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This Week in China

Speculation Increases for China Exchange Rate Move

As China's growth has accelerated – January trade data provided solid evidence of growth consolidation, with exports jumping 21 percent year-on-year and imports surging 85.5 percent – there has been an increase in the expectation that a rise in the renminbi versus the US dollar will occur sooner rather than later.

As reported in the Financial Times, China could be set to let the renminbi appreciate by as much as 5 per cent in a bid to slow its fast-growing economy, according to Jim O'Neill, chief economist at Goldman Sachs.

"I have a strong opinion that they're close to moving the exchange rate," Mr O'Neill told the Bloomberg news agency. "Something's brewing. It could happen any time."

Mr. O'Neill's were made after China's central bank announced a 50 basis-point rise in commercial bank reserve requirements last Friday to soak up excess liquidity in the financial system. This was the second time in a month that the Chinese

authorities have announced such a move as they move to restrain credit growth after the economy grew at the fastest pace since 2007 in the fourth quarter of 2009.

China tightly manages the renminbi's exchange rate, but has so far not used the appreciation of its currency as a lever to contain growth and inflationary pressures. China has kept the renminbi pegged against the dollar since July 2008, but China allowed its currency to rise by more than 20 per cent against the dollar during the 3 years prior.

"They need to do something to slow the economy down and deal with the inflation consequence," said Mr O'Neill. "The more they do – and the sooner – the better."

Some analysts, however, played down the likelihood of such a move, especially since the advent of the Chinese New Year often provoked fears over aggressive action from Chinese policymakers. Daragh Maher at Crédit Agricole said any shift in China's currency regime was not likely until later in the year, given that there were still other measures

that could be taken by the country's central bank to rein in inflationary pressure.

Steve Barrow of Standard Bank added that "if part of the justification for renminbi strength is to appease Western pressure it would seem that there's no great reason for China to do anything right now." The Chinese government is certainly keen to avoid the appearance of capitulating to foreign influences.

Regardless of the timing, with China's foreign exchange reserves over \$2.4 trillion and exports once again showing sustained strength, a rise in the renminbi does seem to be inevitable this year and in future years, resulting in enhanced returns to foreign investors.

In the longer term, certainly after 2020, the RMB is likely to become an international reserve currency as it becomes fully convertible and the Chinese economy completes its structural and institutional transformation into a fully modernized market economy.

Adam Roseman,

Founder & CEO

ARC China

This Week in China (cont'd)

Official Think Tank Sees China 2010 GDP Up 10%

An official think tank has forecast China's GDP will expand around 10 percent in 2010, driven by investment and domestic consumption.

Strong first-quarter growth of 11 percent will slow slightly for the rest of the year, with the pace of expansion dipping just below 10 percent in the second half, the Center for Forecasting Science at the Chinese Academy of Sciences said.

Growth in the third and fourth quarters will be 9.5 percent and 9.8 percent respectively. Foreign trade will rebound as the global

Chinese Exports Rise 20% In January

China's exports and imports continued to recover in January from the slump at the start of 2009 according to new government figures which underlined the growing importance of other developing economies in China's trade.

The headline numbers suggested a strong rebound in trade last month with exports rising 21 percent compared with January 2009 and imports surging by 85.5 percent.

However, the figures were distorted by the timing of Chinese New Year holidays, which meant that the economy operated for one week less last January. The import figures were also influenced by the fact that imports at the start of last

economy improves, but overall net exports will be a drag on growth, bringing GDP expansion down by around 0.5 percentage points. Exports will rise 16.6 percent and imports by 18.9 percent, with the overall value of foreign trade up 17.6 percent.

The government's economic stimulus plan, which aims to bolster the Chinese economy amid the economic slowdown, will continue to drive investment, but growth will slow to 25 percent from 30.1 percent in 2009.

It also forecast a 3.1 percent rise in the consumer price index as the economic revival,

year were at their lowest level since 2005.

In terms of volume of trade, the January numbers were actually below December's, with exports down from \$130.7bn in December to \$109.5bn, and imports falling from \$112.3bn to \$95.3bn. RBS calculated that exports were down 2 percent on a seasonally-adjusted basis month-on-month.

The January figures did underscore that the recent recovery in China's trade has been skewed towards markets in other developing economies, in some of which China has become the biggest trading partner over the last year. Imports from Russia were up 162 per cent year-on-year last month, from Brazil by 142 percent, from Asean by 117 percent and from

ample liquidity and inflation expectations drive up prices.

