One Tower Bridge • 100 Front Street, Suite 1460 • W. Conshohocken, PA 19428 • P: 610-828-8060 • F: 610-828-8801 • www.s-c-i.com

SCI China Market Update – March 2013

Dear friends,

The long Chinese New Year holiday is over. Let's hope the Year of the Snake is a good one for all of us. During the New Year holiday retail sales jumped nearly 15% as consumers splurged on jewelry, clothes, gifts and food for their celebrations. As the annual congressional session (12th National People's Congress, NPC), began to complete the transition to new leadership, China targeted 7.5% economic growth for 2013 and vowed to tackle corruption and improve the quality of life. The new president and premier will be confirmed at the end of this session on March 15th and 16th, together with all of the top government officials that will form the new government.

China's economy is a key driver of the global recovery but has struggled in the face of weaknesses both at home and in overseas markets. The economy grew 7.8% in 2012, the lowest performance in the past 13 years, but exceeding the NPC target. Current premier Wen said the target for this year was about 7.5%, a goal that will not be easy to attain. Consumer prices rose 2.6% in 2012, 1.4 points lower than the 4% inflation target set at the beginning of the year. The average income of residents in rural areas rose 10.7% in 2012, and 9.6% in cities and townships. Here is some recent China market news for your information:

China lowers 2013 inflation target to 3.5%

China aims to hold this year's consumer price growth to around 3.5%, 0.5% point lower than the inflation target set for 2012. "China is still under considerable inflationary pressure this year, and maintaining basic stability of overall prices has always been an important macro-control target," reads a report delivered by Premier Wen Jiabao at the opening of the First Session of the NPC. To keep overall prices stable, the government "shall ensure the supply of major commodities, boost distribution of goods, reduce logistics costs, and tighten oversight over market prices," says the report.

China energy consumption rises 3.9% in 2012

Energy consumption by China, the world's leading emitter of CO_2, rose 3.9% in 2012 from the previous year but fell by 3.6% per unit of gross domestic product, the government said. The country used the equivalent of 3.62 billion tons of coal, the National Bureaus of Statistics reported in a paper on the state of the economy.

Coal represents 66.4% of the total energy consumed, with oil and natural gas accounting for 18.9% and 5.5% respectively. The rest is mainly provided by hydro while nuclear power still accounts for a very low proportion of China's energy mix, despite a major program to construct nuclear power plants.

The NBS said in 2012 Chinese consumption of coal rose 2.5%, oil 6.0% and natural gas 10.2% while electricity use climbed 5.5%. Energy consumption per unit of GDP however fell 3.6%, it said. China has pledged to reduce its greenhouse gas emissions by 40 to 45% per unit of GDP by 2020 compared to 2005 levels.

China's power capacity to hit 1.23b kW by year's end

China's installed power capacity will top 1.23 billion kilowatts by the end of 2013, a report from the China Electricity Council said. Thermal power will still account for the bulk of the capacity, topping 860 million kW, followed by 280 million kW from hydropower, 14.78 million kW from nuclear power, 75 million kW from on-grid wind power and 6 million kW from on-grid solar power.

Chinese oil giant CNOOC buys Canada's Nexen

The Chinese oil giant CNOOC completed its $15.1 billion purchase of Canada's Nexen energy group on last week. Canada gave the green light in December, as did the United States, which had to approve the deal because of Nexen's activities in the Gulf of Mexico. The deal is China's largest foreign investment and its largest energy deal, according to data firm Dealogic. Calgary-based Nexen produces the equivalent of around 213,000 barrels of oil a day, with concessions in Canada's oil sands, Britain's North Sea, Nigeria, the Gulf of Mexico and Colombia. Before the purchase, Nexen was the 10th largest Canadian petroleum company by sales, with particularly promising assets in the oil sands of the western province of Alberta.

Sinopec buys $1b oil stake

A subsidiary of China Petroleum & Chemical Corp, known as Sinopec Group, has agreed to pay $1.02 billion for 50% of Chesapeake Energy Corp's stake in an Oklahoma oil and gas field and form a joint venture with the US company, Chesapeake announced recently. The all-cash sale is for half of 850,000 acres (344,000 hectares) in Oklahoma's Mississippi Lime formation that Chesapeake controls. The natural gas producer has been seeking a buyer for the 425,000 acres as part of a campaign of asset sales to close a cash shortfall and reduce debt. Under terms of the deal by Chesapeake, the US company will get 93% of the $1.02 billion from Sinopec once the deal closes, probably in the second quarter. Payment of the remainder will depend on certain customary title contingencies, Chesapeake said in a release.

