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# China News Alert Issue 325

## Capital Markets

### CIC takes position in Apax Partners

Sovereign wealth fund China Investment Corporation (CIC) has finalised a US$956 million investment deal with British private equity fund group Apax Partners, a source close to the fund said.

The source confirmed media reports that CIC was planning to invest US$956 million in Apax Partner's 11.2 billion-euro fund. Apax has already received approval from the British Financial Services Authority for the deal, which may also see CIC acquiring a 2.3 percent stake in the UK company.

The sovereign wealth fund is also in talks with Italian power operator Enel SpA on buying stakes in the energy firm and its subsidiary company Enel Green Power, the source said.

CIC's moves may tempt other foreign private equity groups to solicit financial support from the Chinese sovereign wealth fund. It also shows that China is still eager to invest its burgeoning foreign reserves in foreign markets after the heavily criticised loss-making investment in Blackstone two years ago.

Li Xiaogang, director of the Foreign Investment Research Center at Shanghai Academy of Social Sciences, said although the global investment climate has shown strong signs of recovery, Chinese fund companies, especially the sovereign wealth fund, should remain cautious when engaging in overseas investment.

"The risk is that Chinese fund companies are usually constrained from influencing the investment strategy of overseas fund companies," Li said. "They are still novices in the global financial market, and hence should be well prepared before making any investments in foreign PE funds or companies."

CIC is expected to use nearly 60 percent of the US$250 billion capital it receives later this month for disbursals to foreign private equity fund firms and hedge funds, according to Shanghai-based consulting firm Z-Ben Advisors.

To hedge against a depreciation of the US dollar, the US$300 billion sovereign wealth fund is also actively seeking investment opportunities in commodities and natural resources which are vital to China's economy. According to Bloomberg data, the fund pumped a total of US$10 billion into commodity-related companies in the second half of 2009.

CIC said it has had initial talks for direct investments with Brazil, the world's second biggest iron ore exporter and Mexico, the second largest silver producer.

In November 2009, CIC invested US$2.2 billion in American power company AES Corporation and HK$5.5 billion in China's biggest polysilicon producer GCL-Poly Energy Holdings Limited. It also invested US$300 million to buy a 45 percent stake in the Nobel Oil Group of Russia in October.

Market observers said the fund avoided the worst of the financial crisis in 2008 and may have had at least 10 percent return in 2009, prompting a more aggressive stance this year.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/6887433.html) ([archived copy](CIC_takes_position_in_Apax_Partners.pdf))

### China's CIMC to acquire 75% stake in F&G

China International Marine Containers (Group) Limited (CIMC) said it would acquire a 75 percent stake in Friede & Goldman United (F&G), a U.S.-based naval architecture and marine engineering firm for the offshore drilling market.

In a statement filed to the Shenzhen Stock Exchange, CIMC, one of the world's largest container producers, said it would purchase F&G shares owned by Russian shipbuilder MNP Group, for US$75 million. It said this acquisition was approved at a board meeting.

The Shenzhen-based company said the acquisition could help Yantai Raffles Shipyard Limited, a Singapore-based marine company it acquired in November 2009, to improve its design capability and win more orders.

Shares in CIMC gained quickly after the opening on 2nd February. It topped 14.1 yuan (US$2.1), more than 5 percent up from the previous close, in less than half an hour, before closing at 14.03 yuan at midday.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/6885586.html) ([archived copy](Chinas_CIMC_to_acquire_75_stake_in_FG.pdf)

### Macao's exports down sharply in 2009

Macao's total value of merchandise exports in 2009 fell by 52.1 percent year-on-year to 7.67 billion patacas (US$970 million), according to figures released by the city's Statistics and Census Service (DSEC).

The figures showed that the value of domestic exports and re-exports in 2009 plunged by 69.0 percent and 27.0 percent, respectively. Meanwhile, total value of merchandise imports decreased by 14.2 percent to 36.90 billion patacas.

The trade deficit widened further from 27.01 billion patacas in 2008 to 29.23 billion patacas in 2009; the exports/imports ratio went down by 16.4 percentage points year-on-year to 20.8 percent.

Analysed by destination of exports, value of merchandise exports to the U.S., EU and Chinese mainland decreased by 79.6 percent, 60.3 percent and 43.2 percent year-on-year, respectively. The value of textile and garment exports decreased by 73.0 percent year-on-year to account for 32.2 percent of the total exports of goods, while the value of non-textile exports dropped by 24.4 percent.

Regarding the origin of imported goods, the value of merchandise imports from the Chinese mainland in 2009 dropped by 31.6 percent year-on-year, but that from EU rose by 10.1 percent, according to the DSEC.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/6885976.html) [archived copy](Macaos_exports_down_sharply_in_2009.pdf)

## Corporate & Commercial

### Macro-economic policies should prioritise flexibility and target orientation

"If the major issue facing China in 2009 was how to maintain a certain growth rate, more attention should be focused on how to enhance the quality and efficiency of economic growth in 2010," Yao Jingyuan, the National Bureau of Statistics (NBS) chief economist said.

