China Financial Index

SEB Shanghai Branch 13 October 2010

Business sentiment stays positive in China

- Fierce competition is increasingly a challenge

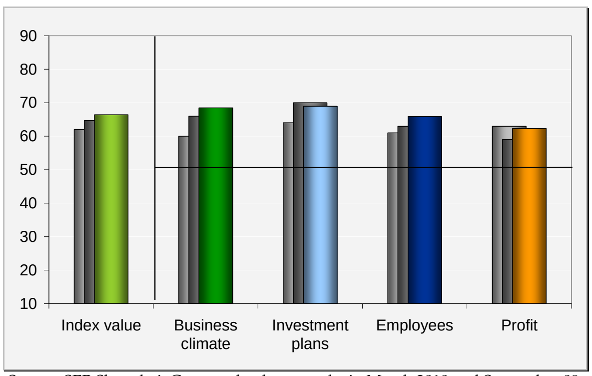
Senior managers at Northern European subsidiaries in China foresee a continued improvement in business prospects on the Chinese market. Three out of four expect their business situation to improve further and 22% expect it to improve significantly.

Investment plans are slightly down with 61% planning modest investment and 18% planning major investments in the coming six months. Recruitment plans have increased significantly with three out of four companies now adding staff in China.

Fierce competition is the major concern for more than a third of the companies, compared to only 9% six months ago. Profit expectations are up slightly indicating that margins may be improving again.

SEB's China Financial Index reached 66 in March, up from 65 in September.

SEB's China Financial Index



Source: SEB Shanghai. Grey stacks show results in March 2010 and September 09

In SEB's China Financial Survey, senior managers at around 50 subsidiaries of major Nordic and German companies in China were asked about their expectations of their own business as well as the macro and financial environment. Overall, managers believe that customer demand will be maintained in China. Six months ago 48% saw customer demand as the major concern in china compared to 17% today.

Three out of four respondents believe that their market shares will increase in China in the coming six months whereas the rest expect unchanged market shares. Only one company foresees shrinking market shares.

Our conclusions

North European companies don't expect any growth dip in China in the near term. Investment plans are stable whereas continuous market growth requires substantial staff increases. Profit expectations are increasing again while anecdotal evidence from client meetings continues to point in the direction of squeezed margins in China Foreign companies are today in general more focused on the local market than exports from China. However, all foreign competitors are also present in China and competition from local firms is on the rise.

Fredrik Hähnel
fredrik.hahnel@seb.se, tel: +86 21 5396 6681

SEB

Confidence still High

China leading growth also in 2011

Even if China's GDP growth has slowed down from 11.9% in Q1 to 10.3% in Q2, and we will probably see a slight further cool down in Q3 figures, Chinese economic growth continues to outpace that of all other major markets in the world.

China's economy grew by 8.7% in 2009 and SEB's forecast is that China will grow by 10% in 2010 and by 9% in 2011. Industrial growth accelerated to 13.9% in August, up from 13.4% in July.

Global GDP growth
Year-on-year percentage change

	2009	2010	2011	2012
United States	-2.6	2.6	2.2	2,9
Japan	-5.2	2.5	1.5	1.5
Germany	-4.7	3.3	2.1	1.8
China	8.7	10.0	9.0	8.0
United Kingdom	-4.9	1.7	2.0	2.2
Euro zone	-4.1	1.6	1.3	1.5
Nordic countries	-4.4	2.5	2.4	2.4
Baltic countries	-15.6	0.4	4.2	4.5
OECD	**-3.3**	**2.2**	**2.0**	**2.3**
Emerging markets	2.4	6.8	6.0	6.4
World, PPP*	**-0.6**	**4.4**	**3.8**	**4.3**
World, nominal	-1.3	3.7	3.1	3.6

Source: OECD, SEB * Purchasing power parities

Source: SEB, Nordic Outlook, September 2010

Competition *and* market shares increase

While all indicators in this survey point at a continued improving business climate in China they are also strongly pointing in the direction of fiercer competition. Anecdotal evidence from discussions with our clients further supports this conclusion along with common talks of rising input costs and higher operational costs in China.

While more companies see increasing competition on the radar they are confident as regards their own market position with 75% expecting their market shares to increase.

