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This Week in China

Geithner's China Visit Puts Focus on Positive Trends

U.S. Treasury Secretary Timothy Geithner's recent visit to China had several key goals, including gaining assurances that China would continue to purchase U.S. treasuries, that China would pursue a market-based exchange rate over the longer term, and that China would take measures to encourage a more consumer-driven economy.

If China were to cease or substantially scale down purchases of U.S. debt, it would likely result in far higher borrowing costs for the U.S. government, going so far as to put upward pressure on U.S. mortgage rates. In response to this concern, Geithner said of China, "I believe they understand and have confidence in the Fed's capacity to keep inflation low and stable over time, and in our capacity to...bring our fiscal deficits down over time." China is the biggest creditor nation to the U.S., and Premier Wen Jiabao in March had expressed concerns over the safety of China's U.S. assets.

In response to the goal of a market-based exchange rate, Geithner stated "We

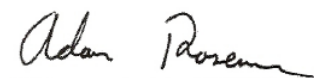
welcome their commitment over time to move to a more flexible, market determined exchange rate." This may be viewed as more of a concession that China will not resume allowing its currency to appreciate until its economic recovery is well underway (i.e. GDP growth >8%).

Geithner's final goal, to push China to continue to configure a more consumer driven economy, is critical to balancing out the massive U.S. trade deficit with China and to relieve U.S. consumers from their role as the principal driver of global demand as they are more likely to undergo the process of a long overdue deleveraging.

Mr. Geithner did give credit to China's economic policies in this regard, saying that "China is playing a very important stabilizing role in the international financial system now, through...their efforts to strengthen domestic demand."

Indeed, while China's plans for continued U.S. debt purchases and exchange rate flexibility are less concrete, the country's desire to increase consumer spending from a minor 36% of

GDP (vs. 70% in the U.S.) have been recently well documented. \$135 billion of China's previously announced \$586 billion stimulus package is devoted to affordable housing and infrastructure and education and healthcare, allowing for more disposable income in the hands of consumers. China will spend \$125 billion on healthcare reform during 2009-2011 to allow for consumers to scale down prior savings in anticipation of large future healthcare costs. Rural consumption is being boosted in the short-term through substantial subsidies on everything from televisions and microwaves to light trucks and motorcycles. Finally China is currently working on rural land rights reform that will eventually give rural residents a monetizable asset and increased personal wealth. Clearly, as verified by Mr. Geithner, China is doing its part to restore balance to the global economy.



Adam Roseman,
Founder & CEO
ARC China

This Week in China (cont'd)

China Is Said to Plan Strict Gas Mileage Rules

Worried about heavy reliance on imported oil, Chinese officials have drafted automotive fuel economy standards that are even more stringent than those outlined by President Obama, Chinese experts with a detailed knowledge of the plans said.

The new plan would require automakers in China to improve fuel economy by an additional 18 percent by 2015, said An Feng, a leading architect of China's existing fuel economy regulations who is now the president of the Innovation Center for Energy and Transportation, a nonprofit group in Beijing.

The plan is going through the interagency approval process and is scheduled for release early next year, he said.

China invests RMB 800 Billion (\$117 billion) In Urban Rail Transit

China has approved over RMB 800 billion (\$117 billion) investment for the construction of urban rail transit lines, providing infrastructure for domestic economic growth.

28 cities have submitted proposals on 91 planned rail transit lines covering 2,600 kilometers, with at least RMB 1 trillion (\$147 billion) needed. 19 cities had their construction proposals approved by the

The Chinese government tends to make few changes in automotive regulations once the inter-agency review process has started.

The average fuel economy of family vehicles in China is already higher than in the United States, mainly because cars in China tend to be considerably smaller than those in the United States.

Many in the government see a strategic and geopolitical need to reduce China's reliance on oil imports, the official said. China was self-sufficient in oil until 1995, but soaring demand means that China now imports nearly three-fifths of its oil, much of it from potentially unstable countries along sea lanes controlled by the United States Navy.

Others in the government are concerned about limiting toxic air pollution

state. 70 rail transit lines, with a total length of 2,100 kilometers will be completed by 2015.

Currently, 46 lines, with a total length of 1,212 kilometers are under construction in 14 cities around China. 29 lines are finished, amounting to nearly 780 kilometers, and have already been put into use in 10 cities including Beijing, Shanghai, Shenzhen and Guangzhou.

The rapid development of urban rail transit plays an important role not only in

and see reductions in the total combustion of gasoline as one way to achieve this. Still other officials are worried about the potential for international efforts to limit China's emissions of global warming gases, or view greater fuel economy as a way to increase the competitiveness of Chinese car exports.

The average new car, minivan or sport utility vehicle in China already gets the equivalent of 35.8 miles a gallon this year based on the American measurement system of corporate averages and will be required to get 42.2 miles a gallon in 2015.