While seemingly mild given the extent of China's monetary stimulus over the past year, the higher inflationary expectations are likely to worry those already concerned about the possibility of economic overheating.

China's GDP last year grew 8.7 percent. The median 2010 GDP forecast of economists polled by Reuters late last month was 9.5 percent.

The IMF has forecast 10 percent growth for 2010.

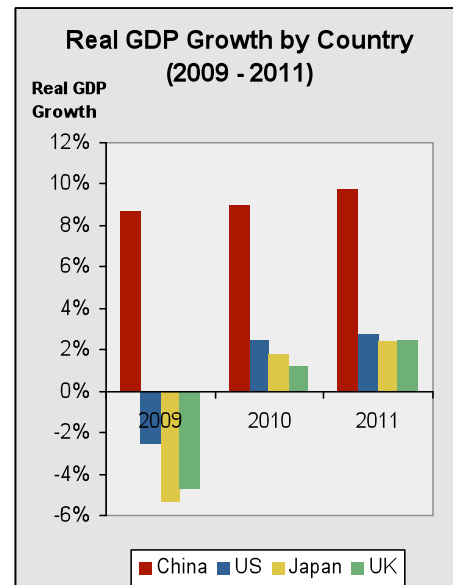
Source: China Daily

India by 112 percent, while exports to Asean rose 52.8 percent and to Brazil by 78.7 percent.

According to Ha Jiming at China International Capital Corporation, the proportion of China's exports going to the US, the European Union and Japan fell from 50 per cent at the start of last year to 44 percent in December, while developing countries' share had increased to 56 percent.

Economists said that as the January figures did not provide a clear indication about the strength of recovery in exports, it could delay any decision on whether to begin appreciating the Chinese currency despite mounting international pressure.

Source: Financial Times



Source: Euromonitor

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This Week in China (cont'd)

China's Loan Growth, Inflation Probably Accelerated

China's banks probably made more new loans in January than the previous three months combined as lenders anticipated a credit clampdown by policy makers seeking to stem rising inflation pressures.

New bank lending totaled RMB 1.38 trillion (\$201 billion) last month. Separate figures are projected to show consumer prices rose the most since 2008 and export gains accelerated.

Regulators are seeking to slow a credit boom loosed last year that may now be inflating a bubble in China's property market. The week's economic reports are likely to reinforce expectations for the central bank to start raising interest rates and loosen controls on the yuan in coming months, moves that might trigger similar steps across the region. Year-on-year percent changes in some of China's January economic data may have been distorted by the lunar new year holiday, which was in January last year but February in 2010. Most businesses close for the week-long celebration.

At the same time, trends show accelerating price pressures across the economy poised to become world's second biggest this year. The U.S. Aluminum Corp. of China Ltd., the nation's top producer of the metal, on Jan. 4 raised alumina

prices for the third time in five months. Beijing Yanjing Brewery Co. raised prices for some of its beer about 10 percent, citing rising costs of fuel and rice.

Consumer prices probably advanced 2.1 percent in January from a year before, a third straight gain, the median estimate shows. Producer price inflation probably quickened to 3.5 percent, according to the survey. Growth of the M2 money supply measure probably slowed for a second month to 25.9 percent, the median projection shows.

Inflation is also accelerating from South Korea to Vietnam as commodity and food prices rise amid the Asia-led global recovery. Still, South Korea, India, Indonesia, Thailand, Malaysia, Taiwan and the Philippines have yet to raise rates and policy makers in countries including Thailand and Taiwan are restraining currency gains, traders say.

Any need to restrain the yuan may be easing. Exports probably jumped 28 percent last month from a year earlier, and imports probably surged 85 percent, leaving a trade surplus of \$20 billion.

Economic growth accelerated to a 10.7 percent year-on-year pace last quarter, the fastest since 2007, responding to an unprecedented 9.59 trillion yuan of credit extended by banks in 2009 and a 4

trillion yuan two-year fiscal stimulus plan.

The expansion "is probably stronger than Chinese policy makers would like," Goldman Sachs Group Inc.'s Chief Global Economist Jim O'Neill said.

The estimate for new lending in January is 48 percent more than the total extended in the last three months of 2009. It's also 18 percent of the 7.5 trillion yuan Premier Wen Jiabao's government set as the target for this year.

