15 percent to 20 percent this year, said Sun, and could maintain its 8 percent growth target this year. That target could also be maintained "in the coming 10 years" because of its strong fiscal situation, its \$1.95 trillion in foreign reserves, high savings, and because some 600 million rural dwellers will migrate to the cities, creating "great demand for consumption."

*Source: Bloomberg*

## Environmental Protection



Source: Euromonitor

### China's Largest Wastewater Utilization Project Recently Completed

Dalian Petrochemical Corporation recently built China's largest wastewater utilization project, turning saline seawater and urban sewage into high-quality processed water with its advanced equipment.

This project has a daily capacity of 30,000 tons of boiler replenishing water and circulation water.

Dalian Petrochemical has also made investments to build a seawater desalination project to make up for the large amount of freshwater its refining and petrochemical enterprises consume daily. The desalination

project uses world-class reverse osmosis technology and can produce 5,500 tons of freshwater each day.

Wastewater facilities will be a key area of focus for China as it continues a resurgence in infrastructure spending as part of its economic stimulus package.

Source: People's Daily Online

## Metals and Mining

### Fortescue to Expand Iron Ore Sales to China's Valin Iron and Steel

Fortescue Metals Group Ltd, Australia's third biggest iron ore miner, agreed to quadruple its iron ore sales to an arm of Chinese steel maker Hunan Valin Iron and Steel Group, now its second-largest shareholder.

Under the co-operation agreement, Fortescue said that, subject to mine expansions, it would increase its supply to up to 4 million tons a year to Valin subsidiary Xiangtan Steel from 2010 onwards, up from 1 million tons a year now.

The agreement follows a recent deal in which Valin agreed to pay A\$1.2 billion (\$770 million) for a 16.5 percent stake in Fortescue.

This deal is symbolic of the future expected demand among China's

steel producers for iron ore resources.

The group, which raised A\$558 million with the sale of shares to Valin, launched a separate sale to institution investors to raise a further A\$500 million, but left the door open to calling it off.

"We're still assessing whether to proceed," said Fortescue's spokesman, Cameron Morse.

Morse said the board would be looking at a number of factors, including the fact that it hopes to raise billions more through a sale of hybrid securities to China's sovereign wealth fund, China Investment Corp.

Any deal with the \$200 billion fund is likely to come well after Valin's investment secures approvals from Australian and Chinese regulators.

Valin agreed to buy shares from Fortescue at A\$2.48

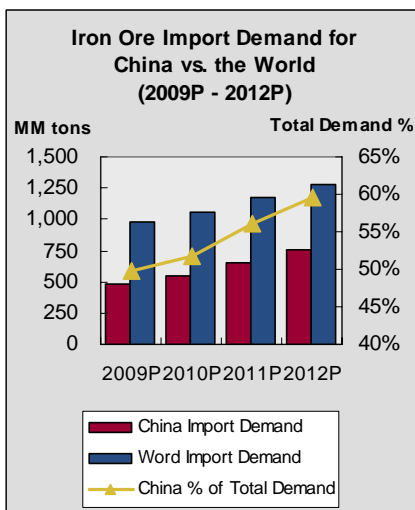
a share, a 12 percent discount to Fortescue's close last Friday ahead of a trading halt. However the broader market has fallen since then, impacting bidding for the shares Fortescue is trying to sell to other investors.

The A\$2.48 a share that Valin paid reflected its interest as a "strategic" investor, and institutions were likely to pay less, said one fund manager, who declined to be identified because the bidding process was subject to confidentiality agreements.

The share sale is being handled by JP Morgan, Southern Cross Equities and CLSA.

Source: China Daily

*China's GDP growth will greatly exceed that of other major economies in the coming years and beyond.*



Source: Morgan Stanley

# Retail

## Watsons Personal Care Stores To Open 120 New Stores In China In 2009

Despite the downturn in the economy, Christian Nothhaft, Managing Director of Watsons China, has announced that the company plans to open 120 new stores in 2009, which means opening about two new stores per week.