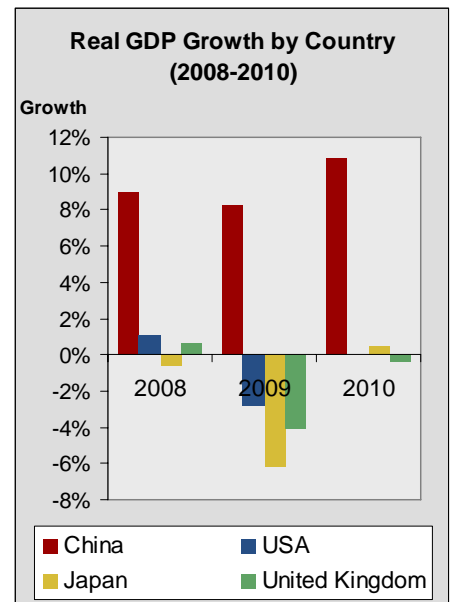
By comparison, President Obama announced that each automaker will be required to reach a corporate average of 35.5 miles per gallon by 2016.

Source: *The New York Times*

reducing urban traffic pressure and air pollution but also in boosting economic growth. A subway costs about RMB 600 million (\$88.2 million) per kilometer, consuming building materials like cement, reinforcing bars and stone in large quantities.

China will have 55 urban rail transit lines, amounting to 1,500 kilometers by 2010.

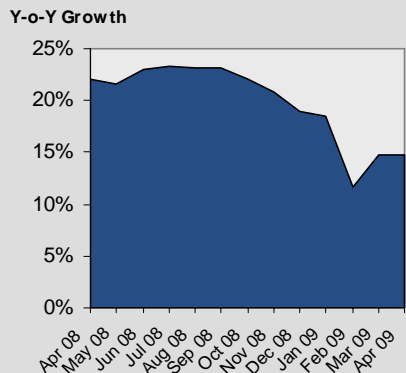
Source: *People's Daily*



"China was self-sufficient in oil until 1995, but soaring demand means that China now imports nearly three-fifths of its oil."

Consumer / Retail

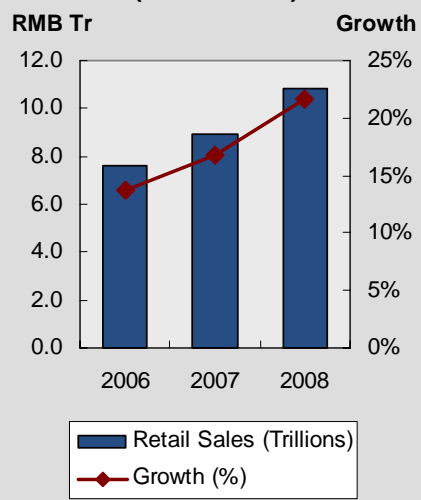
China Retail Sales Growth Rate (Apr 2008 - Apr 2009)



Source: Bloomberg

"The slump faced by U.S. and European automakers has encouraged Chinese companies — buoyed by China's ranking as the world's largest car market in the first quarter of 2009 — to hunt for buyout candidates overseas."

China Retail Sales (2006 - 2008)



Source: All China Marketing Research

Sichuan Company May Develop More Fuel Efficient Hummer

The sale of General Motors' Hummer division to a Chinese buyer has yet to be finalized, but one thing about the future of the iconic American brand seems clear: the era of Hummers as street-clogging gas hogs is over. Analysts say the brand's future lies in either slimmed-down SUVs or large special-purpose vehicles not unlike the military-troop carriers that formed Hummer's roots.

In the first public statement from Hummer's Chinese bidder, Yang Yi, CEO of Sichuan Tengzhong Heavy Industrial Machinery, said his company "will be investing in the Hummer brand and its research and development capabilities, which will allow Hummer to better meet demand for new products such as more fuel-efficient vehicles in the U.S."

The deal, the price of which has not been disclosed, comes a day after GM filed for Chapter 11 bankruptcy protection. The U.S. automaker says the sale of Hummer, which GM valued at \$500 million, should allow it to preserve more than 3,000 American jobs. Tengzhong says it plans to maintain Hummer's existing senior management team and will enter into assembly and supply

agreements with GM.

The slump faced by U.S. and European automakers has encouraged Chinese companies — buoyed by China's ranking as the world's largest car market in the first quarter of 2009 — to hunt for buyout candidates overseas.

"It's definitely a good time to buy Hummer," says Liu Chang of Sinomind Management Consulting in Beijing. "GM wouldn't sell it if [GM] was in better shape."

Tengzhong, a private company based in China's southwestern Sichuan province, manufactures heavy machinery, road and bridge construction equipment, and special-use vehicles like dump trucks and cement mixers.