The Shanghai Composite Index has slumped 10 percent since the year began on concern the government will curb lending to cool the economy.

The central bank asked lenders to set aside more money as reserves on Jan. 12, the first such increase since June 2008. Some lenders have since been asked to limit credit, punished by even higher reserve ratios.

Bank of China Ltd., the nation's third-largest lender by market value, on Feb. 3 reduced discounts for some mortgages, citing concern about rising property-market risks. Industrial & Commercial Bank of China Ltd., the world's largest bank by market value, said Jan. 27 it "stabilized" loan growth after lending rose "relatively fast" in the first half of the month.

Source: *Bloombera*

New bank lending totaled RMB 1.38 trillion (\$201 billion) last month. Separate figures are projected to show consumer prices rose the most since 2008 and export gains accelerated.

This Week in China (cont'd)

China Patents Surge As U.S. Filings Plunge

China bucked an unprecedented decline in global patent filings last year, boosting its total by 29.7 percent, while the United States saw a fall of 11.4 percent, the world patent watchdog WIPO said.

Japan, whose companies held four of the top 10 spots among company filings under WIPO's Patent Cooperation Treaty (PCT), and South Korea also notched up small increases despite international economic and financial woes.

"This marks a strong performance by the east Asian countries," said WIPO Director-General Francis Gurry. Companies in the region had clearly recognized that innovation offered one way out of the crisis, he added.

The United States easily kept its place as the top origin of all filings with a total of nearly 45,800 — nearly five times as many as China — but its overall

total fell 11.4 percent. Second-placed Japan accounted for 29,827.

Among companies, the top filer was Japan's Panasonic Corp with 1,891, 162 more than in 2008. It pushed China's Huawei Technologies Co Ltd., the 2008 leader, into second place with 1,847 filings, up 110.

WIPO, the World Intellectual Property Organization, launched the PCT in 1978 to enable companies to seek protection across a large number of countries in one filing and thereby boost the attraction of their inventions for global investors.

The United Nations' agency's chief economist, Carsten Fink, said it was the first time since the system was set up that overall filings declined, going down from a total of nearly 164,000 in 2008 to some 155,900 last year.

Gurry said the drop in the richer countries came as no surprise due to the economic climate, with

smaller firms having financing problems while larger ones cut back on research and development and found other savings in patent filing costs.

Among the five strongest sectors for filings through WIPO and the PCT, only electrical machinery and digital communication saw rises — of just 0.8 percent and 2.6 percent respectively.

The long-time leader, computer technology, was down 10.6 percent, and new pharmaceutical and medical technology patent filings also declined.

Big global companies with significant declines were Philips Electronics of the Netherlands which, although the fourth biggest global patent filer, was 256 down in 2009, and troubled Japanese car firm Toyota which dropped five places in the table with a decline of 296 in filings.

Source: Associated Press

More Central Enterprises To Go Public

China's State-owned assets watchdog will encourage more qualified State-owned enterprises (SOEs) to go public this year, since the capital markets have strongly supported the development of central enterprises in recent years, Shanghai Securities News reported, citing a senior

official.

Since listed companies have to report operating conditions to the public, the transparent system improved SOEs' corporate management, said Li Rongrong, head of the State-owned Assets Supervision and Administration Commission (SASAC).

He also said listed central enterprises should reward

investors with high returns because investors take the most risks.

Li also endorsed the actions of SOEs to conduct merger and acquisitions abroad, since it can optimize the efficiency of capital and corporate operation, he said.

Source: China Daily

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This Week in China (cont'd)

GE China Capitalizes On Environmentally-Efficient Products

According to GE China President and Chief Executive Officer Mark Norbom, China is in the process of evolving from a low-quality product manufacturing center into a high-quality one, in which he sees vast market potential by bringing into the nation his company's environmentally-efficient products and services.

US conglomerate GE is viewing China not only as a manufacturing hub and sourcing center but also as a base for product innovation and research and development (R&D). Last year it spent \$4.5 billion on product sourcing in China.

Norbom hailed China's 4-trillion yuan economic stimulus plan as "well-targeted" and "fast to the market". He said all of GE's infrastructure business in China had seen an increase in opportunities. In addition, because part of the stimulus program was

ICBC To Adjust Lending To Promote Eco-friendly Economic Growth

China's largest bank, Industrial and Commercial Bank of China (ICBC), said Monday it would tailor its lending to promote more environmentally friendly economic growth.