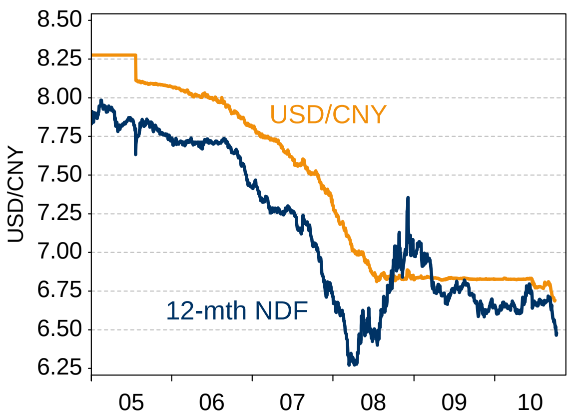
The September survey was the first time we asked companies about their expectations on market shares.

Skilled labour shortages continue to be an issue with 40% mentioning it as their biggest or second biggest concern. The increasing cost of material remains a concern with 40% mentioning it as a first or second concern, while complex rules and regulation do not seem to be a major issue at this point.

The RMB will appreciate vs. the USD again; interest rates will finally go up

The Central Bank, PBOC, has recently started publishing a nominal effective exchange rate in order to shift the attention away from the USD/RMB rate, but still fairly little has actually happened in terms of a RMB appreciation. Since July, the RMB has appreciated by 1.35% but there are signs that it will continue to move in the same direction. Half of the respondents in this survey expect an appreciation. The 12 months price in the NDF market is at 6.48.

China USD/CNY & NDF 12-mth



51% of managers are expecting interest rates to increase in the coming six months. The inflation figure for August came in at 3.5%, up from 3.3% in July. Most economists believe that this, in combination with overheating in the property market, will lead to rate hikes by the People's Bank of China during 2011. The one-year lending rate today is 5.31%.

Survey Results

Information about the Survey

The SEB China Financial Survey is based on input from CEOs and CFOs at 50 subsidiaries of major Swedish, Danish, Finnish, Norwegian and German companies. Most of the companies have a global turnover of over EUR 500 million. The survey is web-based and confidential and was carried out during the period September 20 –29, 2010.

Subject: Business Climate / Profit Expectations

Northern European subsidiary managers in China have a slightly more positive view of the business climate for the coming six months, compared to six months ago. 54% (48% in March) of companies expect business conditions to be favourable over the coming six months and 21% (20% in March) believe they will be very favourable. Only 3% believe that conditions will be unfavourable. This can be compared to 8% in March and 11% one year ago. No company expects very unfavourable conditions.

When asked about profit expectations, 59% expect profits to increase as compared to 56% six months ago, and 3% of companies believe profits will improve considerably (compared to 4% in March). 3% expect falling profits (14% in March).

Growth in Q2 2010 slowed to 10.3% against the 11.9% in Q1 and most figures point at continued strong growth in China. Chinese exports (of which approximately 60% are produced by foreign-invested companies) rose 34.4% in August compared to the same month last year. Although this is slightly lower than previous months due to base effects, most analysts expect export figures to improve by the end of 2010. Retail sales increased 18.4% in August, which was slightly higher than market expectations.
(See graphs 1 and 3, p. 5)

Subject: Employee Structure

Northern European companies have continued to recruit in China throughout the financial crisis but the pace has picked up significantly in the past six months. As managers in northern European companies become increasingly bullish, they are now planning to further increase staff numbers. 74% plan to increase staff numbers and 3% are planning significant increases. This can be compared to 55% and 6% respectively in March this year.
(See graph 4 on page 5)

Subject: Fixed Asset Investment Plans

The number of companies planning investments is down slightly from March. In this survey, 61% are planning modest investments as compared to 65% in March, and the percentage of companies planning significant investments has remained unchanged at 18% in September. Hence, the strategy to "carefully expand", continues among northern European companies. China saw an increase in foreign direct investments into the country of 20.7% January-July this year and the figures in our survey are also up from 12 and 18 months ago. Investment decisions are mostly taken on headquarter level and when multinational companies compare market prospects for next year, emerging markets are expected to show the highest growth. China is in a class of its own, leading the recovery.
(See graph 2 on page 5)

Subject: Average Outstanding Account Receivables days

Foreign companies often highlight payment terms and the issue of actually being paid on time as one of the main challenges in China. Based on this survey, only a small minority of Nordic and German corporates have average outstanding account receivable days greater than 90. Over time we have noted that payment terms seem to be slightly shorter than previously. 21% of respondents now have 30 days average

payment terms compared to 49% that have 30-60 days payment terms.
(See graph 5 on page 5)

Subject: Funding Needs

Funding needs are on the rise. Today, 46% of managers are expecting funding needs to increase in the coming six months, as compared to 42% six months ago and 33% 12 months ago. 51% of managers expect funding needs to remain unchanged, whereas only one company expects funding needs to decrease. Considering that companies continue to invest in China, this seems logical. At the same time, the improved business situation with increased sales should lead to a greater need for working capital.
(See graph 6 on page 5)

