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This Week in China

China's PMI Shows Signs of Recovery

A measure of activity in China's manufacturing sector crossed back into expansionary territory in March for the first time since last September, suggesting a marked improvement in industry as both output and new orders surged.

China's official purchasing managers' index (PMI) for March rose from 49.0 in February to 52.4, the China Federation of Logistics and Purchasing (CFLP) said.

A reading over 50 indicates an expansion of activity in the manufact-

China to Start Growth Enterprise Board on May 1st

China has announced the launch of a long-awaited growth enterprise board on May 1st as a new direct financing platform for innovative companies.

Companies that seek listing at the new Nasdaq-like second board should have net assets of at least RMB 20 million (\$2.9 million) and be open for business for more than three years, the country's securities regulator said in

uring sector while one below 50 suggests contraction.

Zhang Liqun, a researcher at the State Council's Development Research Centre who comments on the official figure for the logistics federation, said the improvement in the index pointed to an economic recovery.

"As the effects of macroeconomic policies gradually become visible, the economic growth rate is likely to pick up further in the second quarter," Mr. Zhang said.

Output and new orders from both domestic and overseas clients all

a set of guidelines that take effect on May 1st.

The China Securities Regulatory Commission also requires positive net income for the past two consecutive years with combined profits of at least RMB 10 million (\$1.5 million), or reported profits of at least RMB 5 million (\$0.7 million) for the most recent year on revenues of at least RMB 50 million (\$7.3 million), with annual revenue growth of at least 30 percent in the past two years.

improved significantly in March, according to the official survey, driving a surge in manufacturers' purchases of raw materials.

The PMI data are an encouraging sign coming after recent strong lending and investment data and might be further evidence that fiscal stimulus is starting to have an impact, said Brian Jackson with Royal Bank of Canada in Hong Kong.

"It's likely that the Chinese economy is still slowing in response to weaker external demand but conditions do appear to be stabilizing," Mr. Jackson said.

Source: *Financial Times*

A CSRC spokesman called the move "an important measure to improve the structure of China's capital markets and expand the market's depth and width."

The proposal of establishing a second board was first put forth more than a decade ago. In 2004, a mini second board for small and medium-size enterprises was set up at the Shenzhen Stock Exchange to test the waters.

Source: *Zero2IPO*

Alternative Energy

China Green Energy Projects to Increase

The nation must keep pace with the world's economies in new energy adoption or the country will lag behind the world within a decade, said China's top energy official.

Zhang Guobao, head of the National Energy Administration (NEA), quoted US president Barack Obama's statement that "the country that harnesses the power of clean, renewable energy will lead the 21st century".

"We should keep a close watch on the development of cutting edge new energy technologies the world over and invest more to improve research and development capabilities," he said.

China is already taking

steps to ramp up its green energy industry. The country's top economic planning body, the National Development and Reform Commission (NDRC) said on its website that it has approved construction of two hydropower stations and two wind farms with a total capacity of 20 GW.

The Luding Hydropower Station in Sichuan will consist of four units, each with a 230-megawatt capacity and the Dongjing Hydropower plant in Guizhou province will also consist of four units, each with a 220-megawatt capacity. The two wind farms, the Rudong wind farm in Jiangsu province and the Guyuan wind power station in Hebei province, will both have a 100.5-megawatt capacity.

The country also set a higher goal for its wind power industry.

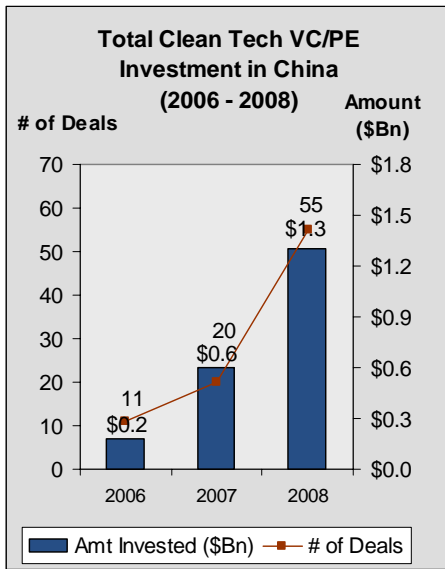
"The country's wind power capacity will reach 100 GW by 2020," said Shi Lishan, deputy director of the Renewable Energy Department of NEA. Under the previous plan China's wind power was set to hit 30 GW by 2020.

"China should speed up its effort to improve its energy mix," Zhang said.

China currently relies on coal-fired plants for about 80 percent of its total energy needs.

