

SCI China Market Update – June 2012

Dear friends,

The Chinese economy has been slowing down in the recent months, affected by global uncertainty from Europe to the U.S. to Japan and India,. To boost the economy, China recently unveiled a set of stimulus initiatives, including subsidies for buying energy-saving appliances and alternative-energy cars, expanding private investment in some state-dominated fields and faster approval for new investment projects. Below is some recent news on the China market for your information:

Power supply to remain tight this summer

China will be short between 25 million kilowatts (kW) and 37 million kW of electricity this summer, particularly in the northern and eastern regions, even though the economy is heading for a slowdown, according to the State Grid Corp of China. "Even though we have a better supply-and-demand situation this summer, the power load will continue its two-digit growth once the economy rebounds," said Yin Changxin, director of the Work Safety Department with the State Grid. Earlier last month, the China Electricity Council (CEC) warned that some parts of the country will experience severe blackouts this summer as the result of an electricity shortage of 30 million kW to 40 million kW. According to the CEC's projection, China's more developed eastern and southern regions will bear the brunt of the shortages, followed by north and central China. However, northeast and northwest China regions are expected to see an electricity surplus.

China's power consumption decelerated in April amid slowing industrial activities during the period, underlining cooling economic growth, which slowed to 8.1% in the first quarter of this year from 8.4% in the fourth quarter of last year. Energy consumption rose 3.7% year on year to 389.9 billion kWh in April, down 3.3%age points from that in March, according to data released by the National Energy Administration (NEA). For the first four months, electricity consumption increased only 6% from a year ago to 1.56 trillion kWh, according to the NEA.

Chinese nuclear firms look overseas for growth

The State Nuclear Power Technology Corp (SNPTC) confirmed that it is bidding for a stake in Horizon Nuclear Power (HNP), a British energy company that is expected to build new nuclear power stations in the UK. "We are bidding to buy into the company," GuoHongbo, chief information officer of SNPTC, told the Global Times.

SNPTC is not the only Chinese group targeting HNP. The 21st Century Business Herald newspaper reported recently that China Guangdong Nuclear Power Group (CGNPC) is working on developing a

consortium with Toshiba of Japan to bid for HNP while China National Nuclear Corp (CNNC) is also reportedly joining in the bid. Chinese nuclear companies are under greater pressure to seek overseas projects as the country put breaks on its nuclear project approval since May 2011 in the wake of Fukushima nuclear crisis in Japan in March 2011.

According to data from the World Nuclear Association, China had 77 nuclear plants that are under construction or to be built and 150 plants awaiting construction by December 2011. The CNEC economist expects that China, with only 15 nuclear power plants in operation by December 2011, would soon loosen controls on nuclear project approval under pressure from insufficient energy supply. To meet its energy demand, China needs to burn 4 billion tons of coal a year in 2015, which is too costly and will also undermine efforts to cut carbon emissions, said the economist.

Wind power welcomed by government

Among the 131 power projects approved by the National Development and Reform Commission (NDRC) from the first half of the year, wind power accounts for 95% of the approved projects, reported Securities Daily. According to the report, with 32 approved power projects, China Huadian Corporation topped the five major power groups. An industry insider close to Huadian claimed that, at present, the profitability of domestic wind power is relatively good. Depending on the conditions of the new generating units, Huadian will focus on wind power development in the next few years.

Some industry researchers pointed out that thermal power generators will still be the main force in the next decades. Clean energy such as wind power and photovoltaic power generation can only gradually increase their proportion in the power generation structure, but will continue to compensate for the lack of thermal power. Since the Spring Festival this year, the NDRC has significantly accelerated the processing speed of major construction projects. In April alone, a total of 328 projects were approved, twice as much as last year.

Global CO2 emissions hit record in 2011 led by China: IEA

China spurred a jump in global carbon dioxide (CO₂) emissions to their highest ever recorded level in 2011, offsetting falls in the United States and Europe, according to the International Energy Agency (IEA). CO₂ emissions rose by 3.2% last year to 31.6 billion tons, preliminary estimates from the Paris-based IEA showed.

China, the world's biggest emitter of CO₂, made the largest contribution to the global rise, its emissions increasing by 9.3%, the body said, driven mainly by higher coal use. Negotiators from over 180 nations are meeting in Bonn, Germany, until Friday to work towards getting a new global climate pact signed by 2015. The aim is to ensure ambitious emissions cuts are made after the Kyoto Protocol expires at the

end of this year. Procedural wrangling and a reluctance to raise ambitions to cut emissions due to economic constraints is threatening progress, however.

He also warned about the impact of phasing out nuclear power output after the Fukushima accident in Japan, which helped push Japanese carbon emissions 2.4% higher in 2011. "In Japan, the rise is almost exclusively due to higher fossil fuel use. This is a very important indication of what could happen if there was a move away from nuclear energy in other countries," he said. In China, CO2 emissions per unit of GDP - or its carbon intensity - fell by 15% between 2005 and 2011, the IEA said, suggesting the world's second-largest economy was finding less carbon-consuming ways to fuel growth. In the United States, the world's second-biggest CO2 emitter, a switch to natural gas from coal in power plants, a slower economy and a mild winter helped cut emissions by 1.7%.