Subject: FX and Interest Rates

The view that the Chinese economy is expanding quickly can be seen from managers' views of interest rates and the RMB exchange rate. No company believes that interest rates will fall, whereas 51% believe that rates will go up. 49% expect rates to stay at current levels in the coming six months. Both deposit rates and lending rates are regulated in China and the current lending rate for a 12-month bank loan is 5.31%. The 12-month deposit rate is 2.25%. Pressure for a rate hike is increasing and companies should keep an eye on September's CPI figures, to be released shortly. Market forecasts are at 3.7%. Hence, deposit rates are still negative. Although the government will move cautiously, most economists expect at least one interest rate hike in the coming six months.

Almost all managers expect the RMB to continue appreciating against the US dollar after the RMB finally started to move this year. 85% expect the RMB to appreciate over the coming six months compared to 50% in September. 13% still believe that the RMB will be stable against the US dollar. A fairly stable RMB/USD exchange rate is one of the main reasons why as many as 65% of northern European companies use the USD as their main trading currency in China. This is down, however, from 74% in our last survey. 22% use the EUR and now 14% use Scandinavian currencies, as compared to only 2% in March. Between March 31 and September 30, the RMB has appreciated by 0.77% against the EUR, 1.9% against the DKK, 0.99% against the NOK and depreciated 4.7% against the SEK. The fact that so many companies are expecting the RMB to start moving against the USD this year may be one reason why as many as 59% are hedging some or most of their FX flows on the on-shore forward market (compared to 46% in March), and another 13% are hedging via their head offices through NDF-contracts .
(Please see graphs 7 and 8 on page 5 plus graphs 9 and 10 on page 6)

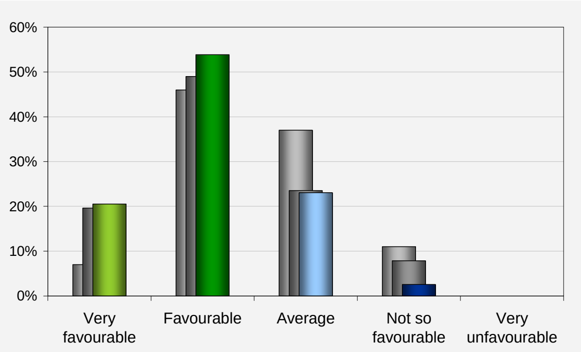
Subject: Main Concerns

The major concern for local management has completely changed from "customer demand," which has fallen to 17% from 48% in our last survey six months ago, to "competition" which is now rated as the major concern by 34%, compared to only 9% in March. A further 19% see it as their second largest concern, hence over half of the respondents feel competition is their largest or second largest concern in China. 14% now see "labour shortage" as a main concern (up from 13% six months ago) and 17% see cost of raw material as the number one concern. (See graph 11 on page 5)

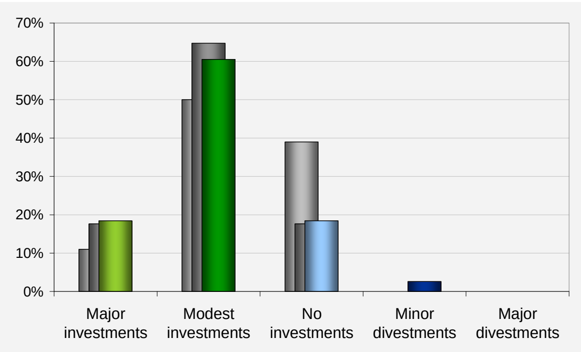
China Financial Index - Composition

The SEB China Financial Index in September had a value of 66, indicating a positive attitude. A value of 50 would indicate a neutral view. The index is based on four components with the following ranking in this survey: General Business Situation – 68, Profit Expectations – 62, Investment Plans – 69, and Employment Plans – 66. (see the graph on page 1)