Chesapeake has already sold about $1.7 billion in development stakes to CNOOC Ltd. for a share of operations in the Eagle Ford and Niobrara shale gas formations in Texas and Wyoming, respectively. The Eagle Ford deal was announced in January 2011, Niobrara in October 2010. Production from wells in the Mississippi Lime and nearby formations created about 34,000 barrels of oil equivalent, or BOE, per day in the fourth quarter, according to Chesapeake. The total acreage that Chesapeake controls through its lease has proved reserves of 140 million BOE. The price agreed to in the Sinopec joint venture equates to $2,400 an acre, which is far less than the $7,000 to $8,000 per acre at which Chesapeake valued the asset in a July 2012 presentation to investors. Some industry analysts said the seller took too little, but others pointed to the company's need for cash and the fact that the field's output has been below expectations.

China, Russia ink major energy deal

In a perfect demand and supply arrangement, energy-rich Russia agreed to provide an annual supply of 38 billion cubic meters of natural gas to energy-thirsty China. The deal was struck during a high-level meeting in Beijing recently and comes ahead of an expected visit by Party leader Xi Jinping to Moscow after the National People's Congress in early March. Gas was not the only energy source discussed by the two countries. A consensus on cooperation regarding oil, nuclear and coal was also reached.

Russian officials agreed at the meeting to guarantee the annual supply of natural gas through the east pipeline to China. And both countries will continue to study the possibility of supplying China with liquefied natural gas through the east pipeline and natural gas through the west pipeline.

China consumed 145 billion cubic meters of natural gas last year. China will import 78.5 billion cubic meters of natural gas in 2014, according to data from ICIS C1 Energy. China and Russia agreed to set up an oil refinery project in Tianjin in 2007, and the refinery, when it comes into operation, will have an annual capacity of 13 million metric tons.

NE China's 1st nuke power plant starts operation

The Hongyanhe nuclear power station, the first nuclear power plant and largest energy project in Northeast China, started operation a week ago. The plant is located nearby Wafangdian in Liaoning Province, 104 km north of Dalian. Some $3 billion was invested for its first two units.

China's nuclear power installed capacity will hit 42 gigawatts by 2015, accounting for 10% of the world's total, a Chinese nuclear official predicted recently. There will be 41 operating nuclear power units in China by 2015 or a little later, Zhang Huazhu, chairman of the China Nuclear Energy Association, told a seminar in Zhuhai city of south China's Guangdong province. China now has six nuclear power plants and 15 working nuclear power units, producing nearly 3.5% of the world's total electricity generated by nuclear power, which also accounts for 1.85% of China's total electricity generation.

China eyes energy-saving products for clean economy

The Chinese government is targeting energy-efficient products as part of efforts to build a cleaner and more sustainable economy. The Ministry of Finance announced Thursday that over 9 billion Yuan ($1.43 billion) has been earmarked from the country's central budget in 2012 to promote energy-saving products ranging from home appliances to hybrid vehicles.

In a breakdown, the special fund has boosted sales of 33 million units of energy-saving home appliances, 1.24 million fuel-efficient cars and 160 million illuminating devices, as well as high efficiency electric motors with a combined power capacity of 9.5 million kilowatts (kW). By the end of 2015, China will lower its energy consumption per unit of GDP by 16% from 2010 and lower its carbon dioxide emission per unit of GDP by 17%, according to the country's 12th Five-Year Plan (2011-2015).

China is second on Forbes list of richest

China again finished with the second-highest number of billionaires on Forbes magazine's annual list. Forbes' 2013 list of the world's richest people includes 122 billionaires from the Chinese mainland, 39 from Hong Kong and 26 from Taiwan. Last year, 95 billionaires from the Chinese mainland made the list, down from 110 in 2011, due to depressed stock prices in the world's second-biggest economy. Of the 1,426 billionaires on the list, 442 are from the United States, followed by China, Russia (110) and Germany (58).

The head of beverage giant Wahaha Group, Zong Qinghou, regained the title of richest man on the Chinese mainland. Zong ranked 86th on the Forbes list with a net worth of $11.6 billion, up 60 places from last year. He is the only Chinese mainland billionaire whose net worth exceeds $10 billion this year, according to Forbes. Economic growth, urbanization and consumer spending have been the main drivers of China's growing ranks of super-rich.

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

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