**SCI China Market Update – April 2015**

Dear friends,

My hometown, Tianjin, recently became a focus in the news media as it fell under scrutiny by Beijing's powerful anti-graft campaign. This happened not only because of the sudden downfall of Tianjin's long time police chief, Wu Changshun, based on corruption charges, but also because Tianjin courts have been chosen for the trial Zhou Yongkang, the highest ranking official ever to be charged with corruption. China's state prosecutors formally charged Zhou, the country's former top security czar, with accepting large bribes over a long period of time. At the height of his power, Zhou controlled China's police, spy agencies, court systems, and prosecution offices all across the country. And he wasn't shy about using these powerful assets to crush dissent in the name of "preserving social stability."

And now, to add to Tianjin's notoriety, the city's former mayor, Dai Xianglong, is "cooperating" in an "investigation". From 1995 to 2002, before becoming Tianjin's mayor, Dai was already well known as the governor of China's central bank, the People's Bank of China (PBoC). The investigation, so far, is focused on the vast wealth amassed by Dai's relatives, not on Dai himself. But this may well be just a tactical move with Dai himself as the real target. This new investigation comes on the heels of the 15-year prison term meted out to Nanjing's former mayor, Ji Jianye, for corruption. The court found Ji guilty of accepting 11.3m Yuan ($1.9m) in bribes between 1999 and 2013, when he was dismissed.

President Xi Jinping's anti-corruption campaign aims at trying to clean up China's graft-riddled government at every level, with examples being set at the top. And so far, we have to say it is successful. In our experience, government officials as well as executives in state-owned enterprises (SOEs) are all keeping their heads down. No big banquets, no gifts – given or received – and strictly limited international travel are basically the norm, at least for now. The question is - will this nationwide campaign eventually help China's economic development? We hope so. Here is some very recent China market news taken from a variety of public sources.

**The power of the new China-led investment bank**

The United States has suffered a major strategic setback in recent weeks, as a growing number of western powers join the China-led Asia Infrastructure Investment Bank (AIIB) as founding members. With China's determined push to recreate the regional order through the firepower of its vast financial resources, nothing less than the US' decades-long leadership in Asia is at stake. Events took a surprising turn when the United Kingdom (UK) decided to ride along as a founding member, paving the way for other European powers, namely Germany, France, and Italy, to follow suit. ROK, Iran and UAE are becoming founding members now. Luxembourg and Switzerland have decided to join. Australia appears to be the latest major nation showing an interest, with Canberra reportedly set to pledge about $2.3 billion to the project.

**China cuts power price to benefit enterprises**

China will lower prices of coal-fired power and power consumption for industrial and commercial purposes to reduce business costs, the State Council said. Prices for coal-fueled electricity will be cut by around two Yuan ($0.33) per 100 kWh and commercial electricity consumption will enjoy a similar reduction of about 1.8 Yuan per 100 kWh.

The adjustment aims to reduce business costs amid falling coal prices and sluggish production activities. China's benchmark power coal price dropped 10 Yuan/ton in April 1-7 to average at 459 Yuan/ton, according to the latest Bohai-Rim Steam-Coal Price Index published on Wednesday.

**China approves new nuclear power project since 2011**

China's top economic planner has approved the construction of the second phase of a nuclear power station in the country's northeast, the first approval since 2011. The second phase of the Hongyanhe nuclear power station involves two million-kilowatt generators.

The construction of the project in Liaoning province will use nuclear power technology developed domestically by China General Nuclear Power Group based in south China's Guangdong province, said Yang Xiaofeng, general manager of Liaoning Hongyanhe Nuclear Power Co Ltd. The Hongyanhe nuclear power station is designed to have six generating units of the million-kilowatt class. It began construction in 2007. The first phase has four generating units. Two generators were put into commercial use in 2013 and 2014. A third unit will be put into use in the first half of this year. The fourth unit is under construction. Nuclear power generation accounts for about 2% of the total in China, much lower than the world average 15%.