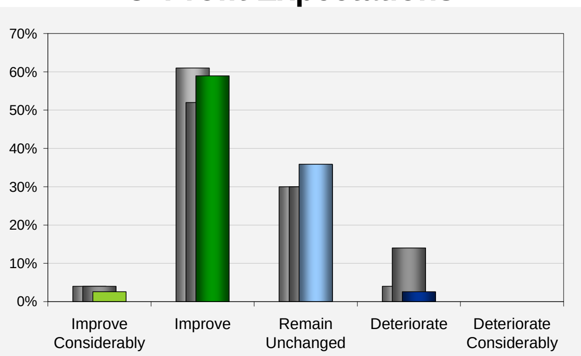
1. Business Conditions



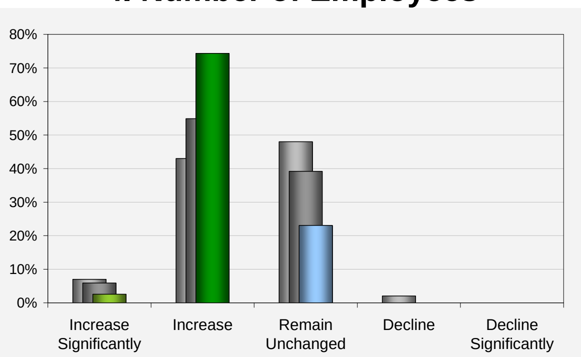
2. Fixed Asset Investment Plans



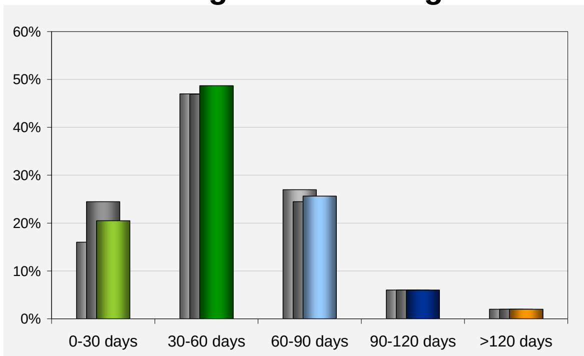
3. Profit Expectations



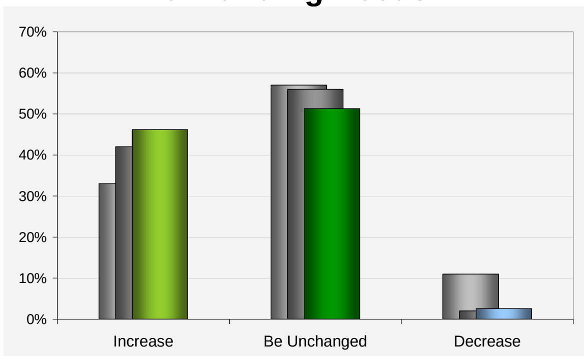
4. Number of Employees



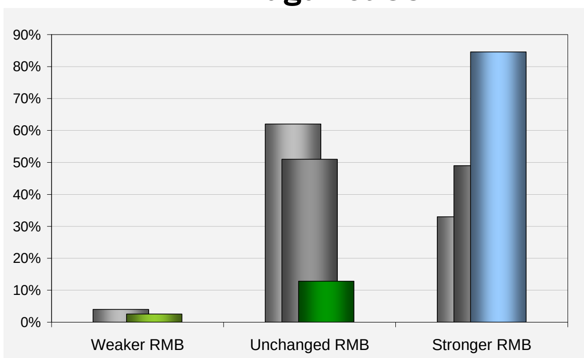
5. Average Outstanding A/R



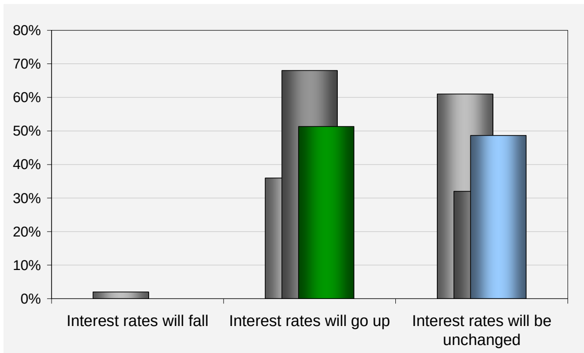
6. Funding Needs



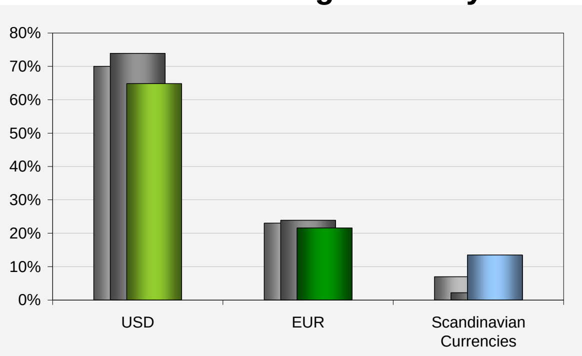
7. RMB against USD



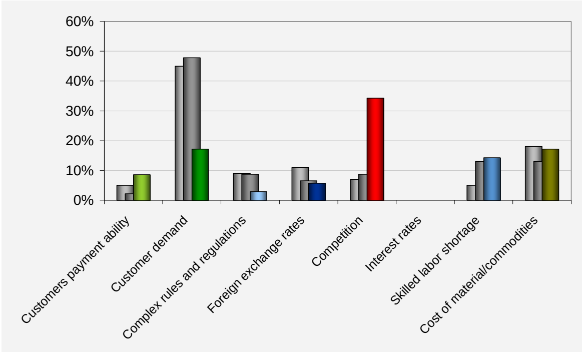
8. RMB Interest Rates



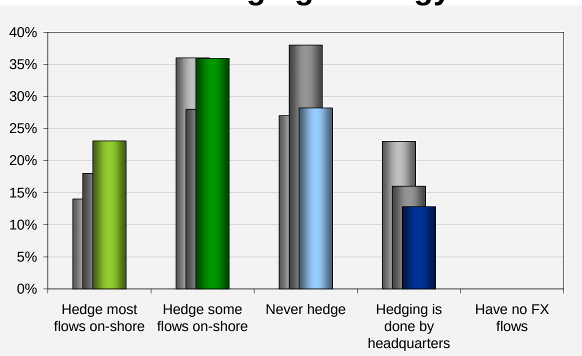
9. Main Trading Currency



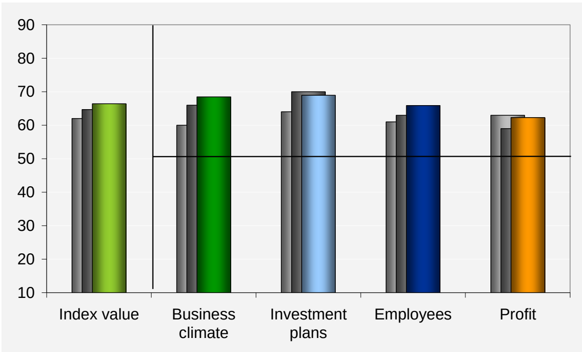
11. Main Concerns



10. Hedging Strategy



12. Main Index



Source: SEB Shanghai. Grey stacks are indicating companies' answers in March 2010, and September 2009

Financial Data

Macro Data (% changes)	2006	2007	2008	2009	2010*
GDP	10,7	13,0	9,0	9,1	11,10
CPI	1,5	4,8	5,9	-0,7	2,80
Industry Output	16,6	18,5	12,9	11,0	16,60
Exports	27,2	25,7	17,2	-16,0	35,50
Imports	20,0	20,8	18,5	-11,2	45,50

On-shore deposit rates, major currencies, below 3m USD equivalent