Several years ago, the Hutchison Whampoa subsidiary announced plans to open 1,000 stores in mainland China.

## Suning To Open At Least 10 New Stores In Hunan In 2009

Jiang Yong, vice president for Suning Appliance, said at a meeting held in Changsha, Hunan that the company would maintain a rapid and stable growth in 2009 by opening at least 200 new stores across China, of which at least 10 out of the 200 stores would be located in Hunan.

By then the total number of Suning's electronics retail stores in China will be over 1,000.

As the capital of Hunan, Changsha, has been the development focus of Suning. In addition Suning will enter several new cities, such as Loudi, Yiyang, and Liuyang, increasing its number of stores in Hunan to over 30.

Nothhaft said that despite the current economic conditions, the company has never given up its goal of opening 1,000 outlets.

According to its budget for 2009, Watsons will open 120 new stores with its focus on six cities in north China and west China.

Watsons opened 86 new stores in 2008.

Watsons has developed more than 1,500 own brand products, accounting for over one-third of the products sold

At present, Suning has one greater area distribution center, two regional distribution centers, and five city distribution points in the province. Its distribution network covers the entire province. In addition to its current distribution capacity, Suning will build two city distribution points in the cities it enters for the first time as well as promoting its self-constructed distribution base in Changsha.

To build up its backup service Suning further accelerated the construction of its after-sale service network by adding more than 140 service points to a total number of 260 service points.

For customer service, in addition to the support of the headquarters call

in its stores.

In addition, the prices of its own brand products are 20% to 30% lower than the similar products in other supermarkets. Nothhaft revealed that the company will develop another 240 kinds of own brand products in 2009.

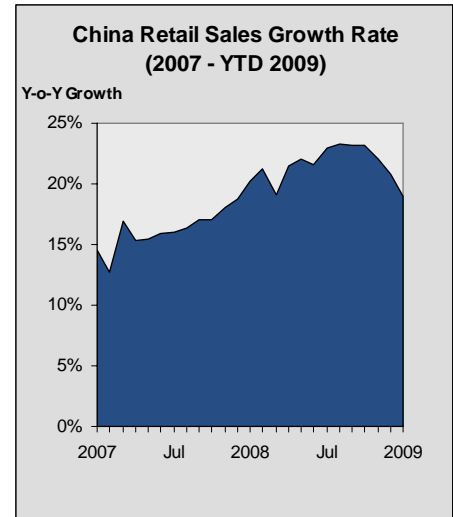
Watsons Personal Care Stores is a Singapore based pharmacy chain founded in 1988 with a strong presence in mainland China.

Source: *ChinaRetailNews.com*

center, Suning will enhance the network structure of its greater area customer service center in Central China, regional customer service departments, and city customer service commissioners to improve its service quality.

Suning Appliance Company Limited engages in the retail sale of home appliances. It offers consumer appliances, computers, and communication products. As of May 1, 2008, the company operated approximately 700 flagship, central, and community chain stores in 150 cities of 29 provinces/municipalities in China. Suning Appliance Company Limited is headquartered in Nanjing, China.

Source: *ChinaRetailNews.com*



Source: Bloomberg

## Recent Transactions

### Best Buy Acquires Five Star Appliance Co.

Best Buy, the top US consumer electronics retail chain, announced that it has completed the acquisition of Jiangsu Five Star Appliance Co, China's third largest home appliance retailer.

The US retailer has offered \$185 million in cash to acquire the remaining 25 percent stake it didn't own from

Five Star minority shareholders before February 21, the company said in a statement.

Best Buy bought a 75-percent stake in Five Star in 2006 for \$184 million. The retailer, which entered Chinese market in 2003, currently operates six stores in China, all in Shanghai. After the acquisition, it will have access to 161 Five Star outlets.