**China lowers iron ore resource tax to 40%**

China will reduce resource taxes on iron ore to aid industrial upgrades and ensure sufficient supply, the State Council said Wednesday. Resource tax on iron ore will be reduced from 80% of the taxation payment base to 40%, effective May 1, 2015. About 78% of iron ore was imported last year.

**Cheap Eurozone takeaway fuels Chinese appetites**

The inexorable decline of the single currency offers ambitious Chinese firms a bargain buffet of Eurozone business, analysts say, with the multibillion deal for Italian tire maker Pirelli only the latest course in an acquisition binge. Less than a year ago the euro was worth nearly $1.40 on international markets. Earlier this month it stood at less than $1.05, down by a quarter as the European Central Bank embarks on a massive stimulus program while the US Federal Reserve is widely expected to start raising interest rates.

By the standards of first-world forex markets it ranks as a collapse.

It has recorded a similar performance against China's Yuan currency, falling from almost 8.7 Yuan in May to bottom at less than 6.6 Yuan. The Yuan trades in a tight range against the dollar.
As the unit weakens it makes Eurozone acquisitions cheaper for outside buyers and its biggest headline impact may come in terms of Chinese overseas investment, which surged past $100 billion for the first time last year.

**London Taxi Company Coventry plant to create 1,000 jobs**

The plans have been revealed by the owner of the London Taxi Company (LTC), which makes the iconic black cab. Chinese manufacturer Geely said the new factory would include research and development and an assembly plant to build the next generation of electric and low-emission vehicles.

The first cars are expected to be made at the Ansty Park site in 2017. It is thought to be the biggest investment of its type by a Chinese company in the UK and was backed with funding from the government's Regional Growth Fund. LTC, which was bought by Geely in 2012 in a £11.4m deal, currently makes just under 2,000 vehicles a year. It aims to increase production to about 36,000.

**Telsa to localize production in China in 3 years: Elon Musk**

Telsa Motors plans to localize production and engineering in China, CEO Elon Musk told Xinhua recently, pledging long-term commitment to the market. "We have a strong long-term commitment to China, and we tend to establish both local production and local engineering in China," Musk said.

Localization could be possible "in three years", he said.
In the meantime the company has to keep shipping models from the United States to China because their factory is not at full capacity. Once the factory reaches full capacity, it is "just the sensible logical thing" to "localize production in China for the Chinese market, in Europe for the European market," Musk said.

The California-based electric carmaker began taking orders in China in mid-2013 for its largest product, the Model S sedan, and started delivering the first cars to Chinese consumers last April.

However, sales in China last year fell short of Tesla's initial expectations, which reportedly triggered an executive reshuffle for its China team.

**Government approves merger of China's top two train makers**
China's state assets watchdog has approved a proposed merger of the country's top two bullet train makers, but obstacles remain to be cleared. China CNR Corp Ltd and China CSR Corp Ltd announced that the State-owned Assets Supervision and Administration Commission has approved in principle their merger into a new company named CRRC Corporation Ltd. The merger comes 15 years after the two were split in 2000.

China is in talks with 28 countries including the United States, Russia and Brazil about high-speed rail projects, state-backed train maker China CNR said. CNR said its overseas sales amounted to $3 billion last year, up 68.6 percent from the previous year, and that its equipment has been sold to 84 countries and regions.

**GSK sacks 110 China staff in wake of drug bribery case**
Drugmaker GlaxoSmithKline, which was fined 3 billion Yuan ($479 million) in China last year for bribery, is dismissing 110 employees in the country for misconduct, people familiar with the matter said. The British company confirmed it had taken disciplinary action against staff whose conduct contravened its values and code of conduct but declined to specify the number involved. The misconduct took place before mid-2013, GSK added in a statement.

The company's annual report, published last week, had already revealed that the number of disciplinary cases against staff in China jumped to 652 in 2014 from 48 in 2013. Chinese police first accused GSK of bribery in July 2013, alleging the firm had funneled as much as 3 billion Yuan to travel agencies to facilitate bribes to doctors and officials. The case was the biggest corruption scandal to hit a foreign company in China since the Rio Tinto affair in 2009, which resulted in four executives, including an Australian, being jailed.