Statistics released by the China Electricity Council (CEC) showed that investment in wind power infrastructure last year rose 88 percent from 2007, the CEC said.

Source: China Daily



Source: Zero2IPO

Healthcare

Beijing to Step Up Medical Reform

To provide better medical services at reasonable costs, Beijing plans to set up a modern hospital management system this year in addition to introducing other medical reform measures, officials said.

"Changing the present hospital management system is our priority as medical reform is impossible without an efficient hospital management system,"

Beijing vice mayor Ding Xiangyang said at the municipal annual health meeting.

He said the government will improve the medical service standards, the medical staff management system and the hospital management model. "The system will be based on the principles of 'safe, effective, convenient and inexpensive' healthcare."

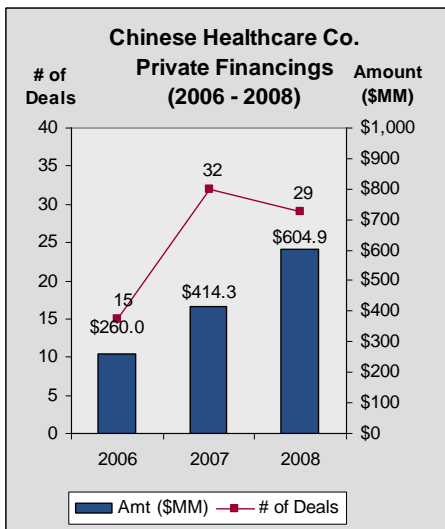
Fang Laiying, Beijing municipal public health bureau chief, said, "The government will scient-

ifically define the responsibilities and rights of a public hospital proprietor and administrator, and probe the corporate governance structure for public hospitals."

Private investment in the city's public health service will be encouraged.

There would be parity in terms of entry requirements, assessment criteria and medical security policy in both public and private hospitals, he said.

Source: China Daily



Source: Capital IQ

Consumer Products / Retail

China's BYD In Talks to Supply Batteries to Global Auto Makers

Fledgling Chinese auto maker BYD Co. is in talks to supply its batteries to car companies in Europe and the U.S., Chairman Wang Chuanfu said.

A deal could solidify BYD's growing prominence in the electric-car market after it surprised the automotive world by launching a plug-in car in December, ahead of more established foreign rivals.

Mr. Wang said BYD is negotiating with one U.S. auto maker and two in Europe about supplying lithium-ion batteries it produces in Shenzhen, where BYD is based.

Mr. Wang said the batteries it is considering

supplying are the same ones used in its F3DM sedan, a plug-in hybrid that BYD started selling in December to Chinese fleet customers, such as state-owned enterprises and government agencies.

The F3DM's limited release hit the market about a year ahead of a similar car, also initially for fleet customers, being planned for late this year by Toyota. BYD plans to start selling the F3DM to consumers in June.

A deal to supply its batteries to other car companies could put BYD, a battery producer that began selling cars in 2005, in competition with battery companies with similar technology, such as A123 Systems Inc., a closely held company

based in Watertown, Mass.

Mr. Wang said BYD's ability to produce lithium-ion battery cells at relatively low cost, in part because of its choice of technology and inexpensive Chinese labor, gives the company an advantage over other battery makers. Last year, a company controlled by investor Warren Buffett invested \$230 million in BYD, chiefly because of BYD's cost effective technology.

Concerns over gasoline shortages and climate change have prompted a global race to commercialize affordable electric-battery cars.

Source: Wall Street Journal

China's Dairy Industry Recovering From Melamine Scandal

More than six months after the breaking of the scandal involving the melamine contamination of dairy products, China's dairy industry is showing signs of recovery with sales gradually nearing the pre-scandal level.

The Inner Mongolia-based Yili Group said sales had recovered to 90 percent of the level before the scandal. Mengniu Dairy saw a full recovery of sales in the north of the country and a 60 percent recovery in southern

regions.

Overall dairy product sales had recovered to 70 percent to 75 percent of the pre-scandal level, Chen Lianfang, dairy analyst of Beijing Orient Agribusiness Consultant, Ltd, said.

Wang Dingmian, an official with the Dairy Association of China, expects a 90 percent recovery by the end of 2009.

