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AUTOMOTIVE METALS & MINERALS NEWSLETTER | 19 APRIL 2012

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FCCC ACTIVITIES

Visit to Great Wall Motor Co, 5 June 2012, Baoding, Hebei Province

The Province of East Flanders and the Province of Hebei have a longstanding cooperation and are sister provinces. The Province of East Flanders is also an important structural partner of the Flanders-China Chamber of Commerce (FCCC). On June 5, 2012, a delegation led by Vice Governor De Buck will visit Great Wall Motor Company, located in Baoding, Hebei Province.

Great Wall Motor Company Limited is a large multinational company, the first private whole vehicle automaker listed on the Hong Kong Stock Exchange. With more than 30 subsidiaries and 28,000 employees, it is capable of producing 500,000 whole vehicles per year that fall into three categories of HAVAL SUVs, Voleex sedans and Wingle Pickups & MPVs.

The Province of East Flanders is inviting company representatives to take part in this visit in order to give the opportunity to introduce your company to Great Wall Motor Company at the highest level. If you are interested to join this visit, please inform us by sending an e-mail to: gwenn.sonck@flanders-china.be. This visit is organized with the support of the Flanders-China Chamber of Commerce (FCCC).

OTHER ACTIVITIES

6th China International Auto Parts Expo, October 26~28, 2012, Beijing

The 6th China International Auto Parts Expo (CIAPE), an established annual event, is to be held from October 26 to 28 in Beijing. CIAPE is the exclusive internationalized auto parts exhibition in accordance with the principles of globalization, specialization and market requirements. CIAPE, oriented to both the global original equipment vehicle and parts manufacturers and the aftermarket, represents the latest development level of the domestic and global auto industry. Highlights of CIAPE 2012:

- Efficient matchmaking services are provided with the 5,000 quality auto parts suppliers recommended by the Chinese government.
- Thousands of technical staff, purchasers and R&D personnel from over 100 auto manufacturers all over the world participate in the expo.
- The annual Summit Forum of the auto parts industry will be held in the Great Hall of the People during the expo. Over 500 attendees including senior executives of auto parts enterprises, renowned experts, officials from relevant departments of the government, the press and representatives from the industry will attend the forum and discuss the prospects of the auto industry.
- Release of state-of-the-art products and technologies of the global auto industry, showcase of the most advanced technologies and innovations; new ideas of R & D, and environmental protection; new modes of manufacturing, purchasing, and management as well as the research and development achievements with China's own intellectual property rights.
- High-level multi-national match-making meetings will be arranged for auto and auto parts buyers. Top experts on global environment protection and energy saving will participate and discuss advanced technologies of new energy in the auto industry.

Venue: China International Exhibition Center (old venue), Beijing
For more information: China International Auto Parts Expo Secretariat,
Tel: 010-68991493/1049/1416, Fax: 010-68991084/1470/1944 E-mail: master@iapechina.com
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AUTOMOTIVE

Geely to unveil Volvo venture car next year

Geely Automobile says it will roll out its domestically produced car – developed with Volvo – as early as next year, with a price tag of CNY100,000 to CNY300,000. The Hong Kong-listed arm of Zhejiang Geely is betting on the rights to use Volvo technology, which will provide a competitive edge in the mid-priced passenger car market. "While luxury cars saw the biggest sales growth in the past two years, those costing between CNY100,000 and CNY300,000 drew the biggest total number of buyers," Geely Automobile Chief Executive Gui Shengyue said. All proceeds from sales of the new car would accrue to Geely Automobile. Gui stressed that the two brands – Geely and Volvo – would not intrude on each other's target market, because Volvo will continue to focus on high-end models, while Geely will concentrate on marketing low- to mid-priced cars. Geely expects sales to rise 9% to 460,000 units this year from last year, while the China Association of Automobile Manufacturers (CAAM) forecast car sales to grow less than 5% this year. Geely Automobile Holding posted a slower net profit growth in 2011 from a year earlier. Net income rose to CNY1.54 billion last year, up 13% from 2010, a drop from the 16% gain in 2010. The carmaker last year sold 421,611 vehicles, up 1% and exported 39,600 vehicles last year, an annual surge of 93%. It expects exports to comprise 13% to 15% of total sales revenues, up from 9% last year. Sales in the first two months of this year edged down slightly from the same period last year.