Shifting China's economic growth pattern, a key task for the Chinese government, will usher in a development mode that is

targeted towards technology, particularly in environmental areas, it benefited Ecomagination, a business initiative GE launched in May 2005, to address worldwide environmental challenges. This involved launching more than 80 products and services focused on being environmentally efficient in areas such as clean coal, water treatment and the wind business.

"We have a lot of technologies and we are ready to bring them in by working with industry-leading Chinese companies. It's our objective to work with them to go after the China market and go global together," he said. The company is working with the China South Rail Group and China's Ministry of Railways to go after locomotive engine production, and tapping potentially high-speed rail opportunities in the US. It has also worked with China's State Grid Corp on the transmission and distribution side of Smart

more energy-efficient, environmental-friendly, and more reliant on domestic consumption.

ICBC will boost lending to emerging strategic industries and the modern services sector, as well as to the recycling and low-carbon industries, according to a statement made at the bank's 2010 work conference.

The Beijing-based lender will also increase

Grid applications. GE also signed an agreement with Shenhua Group to work on clean coal projects together.

In the aviation sector, GE signed an agreement in December last year with AVIC to build avionic products, potentially targeting China's C919 jumbo jets. It is also working with Shenyang Blower Works Group (SBW) in the area of oil, gas and pipeline compression equipment.

Clean coal is one area GE is interested in. Currently more than three-quarters of China's energy consumption is coal-based and it is the biggest cause of greenhouse gas emissions in the country.

Through all these innovative products and services, the business for GE in China may grow at a range between 20 to 25 percent in 2010 because "our portfolio of products fits well with what China needs today".

Source: China Daily

financing support for small enterprises and help boost domestic consumption.

The bank also said it would strictly control lending to high-pollution and energy-intensive projects and shut the door on lending to projects and enterprises in violation of national environmental protection standards.

Source: China Daily

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Consumer / Retail

Disney, Google Eye Stake In China Bus Media Firm

Google Inc, the world's No. 1 Internet search company, which threatened to quit China last month over censorship and hacking concerns, was among investors in the Disney-led consortium.

The consortium planned to buy a stake of between 30 and 40 percent in Bus Online for more than \$100

Fancl Targets China's Cosmetics Market In Overseas Expansion

Fancl Corp., a Japanese cosmetics maker, said it expects to earn about 10 percent of its sales in China this fiscal year and use the market as a base to expand exports to half

Coca-Cola Sales Rise, Led By Emerging Markets

Lower costs and volume gain helped boost profit, which was in line with analysts' estimates. The company gained market share in the carbonated and noncarbonated drinks markets.

Results continued a trend for the maker of Diet Coke, Sprite and Dasani water, which has relied on strength overseas to counter a weak North American market beset by high unemployment and low consumer confidence.

Coca-Cola said net income attributable to shareholders rose to \$1.54 billion, or 66 cents per share, from \$995

million via a purchase of old and new shares to be issued by the company in private placements.

"Disney wants to be a strategic partner not just a financial investor in Bus Online as Disney is going to do many things in China -- for example, the theme park to be opened in Shanghai," said one of the sources. "To Disney, the deal is not just about sharing in the growth of China's advertising market

of its revenue within three to five years.

It aims to have 100 outlets by the fiscal year ending March and plans to open 30 new stores annually, said President Yoshifumi Narimatsu. In September, the Yokohama-based company established two million, or 43 cents per share, a year earlier.

Net operating revenue rose 5 percent to \$7.51 billion, topping analysts' average forecast of \$7.22 billion.

Sales by volume -- an important measure reflecting the amount of beverage concentrate sold -- rose 5 percent, outpacing gains of 2 percent in the third quarter, 4 percent in the second quarter and 2 percent in the first quarter. Still, Coke gave a tepid outlook for the current year.

"With consumers still challenged by a mixed global recovery, there again may be bumps along the way with

but more about the promotion of Disney, the brand itself, and this is strategically important to Disney in China."

Google was expected to take only a small stake in the Bus Online deal, while Disney aimed to take the greater part, said the sources, adding that no agreement had been signed yet.

Source: Reuters

subsidiaries with 82 outlets in Hong Kong and the China mainland. As recently as March 2009, Fancl got all its revenue in Japan.