Yao added that China achieved an 8.7 percent GDP growth in 2009. According to the forecast by the World Bank and International Monetary Fund, the U.S., Europe and Japan would all have a negative growth in 2009 and the world economy would fall by 2 percent, while China's economy has undergone a V-shaped pickup.

But Yao pointed out that although China's economy is on course for stabilisation and recovery, it still faces uncertainties in foreign demand, and lots of its profound problems and contradictions have yet to be fundamentally solved.

Yao added that China should prioritise the flexibility and target orientation of the macroeconomic policies on the basis of maintaining the continuity and stability of the policies. The major issue facing China in 2009 was how to maintain a growth rate in order to ensure employment, and efforts should be prioritised on how to enhance the quality and efficiency of economic growth in 2010. "There is the risk that the economy will touch the bottom for a second time, but generally, China's economic growth rate will not fall below 8 percent in 2010. The macroeconomic policies in 2010 should therefore prioritise the quality and efficiency of economic growth," Yao said.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/6887135.html) ([see archive](NBS_Macro-economic_policies_should_prioritize_flexibility_and_target_orientation.pdf))

### Sanctions could hurt aviation industry

The chief of the global airline industry body expressed concern over Beijing's planned sanctions against US companies involved in arms sales to Taiwan, and called for fresh talks between Beijing and Washington over the issue.

The Financial Times cited Giovanni Bisignani, director-general of the International Air Transport Association, as saying aerospace leaders fear the sanctions and hoped the two sides avert conflict through negotiation.

"At a moment in which the world is in crisis (and) China is playing a very important role in overcoming and pushing for recovery it would be a very, very difficult and unhappy situation" for sanctions to be imposed, he said as industry leaders gathered in Singapore for Asia's biggest air show.

The Obama administration announced a US$6.4 billion arms sale to Taiwan, and the deal includes 60 Black Hawk helicopters, 114 Patriot missiles and systems supplied by Boeing, United Technologies, Lockheed Martin and Raytheon.

The Chinese Foreign Ministry responded immediately: Beijing would not only cut security cooperation with Washington but also impose unprecedented sanctions on US firms involved.

The China office of Boeing told China Daily that it had yet to receive any notice of the sanctions, insisting that the arms sales was a decision by the US government.

Boeing China's spokesman Wang Yukui added that China is an important market for the company's civilian aircraft.

Chris Chadwick, president of Boeing's military aircraft division, told Bloomberg in Singapore: "The Boeing company stands side-by-side with China to try to create a good relationship and we continue to do that."

More than half of the aircraft flown by China's airlines are Boeing or McDonell-Douglas jets, and just keeping them maintained and supplied with parts is a huge part of Boeing's global business.

Boeing has contracted hundreds of millions of dollars worth of parts for its 787 Dreamliner to Chinese suppliers, and more than a third of its aircraft have major parts made or assembled in China.

But military observers in China said Beijing should punish private companies to teach them a lesson.

Rear-Admiral Yang Yi at the University of National Defense said large civilian-military enterprises are behind the arms sales. "They expect us to buy their airplanes and products while selling weapons to Taiwan and interfering in China's internal affairs," Yang said. "Why can't we fight back? The sanctions just serve them right."

Yang said the next step is to await the announcement of details of the sanctions.

" I hope the Chinese government sticks to its word," Yang added.

[Source: China Daily](http://www.chinadaily.com.cn/world/2010-02/02/content_9410683.htm) ([see archive](Sanctions_could_hurt_aviation_industry.pdf))

### US protectionism endangers trade ties

China has said protectionism by the United States has "seriously affected" their trade ties and urged it to stop abusing trade remedy measures.

The Ministry of Commerce spokesman Yao Jian made the comments on the ministry's website in response to recent US decisions to impose anti-dumping duties on electric blankets and wire trays from China and an anti-dumping and anti-subsidy probe into Chinese steel drill pipes.

"Since the outbreak of the financial crisis, the US trade protectionism has been apparently on the rise, and China has become the biggest victim of the US abuse of trade relief measures", said Yao.

Yao said a recent accusation by a senior US commerce official that China has set barriers against foreign investment was "totally contrary to the facts." China is the third largest export market of the US, and has been the fastest growing for years.

US exports to China reached US$77.4 billion in 2009, driving down the US-China trade deficit by 16 percent, he said. "Absorbing foreign investment is part of China's basic state policy of opening-up," said Yao. "China has always been making efforts to provide a more open and more optimised investment environment for domestic and foreign investors."