Daimler, BYD hope luxury Denza will spark e-car sales in China

The failure of China's mass-market electric car producers to meet government sales goals is prompting one major carmaking partnership to change tack and develop a "luxury" e-car for the world's largest auto market where upscale brands trump environmental concerns. Daimler AG and its local partner, BYD Co., hope to convince Chinese buyers that their Denza concept car, the first pure all-electric luxury car in China, will put owners in the same league as a BMW, Audi or Mercedes. The car is the result of a two-year effort by Daimler and BYD to marry Mercedes Benz design and technology with BYD's lower-cost batteries. BYD, which also makes cars, is partly owned by American investor Warren Buffett. Daimler and BYD exhibited a Denza concept model at the recent Beijing auto show and said final versions could hit showrooms in 2013 as a China-only auto not for export. The two companies have filled the electric-blue concept car with futuristic bells and whistles that include an illuminated jade key, an animated dashboard and three "T-Pads," which the two companies say are key features of the car. The T-Pads function similarly to iPads and are removable. In addition to functions like GPS, Internet and video, the T-Pads have built-in cameras that can replace the traditional vanity mirror. It has not been decided which features will be included in the production model.

Electric car sales in China, the world's biggest emitter of greenhouse gases, have fallen far short of the government's ambitious goal of 500,000 battery cars on the road by 2015, rising to more than 5 million by 2020. Last year, a mere 8,159 were sold despite state subsidies and pilot programs for e-taxis and e-buses. Companies involved in producing electric cars in China include SAIC Motor and Dongfeng Motor Group Co., which have pledged to invest \$1.9 billion and \$441 million, respectively, in green vehicles. BMW and Nissan are working with local governments to roll out their E-Mini and Leaf cars. BYD also produces electric vehicles including a plug-in hybrid called the F3DM and the all-electric battery e6 car apart from the Denza. The reason for the poor showing, experts say, is the electric cars are either too expensive for mainstream buyers or too practical and odd-looking for the Lamborghini-

loving super-rich. But Olivier Boulay, Daimler AG's 54 year-old French-born design chief in Beijing, believes Daimler and BYD can change all that with the Denza.

Volkswagen to target China

Volkswagen, Europe's leading automotive group, has announced a shake-up to increase its focus on the Chinese market and strengthen its heavy truck and bus sector. The Volkswagen Group delivered some 2.3 million vehicles in the China region in the 2011 fiscal year and reported a pro rata operating profit there of €2.6-billion (\$3.4-billion).

On the commercial vehicles side, which VW called "the second pillar" of its success, Leif Oestling, head of Scania, will head a new department to enhance cooperation between MAN, Scania and Volkswagen Commercial Vehicles to "harness the substantial worldwide growth potential in this segment". Volkswagen also announced a major reshuffle of top managers within the group from 1 September affecting brands including MAN, Scania, Audi, Bentley and Bugatti.

Shenzhen tops monthly minimum wage

Shenzhen was the city with the highest monthly minimum wage in 2011, with 1320 Yuan (\$209) per month. The top hourly minimum wage was achieved by Beijing with 13 Yuan per hour, reported chinanews on Monday, citing a statement released by the Ministry of Human Resources and Social Security. According to the 2011 Statistical Bulletin of the Development of Human Resources and Social Security, with an average increase of 22%, 25 provincial regions including Beijing, Chongqing and Shanxi have adjusted the minimum wage, the report said.

Fully employed staff and workers in urban areas earned an annual average wage of 42,454 Yuan in the non-private unit. Compared with 37,147 Yuan in 2010, the year-on-year increase was 14.3%. For the private sector, the annual average wage reached 24,556 Yuan in 2011 with a year-on-year increase of 18.3%. In addition, 25 provinces have issued documents to regulate the civil servants' allowances and subsidies.

GM registers record China auto sales for May

US auto giant General Motors said Tuesday that its China sales for May hit a record 231,183 vehicles, despite a looming slowdown in the world's second largest economy. GM's sales in the country surged 21.3% in May from the same month last year and rose 1.7% from April, it said in a statement. For the first five months of this year, GM sold around 1.2 million vehicles in China -- also a record -- up 11.5% year on year.

China has the world's largest car market but sales began to slow last year after the government rolled back purchasing incentives and some cities imposed limits on car numbers to ease traffic congestion and cut pollution.

China's nationwide vehicle sales rose just 2.5% to 18.51 million units in 2011, compared with an annual increase of more than 32% in 2010.

China the top buyer of Swiss watches

China has become the world's largest consumer of Swiss watches, according to a report released recently by a Swiss watch industry association.

Currently, Hong Kong is its biggest overseas consumer, as the watches it bought accounted for 21.2% of Switzerland's total watch exports last year, according to the report. The Chinese mainland ranked third in importing Swiss watches, taking up 8.5% of its total export volume. The mainland, Hong Kong and Taiwan together spent 42.6 billion Yuan (\$6.69 billion) on Swiss watches last year. Swiss watch exports rebounded in 2010 and 2011 with the growing purchasing power of Chinese customers, the report explained.

Citigroup to issue RMB letters of credit

Citigroup Inc introduced Yuan-denominated letters of credit for importers and exporters in Latin America on Tuesday, demonstrating the bank's eagerness to cash in on the current push to make the Yuan a global currency.

The new product will allow traders in Latin America to work with partners in China to issue, receive and settle Yuan-denominated letters of credit. It will also provide traders with alternative means of financing their trade and mitigating their risks.

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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