Jiangsu Five Star Appliance Co., Ltd. operates a chain of appliance and consumer electronics retail stores in China. It offers various product categories, such as air-conditioning, video and audio products, appliances, and digital communication devices. The company was founded in 1998 and is headquartered in Nanjing, China.

Source: China Daily

### China Iron Ore Firm to Raise \$150 million in Hong Kong IPO

Iron ore processor China Vanadium Titanomagnetite Mining Co Ltd ("China VTM") plans to raise up to \$150 million in a Hong Kong IPO during the first half of the year, the Hong Kong Economic

Journal reported. The Hong Kong bourse has granted approval for the listing of China VTM, the second largest iron ore operator in output volume terms in China's Sichuan province, the newspaper said, citing market sources. Citi will be the lead underwriter of the

financing. It gave no further listing details. China VTM is involved in mining, iron ore processing, and the sale of iron concentrates, iron pellets and titanium concentrates, the company said in its website.

Source: Reuters

### Fushi Copperweld secures \$1.92 million PIPE financing

Fushi Copperweld, Inc. (NasdaqGS: FSIN) announced a private placement of 400,000 common shares with warrants at \$4.80 per share for gross proceeds

of \$1,920,000 on February 26, 2009. The company issued warrants to purchase 300,000 common shares.

Fushi Copperweld, Inc. manufactures bimetallic composite wire products, principally copper-clad aluminum (CCA) and

copper-clad steel (CCS) wire used in telecommunication, utility, and automotive markets. The company was founded in 2002 and is headquartered in Dalian, China.

Source: Capital IQ

### Suntech Acquires Minority Stake in Asia Silicon for \$8.1 Million

Suntech Power Holdings Co., Ltd. (NYSE: STP), one of the world's leading manufacturers of photovoltaic (PV) cells and modules, announced that it has recently acquired a minority stake in Asia Silicon Co., Ltd.

from an existing shareholder for a total consideration of \$8.1 million.

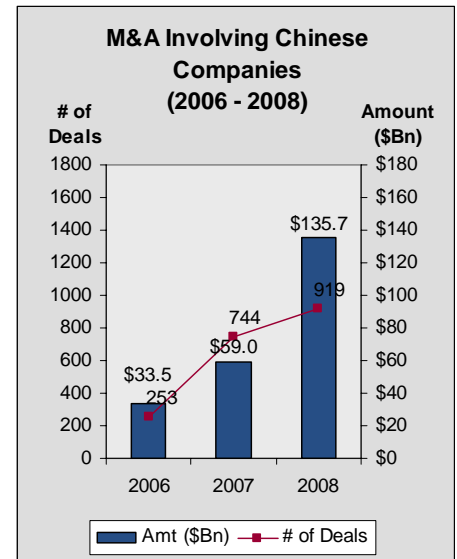
Suntech previously entered into an agreement to purchase high purity polysilicon from Asia Silicon with a total value of up to \$1.5 billion over a seven-year period. The price of the silicon

decreases to below \$40 per kilogram during the term of the contract.

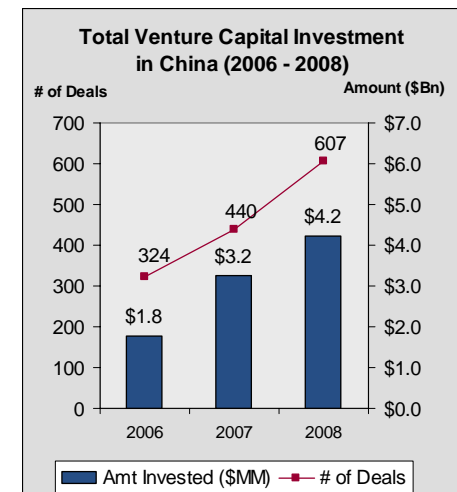
Asia Silicon is in the ramp up stage of a state-of-the-art polysilicon plant in Qinghai, China.

Asia Silicon expects to reach 2,000 metric tons of annual production capacity by mid-2009.

Source: Capital IQ



Source: Capital IQ



Source: Zero2IPO