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This Week in China

China Calls for New Reserve Currency to Replace US Dollar

China's central bank proposed replacing the US dollar as the international reserve currency with a new global system controlled by the International Monetary Fund. Zhou Xiaochuan, the central bank's governor, said the goal would be to create a reserve currency "that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based nat-

Central Bank Adviser Says China's Economy to Recover Strongly

China's economy will recover strongly in the second and third quarters as a RMB 4 trillion (\$585 billion) stimulus package takes effect, central bank adviser Fan Gang said.

"The RMB 4 trillion is different from the U.S. stimulus package – we don't have a financial black hole to fill, so all this money will go straight to the economy and drive demand," Fan said at a conference in Hong Kong.

ional currencies."

To replace the current system, Mr Zhou suggested expanding the role of special drawing rights, which were introduced by the IMF in 1969 to support the Bretton Woods fixed exchange rate regime but became less relevant once that collapsed in the 1970s.

Today, the value of SDRs is based on a basket of four currencies – the US dollar, yen, euro and sterling – and they are used largely as a unit of account by the IMF and some other international

He said the economy had "already seen some recovery."

Fan said he saw positive signs across investment, real estate and the automobile industry and that the stimulus will help the government to meet its target of an 8 percent expansion this year.

"China does have more potential than most places to offset export weakness with domestic demand," said David Cohen, an economist with Action Economics in Singapore.

China will make more cuts

organizations.

China's proposal would expand the basket of currencies forming the basis of SDR valuation to all major economies and set up a settlement system between SDRs and other currencies so they could be used in international trade and financial transactions.

Mr. Zhou said the proposal would require "extraordinary political vision and courage" and acknowledged a debt to John Maynard Keynes, who made a similar suggestion in the 1940s.

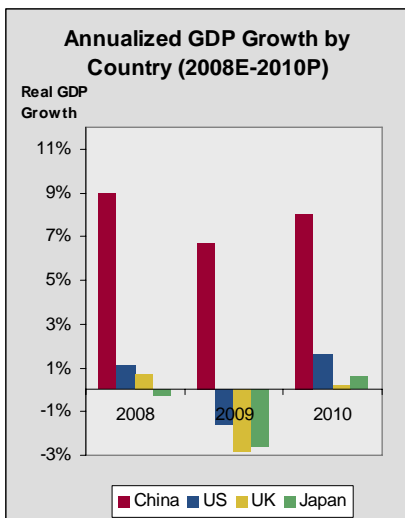
Source: *Financial Times*

to export taxes on textiles, garments, steel, non-ferrous metals, petrochemicals and electronics to help revive key industries, the State Council said.

"The stimulus package will work," said Fan, who's the academic member of the central bank's monetary policy committee. He said a "very strong recovery in the second and third quarters" would lay the foundations for further growth.

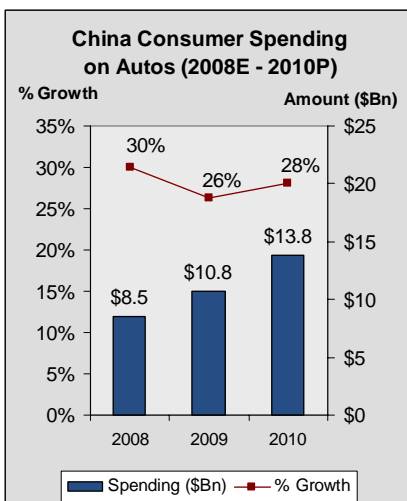
Source: *Bloomberg*

Consumer Products / Retail



Source: Euromonitor International

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



Source: Euromonitor International

Suning Bets Big on Rural Expansion

Suning Appliance Co, China's second largest electric appliances retailer by sales, is planning to expand into the rural market at an aggressive pace in a bid to gain an upper hand over archrival Gome.

This will be done through leveraging the government's rebate program for household electric appliances, said Suning's president Sun Weimin.

"Suning will open at least 1,000 stores in the third- and fourth-tier cities within five years," Sun said.

"A small number of these

stores will be directly owned by Suning, and the rest will see investments by others interested in running our brand of stores."

Late last year, the company, which has 812 stores nationwide, announced it would open 200 stores in 2009.

The company is also thinking of opening stores tailored to the specific needs of consumers in small towns and remote rural regions, Sun said.

Compared to a traditional Suning store, which has a floor area of around 4,500 sq m, "the rural store is smaller in size, at around

2,000 square meters," Sun explained. Suning opened its first rural store in 2002, in Changshu, Jiangsu province.