"Some countries themselves resort to trade protectionism, but turn around and accuse others. This is not only unreasonable but also not good for its own economic recovery," he said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-02/02/content_9410599.htm) ([see archive](MOC_US_protectionism_endangers_trade_ties.pdf))

### Top bidder stripped of villa land contract in Beijing

The Beijing municipal government has torn up a commercial residential land contract that set the record last year as the most expensive residential land in Beijing.

Beijing Municipal Bureau of Land and Resources announced the news on its website.

According to the official announcement, the municipal bureau withdrew the contract with Dalong estate after the agency failed to sign a State-owned land transfer contract within the agreed date, along with another land development compensation contract. The 200 million yuan of cash security would not be refunded.

Dalong estate, a State-owned property developer, bid 5.05 billion yuan at an open auction on 20th November to secure the plot in Shunyi district, which became known as "di wang" or "land king" in 2009.

The estate agency planned a construction area of 169,126 sq m, priced at almost 30,000 yuan per sq m―the highest unit charge for a residential site on the Chinese mainland at the time.

However, many real estate developers questioned the company's financial ability based on the fact that the total price of the deal exceeded its total profit over 17 years.

According to the contract, the company was supposed to pay 1 billion yuan within 30 days and the rest within 180 days, which would be 20th May this year.

It was reported by Sina.com in December that Wang Bing, a deputy director from Beijing Municipal Land Coordination and Reservation, said Dalong estate had paid 1 billion yuan. However, Beijing Municipal Bureau of Land and Resources put Dalong estate on its blacklist on 22nd January due to a delay in payment, and suspended its property trade rights in Beijing.

A staff member from Beijing Municipal Land Coordination and Reservation Center told METRO they hadn't received relevant official documents yet.

Dalong estate refused to give any further explanation. Trading of stock for Dalong estate, a Shanghai-listed company, was suspended.

Some real estate insiders said that since Dalong estate was unable to pay the outstanding debt, it simply 'escaped' from the contract.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-02/02/content_9412305.htm) ([see archive](Top_bidder_stripped_of_villa_land_contract_in_Beijing.pdf))

### Power firms bleed from high costs

Power companies are set to incur losses this year despite making profits in 2009, due to the sharp hike in contract coal prices, said industry insiders.

Profits of power producers would be dented due to the price hikes, said Xue Jing, director of the statistics and information department under the China Electricity Council (CEC).

Xue said coal price hikes are certainly in the offing, though it would be difficult to estimate the exact measure by which prices would be hiked. "The power industry is expected to make losses this year. Some thermal power plants have already plunged into the red in January," she said.

Echoing Xue's views, Wang Shuang, an analyst with United Securities, said in a report that coal prices may go up by 8 to 10 percent this year. "Rising fuel prices would push thermal power plants into the red during the first quarter," Wang said in the report.

Power firms would have to bear the brunt of the disparity between market-based coal prices and government-capped electricity tariffs, said Xue.

Coal-fired power accounts for around 70 percent of China's total power generation, and rising prices have always been a headache for power generators. In 2008, due to the sharp rise in coal prices, most of the major power firms incurred huge losses in their generation business.

However, last year, because of the relatively softer coal prices, many power companies saw rapid growth in their profits. Huaneng Power International, the listed arm of China Huaneng Group, the largest power producer in the country, said in a statement that its 2009 profit would jump by 100 percent from a year earlier, due to the fall in fuel prices and adjustments in power prices.

Huadian Power International Corp Limited, the listed arm of China Huadian Corporation, another major power producer in the country, also said in a statement that the company would return to profit in 2009.

China's power demand is expected to rise sharply this year on the back of brisk industrial activities. That in turn, would further bolster demand for coal, said Xue.

International coal prices have also started to firm up as the global economic recovery has started gaining ground.

China's power consumption is expected to rise 7 percent this year in tune with the anticipated economic growth rate of 8 percent, according to the State Electricity Regulatory Commission (SERC).

In order to cope with escalating fuel costs, many Chinese power producers are now developing their own coal businesses. China Huaneng Group produced 44.08 million tons of coal last year, an increase of 21.59 million tons from a year earlier. The company plans to produce 56.86 million tons of coal this year, said Cao Peixi, general manager of the company.

Huaneng Yimin Coal Electricity Corporation, an integrated coal and power producer under the Huaneng Group, has an installed capacity of 2,200 mW and produces 15 million tons of coal every year. "By using our own supplies of coal, we have reduced the operating costs to a large extent," said Yin Long, general manager of Huaneng Yimin.

The company also sells some of the coal to other power companies. It is also planning for its own coal-to-gas and coal-to-chemical projects to further diversify its business portfolio, said Yin.

Domestic power companies have also fast tracked their development of other power generation methods like nuclear and wind power, to reduce their dependence on coal. Huaneng, China Power Investment Corporation and China Guodian Corporation have all started their own nuclear projects.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90860/6887494.html) ([see archive](Power_firms_bleed_from_high_costs.pdf))

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