Last year, melamine contaminated milk powder left at least six Chinese infants dead and almost 300,000 with kidney

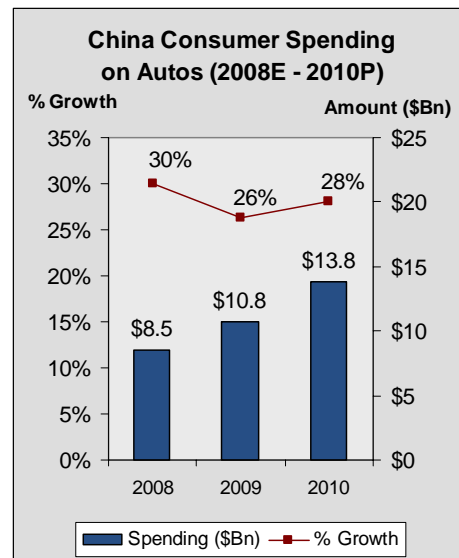
illnesses. The chemical was added to dairy products to increase their apparent protein content.

Chinese dairy companies closed a wrenching fiscal year in 2008 with poor sales and falling stock prices after the scandal.

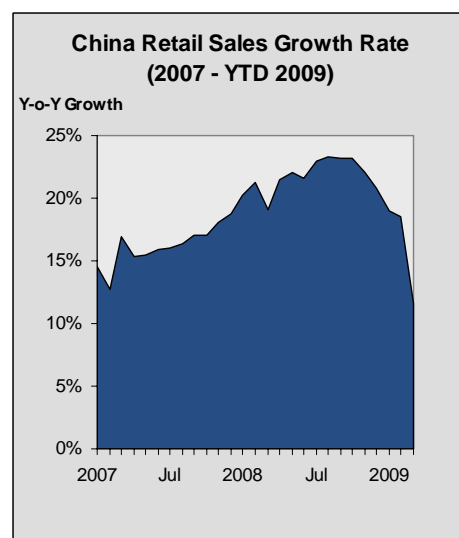
Beijing Sanyuan Foods Co, which was not implicated in the scandal, is expected to be the only profitable firm among the listed dairy companies.

The net profit of Sanyuan jumped 87.2 percent in 2008 from a year earlier.

Source: China Daily



Source: Euromonitor International



Source: Bloomberg

Recent Transactions

WISCO to Acquire 19.9% Stake in Canadian Iron Ore Company

Wuhan Iron Steel Corp (WISCO), one of the largest steel makers in China, has agreed to invest \$240 million to acquire a 19.9 percent stake in Canada's Consolidated Thompson Iron Mines Ltd in a move to secure its iron ore supply.

WISCO agreed to purchase 25 percent of iron ore produced over the life of the company's mine.

Consolidated Thompson's CEO Richard Quesnel

Fosun Invests in Olduncle Restaurant Chain

Fosun Pharmaceuticals has invested about RMB 56 million (\$8.2 million) in a Chinese food chain restaurant, Olduncle, through its investment arm, Fosun PingYao

Changyou IPO Closes Up 25 Percent on Nasdaq

Online video games maker Changyou.com (Nasdaq: CYOU) closed up 25 percent in its trading debut, making it the most successful stock launch in nearly a year.

It was only the third initial public offering in the United States since August 2008, and the largest Chinese IPO on a US exchange since December 2007.

said that the company viewed the investment as a key strategic step in developing a long-term partnership with an important consumer of iron ore.

"This partnership will also strengthen Consolidated Thompson's potential to expand from the current mine plan of 8 million tons per year to 16 million tons of annual production of iron ore," he said.

WISCO's bid is aimed at securing overseas iron ore supply and reducing dependence on the world's top three iron ore miners,

Investment & Management. Following the investment, Fosun has become the second largest shareholder of Olduncle. The proceeds will be used to enhance Olduncle's geographic presence across China, including opening 300

The initial public offering of Changyou, spun off from Chinese Internet portal Sohu.com Inc (NasdaqGS: SOHU), rose as much as 50 percent during its first day of trading before easing to end at \$20.02, up \$4.02, or 25 percent on Nasdaq.

The American Depositary Receipts started trading on Nasdaq at \$22.02, a 38 percent premium over its initial pricing of \$16.00.

Changyou sold 7.5 million ADRs, raising \$120 million

BHP, Rio Tinto and Vale, said Ma Tao, analyst with Bohai Securities.

He said the steel maker would see its production capacity further expand when it merges with or acquires other steel makers in the country to build a "stronger" steel group.

The agreement is still subject to approvals by the governments of both countries. The Balloch Group is acting as financial advisor to WISCO for this transaction.

Source: China Daily

more restaurants in the Yangtze River Delta area. Founded in November 2000, Olduncle is a Chinese food chain restaurant group headquartered in Zhejiang Province with 21 restaurants across eastern China.