On-shore interest rates (%)	*Current*	3M	6M	9M	12M
USD	0,0500	0,1900	0,7500	0,8000	1,0000
EUR	0,1000	1,0000	1,1250	1,2000	1,2500
JPY	0,0001	0,0100	0,0100	0,0100	0,0100
HKD	0,0100	0,4000	0,5000	0,6000	0,7500

RMB Interest Rates (PBOC Regulated)

PBOC Rate 100930 (%)	< *6M*	6M-1Y	1Y-3Y	3Y-5Y	> 5Y
Lending Rates	4,86	5,31	5,4	5,76	5,94
PBOC Rate 100930 (%)	***Current***	**3M**	**6M**	**1Y**	**2Y**
Deposit Rates	*0,36*	1,71	1,98	2,25	2,79

FX Indicative Spot and Forward Rates

		2010-12-31	2011-03-31	2011-06-30	2011-09-30
FX	***2010-09-30***	**3M**	**6M**	**9M**	**12M**
USD/CNY	*6,683*	6,650	6,625	6,610	6,570
EUR/CNY	*9,310*	9,277	9,240	9,221	9,165
GBP/CNY	*10,605*	10,557	10,507	10,474	10,400
JPY/CNY	*0,081*	0,079	0,079	0,079	0,080
HKD/CNY	*0,859*	0,858	0,855	0,853	0,848
SEK/CNY	*1,000*	0,997	0,990	0,982	0,975
DKK/CNY	*1,243*	1,243	1,238	1,236	1,226
NOK/CNY	*1,143*	1,143	1,142	1,130	1,114

All indicative rates as per 2010-9-30

*Year-on-Year as per 2010-9-30. For full year 2010 SEB Nordic outlook expects growth to reach 10 %.

For further information please contact SEB Shanghai's Trading Room:
stella.peng@seb.se or +86 21 5396 6081