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SCI China Market Update – April 2013

Dear friends,

In late March, China's new president, Xi Jinping, made his first state visit accompanied by his glamorous new "first lady", Peng Liyuan. And it seemed the first lady stole the show. She quickly became a media and Internet sensation as she accompanied her husband to Russia and Africa. Already famous and extremely popular at home because of her long singing career, Peng Liyuan set Chinese media and social network sites ablaze with her elegant style from the moment she stepped off the plane in Moscow. We wonder if Mr. Xi felt a little bit like John F. Kennedy when he said in 1961: "I am the man who accompanied Jacqueline Kennedy to Paris".

What is interesting about this is that, traditionally, China's first ladies have received little to no attention from any media, domestic or foreign. In fact, there was not even a concept of "first lady" in China. But things seem to be changing. In fact, major newspapers in Beijing featured a shot of President Xi and his wife smiling as they left their plane, rather than a photo of Xi's handshake with President Vladimir Putin. Further, standing beside her husband with her dainty handbag and her navy blue coat, Peng was even shown briefly arm-in-arm with Xi in a public display of affection that is almost unheard of among Chinese leaders. So this new generation of leaders, including premier Li Keqiang, seems to be showing quite a different face than did their predecessors. We hope that their vision and openness will continue to benefit China's market economy and, indeed, the world economy. Here is some very recent news for your information culled from a variety of sources:

Rich Chinese may expand 17% to 12m

The number of Chinese consumers with investable assets of between US$100,000 and US$1 million may jump 17.2% from a year ago to 12 million by the end of this year, a Forbes report said. The total private investable capital of Chinese citizens grew 13.7% annually last year to 83.1 trillion Yuan (US$13.2 trillion) and may reach 93.7 trillion Yuan by the end of this year, according to the report which is compiled from Forbes China's research and the result of interviews with 1,196 respondents. Those born between 1960 and 1989 made up 81% of the total number of the mass affluent group, with 55% of them being male. More than two-thirds of them have college or master degree and 88% of the mass affluent class have made investment as they seek to grow their assets.

China Releases New Measures to Restrict Housing Sales

In an effort to cool the resurgent property market, two of China's biggest cities announced that they would put in place a series of new restrictions and penalties on housing sales. In the nation's capital, the

Beijing municipal government said that unmarried individuals would now be allowed to purchase only one residence. The city also increased the minimum down payment for buyers of a second home and imposed a 20% capital gains tax on owners' selling a residence. In Shanghai, an identical capital gains tax was announced and took immediate effect, and city officials pledged to install and enforce other measures aimed at stabilizing housing prices. The stiffer capital gains taxes take the place of a 1% to 2% transaction tax that was previously assessed on the final price of the property being sold.

The announcements came weeks after China's State Council, or cabinet, said the government would take stronger action to ensure that property prices do not continue to soar, fueling what many analysts believe is a real estate bubble that could seriously damage the economy and exacerbate social tensions between rich and poor. Property prices in China have been rising sharply in the last year, with housing prices in many big cities up an average of 3.1% in February, according to a government survey. In many cities, the cost of buying a new home has doubled over the last five years.

In a country where investment options can be limited, property is considered a good store of value. Shanghai and other big cities had even seen a surge in the number of divorce filings at marriage bureaus, with many couples openly admitting that they were filing for divorce simply to get around property rules and that they would later remarry. It was clear in the announcements that the city governments were trying to close that loophole. In Shanghai, a city of about 22 million, banks are no longer allowed to offer loans to residents buying a third home; those seeking a second mortgage are now expected to make larger down payments and to pay higher mortgage rates. Shanghai officials also said they would make it tougher for foreigners, people from other cities in China and divorced individuals to buy homes, a clear hint that they intended to counter attempts by local residents to seek divorces in order to circumvent some restrictions.

Boeing delivers 1,000th airplane to China

Boeing delivered its 1,000th airplane to China, making the country its first market outside the United States to pass this threshold. "This is a very, very big deal for us," Ihssane Mounir, senior vice president of sales and marketing of Boeing Company Northeast Asia told Xinhua at the delivery ceremony.

The 1,000th airplane, a Next-Generation 737-800 with the Boeing Sky Interior painted in special peacock livery, will join China Eastern Yunnan Airlines. The Next-Generation 737 uses an advanced system called Heads-up Display, which comprises a transparent glass display positioned between the pilot's eye and flight deck window to show critical information such as airspeed, altitude and attitude, and flight path. China has become one of the world's most dynamic markets for commercial planes. Boeing forecasts that China will need 5,260 new airplanes, valued at about 670 billion U.S. dollars, in the next 20 years.