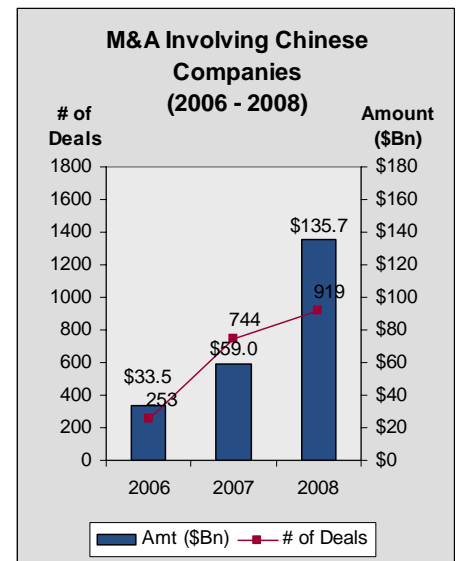
Source: Zero2IPO

after pricing at the top of its estimate range.

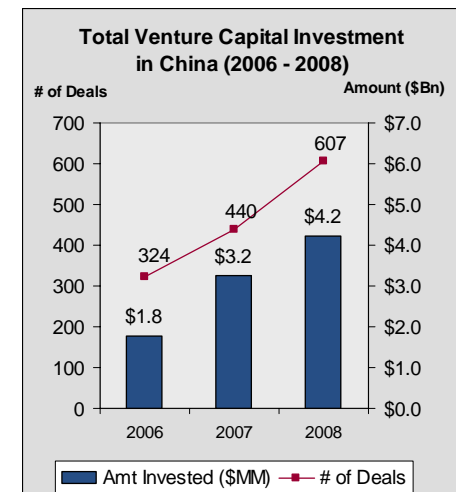
Changyou Chairman Charles Zhang said the strong debut was due to the deal's pricing as well as the track record of Sohu, which has been listed on Nasdaq for nine years.

"The pricing was based on the environment, and our price earnings multiple was low compared to others," Zhang said.

Source: Zero2IPO



Source: Capital IQ



Source: Zero2IPO

Additional

China Slowly Grows Into Its Crucial Role

Not so long ago, the Group of 7 could mould the world according to its predilections. Now the Group of 20 has come of age.

The elite club's most glaring defect was the absence of China, the world's emerging giant, now the planet's third biggest economy and, if things continue as they are, soon to surpass Japan as its second biggest. China is also the only economy of any size that is actually still growing, approximately at a rate of 6-8 percent. Most of the rest of the world, desperately trying to stave off outright recession or even depression, can only look on with envy.

The seismic shift in global economic fortunes has accelerated China's emergence onto the world

stage. Whether it likes it or not – and until recently there were signs that it did not – China will have to play a bigger international role.

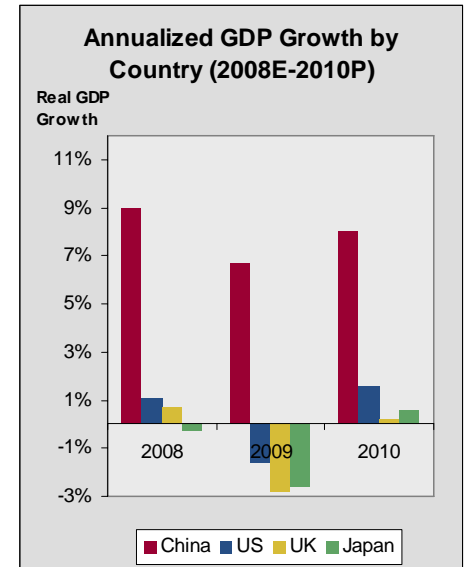
Last July, Fred Bergsten of the Peterson Institute for International Economics suggested that most of the world's big problems could be tackled by a G2 of the US and China.

That is perhaps going a bit too far, though the London summit suggests China has been growing into its enlarged role. Even before the gathering began, Beijing told the US to take proper care of its \$1.0 trillion in Treasury holdings through a responsible fiscal policy. It also made an intriguing proposal to enlarge the role of special drawing rights so they could become an alternative to the dollar as a reserve currency.

Some other G20 participants, including Indonesia, South Korea and Argentina, recently concluded renminbi swap arrangements with China, a sign that Beijing's weight in international finance is growing even without the benefit of a convertible currency. At the meeting itself, China contributed positively to discussions about enlarging the IMF's budget, although it was unclear about what funding it would commit, and stood up to France's attempts to brand Hong Kong and Macao as tax havens.

Beijing has moved beyond simply telling the world what it does not like. Tentatively, it has begun to articulate a more active vision of how the world might be run and how China might contribute.

Source: *Financial Times*



Source: Euromonitor International

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