The Hummer, which was based on the humvee vehicle produced for the U.S. military by AM General, was first sold as a civilian vehicle in 1992. GM bought the line in 1999 and later introduced the smaller H2 and H3 models. In 2006 Hummer registered peak sales of 71,524 for all models. But with higher gas prices and the onset of recession, sales plunged 22% in 2007 and 50% in 2008.

In China, Hummers are rare among the compact and midsize vehicles that jam city streets. Last year, just over 500 were sold on the mainland. As in the U.S., in China large SUVs

have a certain cache. "To drive a Hummer, for rich people it fulfills a certain dream," says Yale Zhang, a Shanghai-based analyst with CSM Worldwide, an auto-industry consulting firm. "In China, it's a niche market for sure. It's too big; it consumes too much gasoline. The price is very high, and very few people can afford it." The H3, the most popular Hummer, averages 15 miles per gallon.

The SUVs that did sell well in China last year were only popular in sizes not much larger than ordinary sedans. That may influence the design of future Hummers. "I expect that after the deal, Hummer would be much better tailored to the Chinese market," says Liu. "If anything, its price might be much lower and more acceptable to the Chinese consumer."

Tengzhong CEO Yang's comments about fuel efficiency are a recognition that the Hummer has to change its image if it wants a future in the U.S., where the public has soured on gas guzzlers, and in China, where gas-mileage standards are high and are expected to increase. "They see that great weakness in the vehicle and the movement in China toward more fuel efficiency," says Bonnell. "They know they have to address that if they want people to buy."

Source: Time Magazine

Metals and Mining

Rio Dumps Chinalco for Iron Ore Venture with BHP Billiton

Global miner Rio Tinto dumped plans for a \$19.5 billion tie-up with China's Chinalco and agreed to set up an iron ore joint venture with rival BHP Billiton and sell new shares to slash debt.

The new plan represents a victory for Rio shareholders who had opposed the deal with Chinalco, arguing it favored the Chinese state firm and could give China greater

influence over pricing of key commodities such as iron ore.

Rio and BHP, the world's second- and third-largest iron ore miners, agreed to combine the operations into a 50-50 joint venture, generating savings of at least \$10 billion.

BHP, which dropped a bid to buy Rio last year, will pay Rio Tinto \$5.8 billion to take its equity interest in the venture to 50 percent.

Chinalco, which remains Rio's biggest single

shareholder, said it regretted Rio's decision after it had worked hard to try to revise the deal to reflect changed market conditions as well as shareholders' and regulators' concerns.

Under the deal agreed in February, Chinalco would have paid \$12.3 billion for stakes in Rio's key iron ore, copper and aluminium assets and \$7.2 billion for convertible notes that would have doubled its equity stake in Rio to 18 percent.

Source: CNBC.com

Pressure on Chinese to Accept Rio Iron Ore Price

Pressure is building on Chinese steel mills to accept a reduction in iron ore prices of about a third, after Rio Tinto announced it had settled terms with many Asian customers.

Rio Tinto announced an iron ore contract with Taiwanese steelmakers CSC and Dragon on the same terms it struck with Japan last week.

Japanese and South Korean steel mills and Rio Tinto agreed on a price cut of 33 percent for iron ore fines (~\$58/ton) and 44 percent for lump iron (~\$69/ton) down from record 2008 levels.

Analysts said it was a good deal for Rio, with larger cuts feared following a dive in commodity prices since last year's contract prices were settled.

Rio Tinto has yet to agree to terms with China's steel mills.

But the China Iron and Steel Association has previously said it wants prices cut by 40-45%.

AME Mineral Economics analyst John Bruyn said Rio's latest announcement increased pressure on China's mills to accept similar terms.

"It puts a lot of pressure on them because now they are out on a limb," Mr Bruyn said.

"Everyone else has said they are going to settle, and these are big steel mills.

Rio Tinto head of iron ore Sam Walsh said in a statement that the situation regarding iron ore contract prices was becoming clearer as more customers settled on the same terms.

"We continue to negotiate with our remaining customers, the bulk of whom are in China," Mr Walsh said.

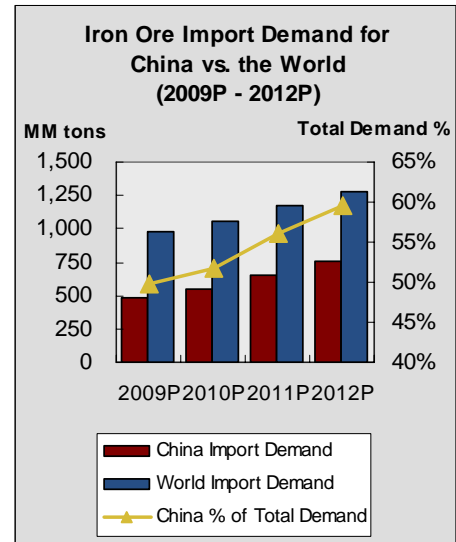
"We believe the settlements achieved to date demonstrate that customers appreciate the certainty of price and volume that the benchmark system ensures," he said.