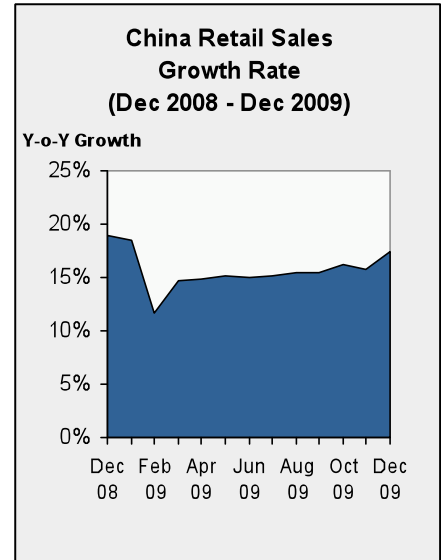
Source: China Daily

quarter-to-quarter volatility still possible as we move through 2010," Coke CEO Muhtar Kent said on a conference call.

Fourth-quarter volume rose 11 percent in the Pacific region, driven by a 29 percent increase in China, where Coke said it will continue to focus on generating double-digit annual growth rates.

"The per capita (consumption rates) are still so low in China. We're just getting started, but again, it takes a lot of investment, a lot of effort to generate a quarter of a billion cases of incremental growth a year in China," Kent said.

Source: Reuters



Source: Bloomberg

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Alternative Energy



Source: Zero2IPO

China plans to build a national renewable energy center to further support development of the industry, an energy official said.

Initial Design for China's First Three Inland Nuclear Power Stations Completed

China's State Nuclear Power Technology Corp (SNPTC) had completed the initial design for the country's first three inland nuclear power stations.

Responsible for the development of third-

China Draws Up Plans for National Renewable Energy Center

China plans to build a national renewable energy center to further support development of the industry, an energy official said.

The center will be responsible for policy-making, key project and program management, market and industrial operations, database and

China Issues Rules On Maritime Wind Energy Projects

China has issued regulations on the development and construction of offshore wind power projects in a bid to promote reasonable use of sea space and resources and better protect oceanic environment.

The regulations, jointly issued by the National Energy Administration and the State Oceanic Administration (SOA), include 38 articles in ten chapters, according to a statement released by the SOA. The rules specify procedures and requirements for the planning of offshore wind energy

generation nuclear power technology in China, SNPTC said it has finished its preliminary safety analysis report on the Taohuajiang plant, one of the three projects.

The three projects, namely Taohuajiang in Hunan province, Xianning in Hubei province and Pengze in Jiangxi

information platform establishment and international exchange program coordination, Han Wenke, director general of Energy Research Institute under the National Development and Reform Commission said.

The establishment of the center is still in the preliminary planning stages, Han said at the launch of the Sino-Danish Renewable Energy

developments, the authorization of such projects, the application and approval of the use of sea space, and construction verification, among others. The rules stress that projects should be based on the principles of planning before major construction starts.

According to the regulations, energy departments at provincial level will be responsible for drawing up plans for local offshore wind energy development, while oceanic departments at the same level should provide initial opinions on the plans regarding the projects' impact on the ocean environment.

province, will use AP1000, a third-generation technology developed by U.S.-based Westinghouse. Future inland nuclear projects in China would also use the technology.

Preparatory work for China's first batch of inland nuclear power projects is said to be going smoothly.

Source: Xinhua Net

Development Program. The Danish government will invest 100 million Danish krone (130 million yuan) in the program, which is slated to last until 2013.

The combination of Denmark's sector experience and China's strong economic position offer a good starting point for the program.

Source: ChinaDaily

Such projects should be conducted according to reasonable distribution and sparing use of sea areas, the rules said. In addition, projects may only be started after being verified by authorities and the obtaining of rights for the use of the sea space.

When it comes to uninhabited islands, projects should also receive certificates of island use, according to the procedures set out by the law of island protection. The rules also require project principals to report on project's environmental impact with submissions to the oceanic administrative department.

Source: China Daily

Recent Transactions

Hubei Wewin Secures Investment From VC And Plans For Listing

On Feb. 1, 2010, Hubei Kehua Insight Venturing Investment Co., Ltd. and Wuhan Good Insight Venturing Investment Co., Ltd. made investment in Hubei Wewin Battery Technology Co., Ltd. (Wewin), indicating that Wewin could hopefully become the first listed company in Xianning City, where Wewin is based.