The company is betting on the appliance rebate program to help enhance its brand awareness and sales. As an active player in the program, the company has won all the bids intended to promote the eight categories of household appliances in 14 regions. Suning plans to invest another RMB 50 million (\$7.3 million) to subsidize stores in those regions that have not been included in the program.

Source: China Daily

Detailed Stimulus Plan Released for China's Auto Industry

China aims for 10 million units in both vehicle production and sales this year, according to an online government document.

The document was released along with details of an automobile industry support package that was among nine others for the country's ten industry initiatives by the government since January in a bid to cope with the downturn in the short-term, and upgrade its industrial structure for the long term.

In a three year development plan, the document

said that by 2011 passenger cars with an engine displacement below 1.5 liters would take 40 percent of the market, and those below 1 liter would have a 15 percent share.

Analysts say smaller-engine cars use less oil and are more environmentally friendly. They are also cheaper compared with big engine, gas guzzling cars.

China would also form two to three auto giants with capacities reaching 2 million in vehicle production and sales, and four to five smaller companies with capacities greater than 1 million in the next three years through mergers and

acquisitions, according to the document.

Another government paper concerning stimulus support for the steel sector was also released. It said China would set up several steel giants, with the top five producing 45 percent of the steel by 2011.

Excessive capacity and low industrial concentration have long plagued China's steel sector.

Based on 2007 figures from China Jianyin Investment Securities, the top five Chinese steel companies produced only about 20 percent of the country's steel.

Source: China Daily

Alternative Energy

China Commits Further to Alternative Energy Vehicles

About 60,000 alternative-fuel vehicles are expected to be on China's roads by 2012 as part of the efforts to save energy and reduce emissions, said Minister of Science and Technology Wan Gang.

Most of these new vehicles would be used for public transport, Wan told an international forum on energy conservation and new energy development.

Also, large-scale use of light-emitting diode (LED) lighting would be promoted in dozens of big Chinese cities and the use of solar and wind energy would be accelerated, Wang said.

He said that China, as a large developing country undergoing rapid industrialization, faced the pressures of promoting growth while saving resources and protecting the environment. He said China had made saving energy, reducing emis-

sions and using renewable energy sources a strategic plan to achieve sustainable development.

China would use various means to provide financial support to small and medium sized companies involved in energy conservation and environmental protection. It would also give tax benefits and direct subsidies to the production, sale and use of alternative energy vehicles and "green" home appliances, he said.

Source: China Daily



Source: Zero2IPO

Metals and Mining

Chinalco Investment in Rio Tinto Gets Initial Australian Approval

Aluminum Corp of China (Chinalco) got an initial go-ahead from the Australian government for its \$19.5 billion investment into the Rio Tinto Group.

The Australian Competition and Consumer Commission said in a statement on its website that it does not oppose the proposed acquisition by Chinalco in Rio Tinto.

"It would be unlikely to result in a substantial lessening of competition," it said.

The commission said the

stake buy was not likely to affect the iron ore, copper, aluminum and bauxite markets as "there was limited direct competitive overlap of the operations of Rio Tinto and Chinalco".

Chinalco proposed last month to invest \$12.3 billion to buy stakes in Rio Tinto's mines, including iron ore, bauxite, aluminum and copper projects, and another \$7.2 billion to buy its convertible bonds.

The proposal has to be approved by other Australian government agencies and Rio Tinto shareholders as well.

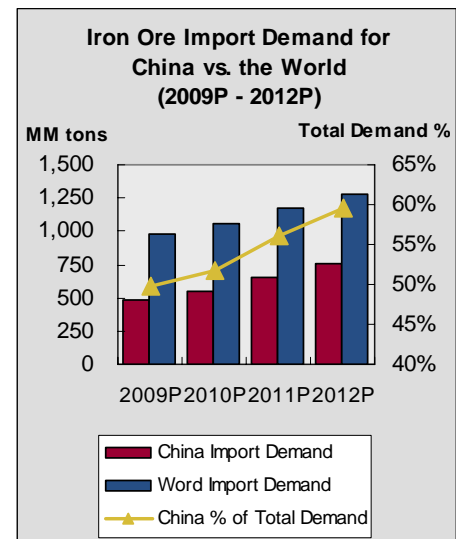
Chinalco welcomed the

commission's decision, saying it "looked forward to moving ahead with the transaction."

Australia's Foreign Investment Review Board, which is also reviewing the proposed deal, decided last week to extend its investigation into the planned acquisition by 90 days.

It will provide a recommendation to Treasurer Wayne Swan, who will make a final decision on whether the deal is in Australia's national interest.