**Downpayment ratio for second home drops to 40 percent**
China's required downpayment ratio for second homes fell from 60% to 40%, as the latest measure to shore up the cooling market, China's authorities said in a notice recently. The minimum down payment ratio for first homebuyers who use the housing provident fund will also be reduced from 30% to 20%,

said the notice. Meanwhile, if buyers use the housing provident fund, the ratio for a second house will remain at 30% if all loans are settled on their first home.

A larger portion of the purchase may be made using housing provident funds. For example, in Beijing, the ceiling for loans backed by the housing provident funds increased from 800,000 Yuan ($130,000) to 1.2 million Yuan, the local authorities said.

On March 27, Chinese land and housing authorities announced measures to fall in line with the cabinet's guidelines for the different property markets in different regions.

**ABB eyes growing demand for robots**
China's future demand for robots and its push for more clean energy will provide more business opportunities for ABB in China.

The shortage of labor and increasing operational costs will boost the development of industrial automation, creating increasing demand for robotics, according to Gu Chunyuan, chairman and president in ABB (China) Ltd. As a pioneer and global leader in robotic technology, the company decided to relocate its global robotics headquarters from Detroit, Michigan, to Shanghai in 2016, indicating a strong focus on China.

China has just 30 robots per 10,000 workers employed in manufacturing industries, leaving huge room for growth over the next decade. An earlier report said that a race by car makers to build plants in China along with wage inflation that has eroded the competitiveness of Chinese labor will more than double the operational stock of industrial robots to 428,000 by 2017. At the same time, as the country plans to boost its reliance on clean energy to reduce its carbon footprint, the company's business has increased in the offshore wind power and solar power sectors.

ABB, the world's leading power and automation technology group, set a new record in China last year, with both its orders and revenue exceeding $5.8 billion, according to its financial report. Its cumulative investments in China reached about $1.9 billion in 2014, it said.

**Number of super wealthy soars**
Although the nation's economic growth has slowed somewhat over the past year, the number of super rich people has expanded to a record high, according to the recently released China Ultra High Net Wealth Report 2014-2015.

The number of people from the Chinese mainland who hold assets worth at least 500 million Yuan ($81.35 million) has exceeded 17,000, according to the report. From 2008 to 2013, the report generally listed no more than 1,000 names. The report was jointly released by China Minsheng Bank and the Hurun Research Institute in Beijing.

The number of China Ultra High Net Wealth people this year reached record high for the 15 years the Hurun Research Institute has released the China Rich List. The total assets of the super rich soared to 31 trillion Yuan, 10 times the GDP of Norway and 20 times that of the Philippines. They have an average age of 51 and average assets of 1.82 billion Yuan.

The report found that most on the list are entrepreneurs, property developers or professional investors. Some 300 of them have assets worth at least 10 billion Yuan, and about 5,100 have assets worth 1 billion to 2 billion Yuan. The rest have 500 million to 1 billion Yuan. More than 80% would like to invest in overseas projects in the future, and half of them have already done so.

**China's e-commerce market expands by 31% in 2014**

China's e-commerce market hit 13.4 trillion Yuan ($2.2 trillion) in 2014, up 31.4% year on year, according to a report released on Wednesday. The volume of business-to-business (B2B) market reached 10 trillion Yuan, up 21.9%. Online retail trade reached 2.82 trillion Yuan, up 49.7%, according to the China E-Commerce Research Center (CECRC).

B2B business and online retail respectively accounted for 74.6% and 21% the market. As of the end of 2014, more than 2.5 million people worked directly in e-commerce and more than 18 million indirectly.

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

Shiqiang Gu
Vice President & COO

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Sino Consulting (SCI) Tel: (610) 828 8061
One Tower Bridge Fax: (610) 828 8801
100 Front St., Suite 1460 Web: www.s-c-i.com
West Conshohocken, PA 19428