China, S. Africa seal new oil, rail deals

South Africa recently signed a raft of agreements with China, including on the construction of a world-class oil refinery and upgrading the country's rail and port networks. The deals were sealed at the end of talks between President Jacob Zuma and his counterpart Xi Jinping. Under the oil agreement, China Petroleum and Chemical Corporation (Sinopec) and South Africa's national oil company PetroSA will build a state-of-the-art crude refinery in a coastal industrial zone near Port Elizabeth. China is also eyeing oil and gas exploration in South Africa and nearby countries, plus downstream opportunities such as constructing storage and logistics infrastructure.

China Development Bank will fund the revamp of South Africa's freight rail company Transnet, but details were not revealed. Transnet last year unveiled a 300 billion rand ($32.4 billion) investment plan. Transnet group chief executive Brian Molefe hailed the agreement with China as a "historic agreement between two state-owned entities within BRICS" which goes to show the "opportunities inherent" in such diplomatic ties, reported SAPA news agency. Total trade between China and South Africa totaled 201 billion rand ($21.7 billion) last year.

China's industrial profits rise 17.2%

Chinese industrial firms' profits continued steady rises in the first two months of the year, pointing to stabilizing growth in the world's second-largest economy. Profits at major industrial firms, or those with annual revenues of more than 20 million Yuan (3.19 million U.S. dollars), rose 17.2% year on year to reach 709.2 billion Yuan, the National Bureau of Statistics. The figure continued an upward trend that has taken shape since August, although it was slightly down from 17.3% in December. In breakdown, state-run businesses outperformed other firms, with combined profits up 18.9% year on year in January and February. Private companies and overseas-funded enterprises saw profits up 16.9% and 12.8%, respectively, during that period. Revenues from primary businesses at those companies climbed 13.1% year on year to 13.7 trillion Yuan in the first two months.

China gets stronger food, drug regulator

The China Food and Drug Administration (CFDA) started operation in Beijing, marking a more powerful watchdog to address the country's accumulating food safety concerns. The CFDA, headed by Zhang Yong, director of the food safety commission under the State Council integrated the monitoring functions of other government organs and became a ministerial-level agency to improve food and drug safety.

The move came out of the country's renewed efforts to reduce bureaucracy and improve efficiency via a cabinet restructuring approved by the top legislature in China's just-concluded parliamentary session.

Chinese consumers have encountered a series of food safety scandals in recent years, including recycled cooking oil, tainted liquor, substandard yoghurt and harmful milk powder.

China's online sales surge in 2012

China's online retail sales boomed last year, as more consumers have gravitated toward online shopping for its convenience and personalized services. Online retail sales reached 1.32 trillion Yuan (210.39 billion U.S. dollars) in 2012, a jump of 64.7% from the previous year, according to data issued by the Internet Society of China. The sales accounted for 6.3% of total retail sales last year, Lu Wei, secretary-general of the society, said at a press conference.

Profits hit as shipbuilders enter choppy waters

Profits of two of China's major shipbuilders plunged last year amid an industry downturn. China CSSC Holdings Ltd, the Shanghai-listed arm of the nation's largest shipbuilder China State Shipbuilding Corp, last year only generated 1% of its net profit in 2011, while Guangzhou Shipyard International Co Ltd reported a 98.01% year-on-year slump in 2012 net profit. Severe market sluggishness and a lingering hangover from the financial crisis have led to significant drops in completed shipbuilding orders and new contracts, the two companies said in separate filings. Data from the Ministry of Industry and Information Technology showed Chinese shipbuilders completed orders fell 21.4% year-on-year in 2012, while new orders dropped 43.6%.

Bosch to invest $171m in Nanjing factory

Bosch Group, the German automotive technology and service provider, is investing 1.1 billion Yuan ($171 million) in a new operation in China aimed at providing car parts and servicing to the country's increasing and aging vehicle population. The investment, to create its largest manufacturing facility overseas, will see the building of a production base and research and development hub for Bosch Automotive Aftermarket in Nanjing, Jiangsu province, which will also serve the Asia-Pacific region. The new plant will develop and produce spark plugs, brake components and diagnostic equipment for both independent aftermarket players and original equipment suppliers, said Robert Hanser, president of Bosch Automotive Aftermarket. "Choosing China for our largest investment in a manufacturing facility worldwide demonstrates our confidence and commitment to the growing markets in China and the region."

In 2012, more vehicles were produced in Asia Pacific than in the rest of the world combined, and within the region China experienced the highest rate of growth, accounting for more than 40% of total vehicle production. "Though China is still one of the world's newest automotive aftermarkets, we see huge potential here in five years, when the new cars registered in recent years become older and need more after-services," said Hanser. He predicted that China's aftermarket - which involves the production, sales, distribution and installation of parts and accessories for vehicles that have already been sold - may overtake that in the United States by 2020. Bosch has already established nearly 1,500 Bosch Car Service workshops nationwide. It also recently opened its first Asia-Pacific flagship workshop in Beijing. By the end of 2015, more than 2,000 Bosch Car Service workshops are expected.

For more information about today's China market and opportunities please visit our website at www.s-c-i.com or call me at the number below, or Dr. Tim Weckesser at 610-828-8060.

Best regards,

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