Source: China Daily



Source: Morgan Stanley

Recent Transactions

Carlyle Invests \$20 Million in Chinese Women's Fashion House Ellassay

Global private equity firm The Carlyle Group announced its \$20 million investment in Ellassay, a high end Chinese women's fashion house.

Since opening its first store in Shenzhen in 1995, Ellassay has expanded to a sales network of more than 280 retail shops across the country and has seen revenue increase by 30 to 50

percent annually. The Company has expanded from Shenzhen to Guangzhou, and then to Beijing and Shanghai.

Ellassay has become a top tier female fashion brand in China that is known for its elegant style. It was recognized as a top Chinese fashion brand of year 2008 by China International Clothing & Accessories Fair. With Carlyle's support, Ellassay aims to continue its growth in China and gain recognition in international

markets.

Wayne Tsou, Managing Director of The Carlyle Group, said, "This transaction follows our investments in fast growing domestic branded Chinese consumer companies such as restaurant chain Babela and leading fashion sportswear enterprise Xtep last year. We maintain our confidence in the Chinese consumer and retail market and our commitment to invest in China."

Source: Zero2IPO

Fast Food Group Yum! Brands to Buy 20% Stake in China's Little Sheep

Yum! Brands Inc. (NYSE: YUM) signed an agreement to acquire 13.91% stake in Little Sheep Group Limited from 3i Group plc (LSE: III) and Prax Capital Fund I, L.P. for approximately \$44 million.

Yum! Brands Inc. (NYSE: YUM) concurrently signed

an agreement to acquire a 6.07% stake in Little Sheep Group Limited from Possible Way International Limited and Billion Year International Limited. The transaction is expected to be completed on March 31, 2009.

Little Sheep Group Limited operates a full service restaurant chain under the Little Sheep brand. As of March 31, 2008, it had 94 company-owned and 240

franchise restaurants in the People's Republic of China, as well as 9 company-owned and 7 franchise restaurants in the special administrative regions of Hong Kong and Macau, as well as in Japan, the United States, Canada, and Indonesia.

The company was founded in 1999 and is headquartered in Baotou, China.

Source: Capital IQ

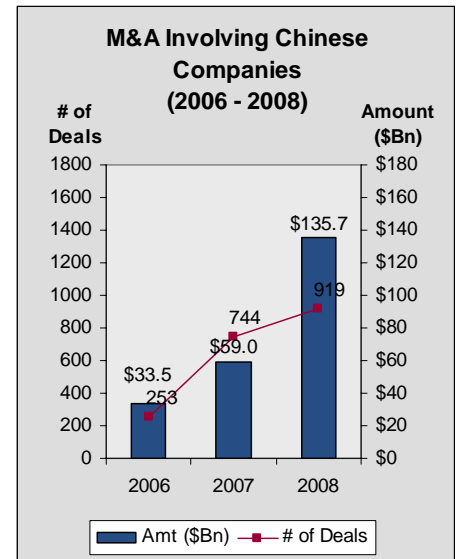
Baotou Steel Rare Earth Raises RMB 18 million on Tianjin Exchange

Tianjin Equity Exchange held the equity listing ceremony of Shandong Zibo Baotou Steel Rare Earth High-Tech Co., Ltd., marking the official beginning of the new round of listings of enterprises at Tianjin Equity Exchange.

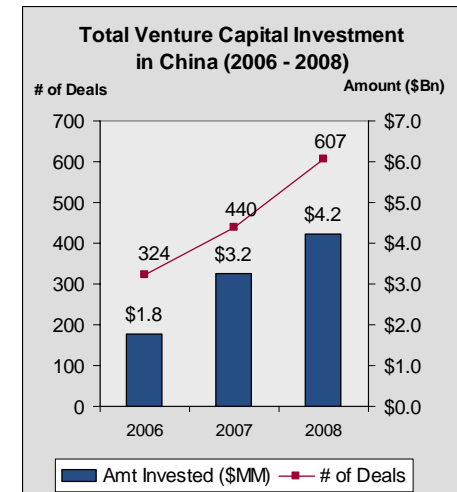
Within less than three months after the listing of the first three enterprises, Tianjin Equity Exchange has been active in expanding its flexibility in fund raising for the enterprises. For instance, Baotou Steel Rare Earth High-Tech Co., Ltd. raised RMB 18 million (\$2.6 million) at RMB 4.86 per share within less than 30 days.

According to officials from Tianjin Equity Exchange, it will introduce major innovations in its market structure and trading system and increase market liquidity to further create conditions for the establishment of a national equity trading market for private companies in the Tianjin Binhai New Area.

Source: Zero2IPO



Source: Capital IQ



Source: Zero2IPO