Scitus Cement To Acquire Smaller Cement Producer In Sichuan

Scitus Cement (China) Holdings Ltd, a Hong Kong-based investment flagship specialized in producing cement and related products, recently signed an agreement to

China Hao Ran Goes Public on KOSDAQ Raising RMB300M

China Hao Ran Recycling Co., Ltd. (China Hao Ran) successfully made its IPO on KOSDAQ of Korea Stock Exchange on Feb. 5, 2010, becoming the first China-based environ-

IPO For Huaneng's Wind Power Unit Worth \$1Bn

China Huaneng Group Corp, the country's largest power producer, plans to take its wind power unit public in a Hong Kong share sale this year worth at least \$1 billion.

China is encouraging cleaner energy to combat climate change and meet demand for power in an economy that expanded

It was said that Wewin had the signing and cornerstone laying ceremony held at the end of 2007 in Xianning, and was officially put into production in Jul. 2008. As a rising star in new energy industry, Wewin undertook a key special project supported by Hubei Provincial Science & Technology Department in 2008. In the following year, Wewin was rated as a pilot program of innovative

take over Sichuan Zhiquan Special Cement Co Ltd.

An official from Scitus Cement said that both parties have consensus on the issue of consideration, and expect to ink the final agreement soon. However, he declined to disclose the financial

mental-friendly recycled paper manufacturer and the tenth Chinese company listed on Korea Stock Exchange. It is also the first Jiangsu-based Chinese company that went public in Korea.

China Hao Ran (900090) raised KRW47B (about

10.7 percent in the fourth quarter. The government may lift its 2020 target for wind power capacity by 50 percent to 150 gW, representing a 20 percent annual growth rate from 2009.

Huaneng's wind power unit may also sell shares in Shanghai. The Hong Kong IPO of Huaneng's wind power unit alone may raise \$1.5 billion. It's not yet certain what assets will be

enterprises of Hubei province, listed in the promotion scheme of 100 key high-tech products of Hubei province, selected as one of "the companies served by scientific and technological personnel" by the Ministry of Science and Technology, and appraised as a program under the national revival program.

Source: Zero2IPO

details and timetable of the deal.

The move marks that Scitus Cement starts to extend its business presence to Sichuan Province, Southwest China.

Source: China Knowledge

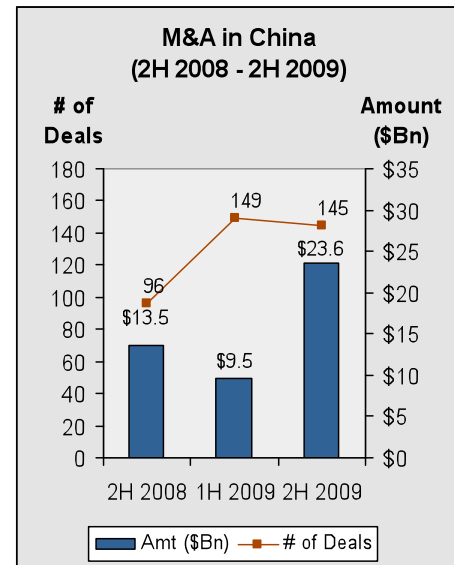
RMB300M) at a P/E ratio of 19 times based on 2008 net earnings. At the offering price of KRW 4,700, its market capitalization reached RMB1.1B at the time of listing.

Source: Zero2IPO

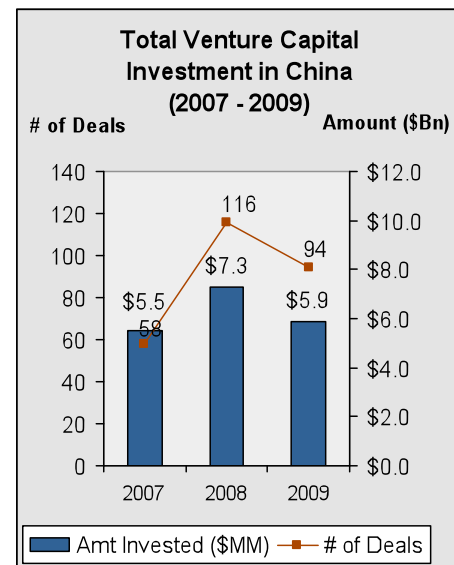
included in the company that will go public.

Huaneng is helping to build a 100 billion yuan wind farm in Jiuquan in the northwestern Chinese province of Gansu. The project will have a total installed capacity of 10.65 gW.

Source: China Daily



Source: Zero2IPO



Source: Zero2IPO