Managing director of Eagle Research Advisory, Keith Goode, said his interpretation of Mr Walsh's comments was that Rio wanted China to accept the same deal as other Asian customers.

"It is just saying (to Chinese steelmakers), look, this is the benchmark price," Mr Goode said.

"You can't stand out there and say 'I want a larger reduction so I can make a bigger profit'," he said.

Source: AAP; Citigroup



Source: Morgan Stanley

"Analysts said it was a good deal for Rio, with larger cuts feared following a dive in commodity prices since last year's record high contract prices were settled."

Recent Transactions

Yeong Guan Energy Technology Group Raises \$30 Million

Yeong Guan Energy Technology Group announced that it has received \$30 million in a round of funding led by new investor STIC

Investments, Inc. The round includes participation from new investor MC Capital Asia Pacific Ltd. STIC Investments, Inc made an investment of \$20 million and MC Capital Asia Pacific Ltd of \$10 million.

Yeong Guan Energy Technology Group manufactures and distributes wind turbine components. The company was founded in 1971 and is based in China.

Source: Capital IQ

Chery Auto Raises RMB 2 Billion (\$293 Million) in Private Placement

Chery Automobile Co., Ltd. announced that it has raised RMB 2 billion (\$293 Million) in funding.

Management Company, Ltd, China Huarong Asset Management Corporation, and China Science & Merchants Venture Capital Management Co., Ltd. The company sold a stake of 20% in the transaction.

MPVs, and SPVs. The company also provides engines, transmissions, and other components. The company was founded in 1997 and is headquartered in Wuhu, China with operations in Asia, the Middle East, Africa, North America, South America, and Australia.

Source: Capital IQ

The round saw participation from Bohai Industrial Investment Fund Management Co., Ltd's The Bohai Industry Investment Fund, L.P., CDH China Holdings

Chery Automobile Co., Ltd. manufactures, markets, and exports passenger vehicles in China. It offers cars, SUVs and

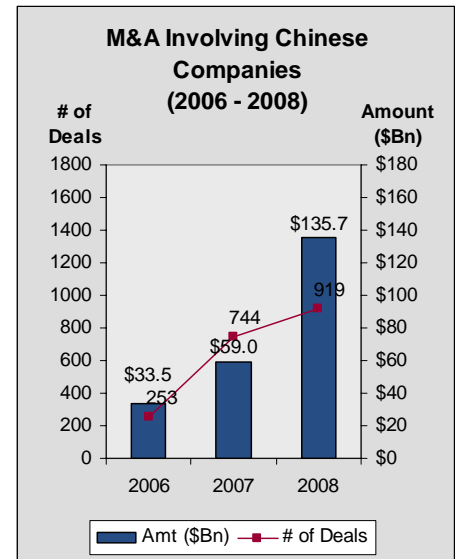
Duoyuan Global Water Plans \$75 Million IPO on NYSE

Duoyuan Global Water Inc. (NYSE: DGW Proposed) has filed as a foreign issuer for a \$75 million IPO on the NYSE.

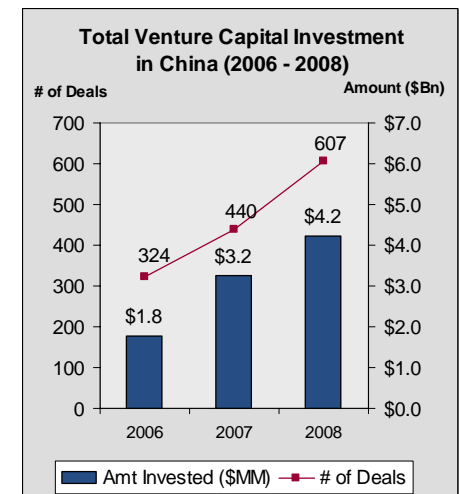
water softeners, which are used in the process of treating water and removing buildup in circulating water systems; water purification equipment that uses ultraviolet, ozone, membrane-based, and electrodeionization technologies in the process of treating and purifying water for various applications and end-user customers, including residential communities and commercial businesses; and wastewater treatment equipment, including grit separators, microporous aerators, and belt-type thickener-filter press

mono-block machines, which are used in the process of treating wastewater, such as municipal sewage, and industrial and agricultural wastewater. The company's customers primarily consist of wastewater treatment plants, water works facilities, manufacturing plants, commercial businesses, residential communities, and individual customers. Duoyuan Global Water Inc. was founded in 1992 and is headquartered in Beijing, the People's Republic of China.

Source: Capital IQ



Source: Capital IQ



Source: Zero2IPO