China is Caterpillar's biggest market for excavators and wheel loaders

Caterpillar Group President Richard Lavin, based in Hong Kong, said China was the largest construction equipment market in the world, with a quarter of a million excavators and wheel loaders sold each year, which is several multiples of the rest of the world. The company employs about 10,000 people in China in 17 manufacturing facilities. Another seven are under construction and will be finished in 2013 and 2014. In China, many buyers are first-time buyers and financing to enable them to buy Caterpillar's products is critical. Caterpillar Financial is therefore a major part of the business in China. "Generally, Chinese products are cheaper than our products, but if you look at the cost of owning equipment over its lifetime, our equipment is cheaper," Richard Lavin said. Sany and XCMG are investing more and more outside China, where they are also competing with Caterpillar.

Beijing Motor launches Beijing-brand car

Beijing Motor Corp, the partner of both Daimler and Hyundai Motor, revived the Beijing brand for passenger cars by launching a subcompact model last month, three decades after the last Beijing-branded car rolled off the line. The E Series model, retailing between CNY53,800 and CNY86,800, has two engine options — 1.3 liters and 1.5 liters. The model is based on the platform of Daimler's Smart ForFour. China's fifth-largest auto group plans to offer another three models under the Beijing brand later this year, including a micro vehicle, a SUV and a 2.0-liter sedan based on acquired Saab technologies. Beijing Motor bought the Saab 9-3 and 9-5 models as well as engine and transmission technologies at the end of 2009 for USD200 million. Han Yonggui, President of Beijing Motor, said the company plans to launch more than 20 Beijing-brand passenger vehicle models by 2015, including micro, compact, mid-sized and full-sized cars as well as a SUV. He said the company aims to sell 700,000 vehicles under the Beijing and its other brands annually by 2015. This year, the carmaker plans to find 140 dealerships across the country and sell 100,000 Beijing-brand vehicles, he said. It now has manufacturing bases for its branded passenger vehicles in Beijing, Chongqing, Zhuhai and Guangzhou. "We are also eyeing overseas markets for the Beijing-brand vehicles. We are considering overseas demands in our development for future products," said Dong Haiyang, Vice President of Beijing Motor for Sales and Marketing. The group aims to boost total sales to 1.8 million vehicles this year from 1.54 million units in 2011, the China Daily reports.

Dongfeng to push JV deals as profit growth slows

Dongfeng Motor plans to further develop joint ventures, improve management and expand production after price wars and natural disasters cut net profit by 4.55% to CNY10.48 billion last year. The company plans to sign a new partnership agreement with Nissan and Volvo by summer. It will involve Volvo replacing Nissan (China) Investment as a joint-venture partner for Dongfeng's commercial vehicle arm, while Nissan will join Dongfeng in making cars. Dongfeng has separate joint ventures with Honda and Peugeot Citroen to produce cars. Dongfeng Group

Chairman Xu Ping said the company would “push forward the development of joint ventures” as he projected growth of 7% for China's car industry this year. Xu expects further consolidation in the commercial vehicle sector, which saw a 6.3% drop in sales last year. In 2007, Volvo, Nissan and Dongfeng signed a framework agreement over a similar arrangement, but the partnership fell through after the parties failed to compromise on production details. Dongfeng is expected to hold 55% of the stake in its new joint venture with the Swedish carmaker. Dongfeng said it would invest CNY41.6 billion in the next 21 months to enhance production capacity and launch 15 new car models and three series of commercial vehicles – including heavy trucks and light buses. The Hubei-based carmaker, which sold 2.17 million cars last year, expects production capacity to reach 2.77 million cars this year and its growth in sales to exceed overall industry growth of 7%. Dongfeng saw car sales volume jump 16.1% to 1.65 million last year – three times the overall growth of 5.2% in the Chinese car market, the South China Morning Post reports.

Brilliance eyes 40% sales rise

Brilliance China Automotive expects to sell 150,000 BMW cars this year – a year-on-year jump of 40% after a boost in its production capacity. Its joint venture with BMW nearly doubled its share of Brilliance's earnings last year, as sales rose 53.5% to 108,000 cars. It also opened a second plant in Tiexi. Last year revenue fell 28% to CNY6.44 billion because of a decline in sales, unit prices and changes in the business models. The firm plans to launch a new platform of multi-purpose vehicles (MPV), including high-end models, by next year to boost its MPV's sales and market share. Net profit rose 42.6% to CNY1.81 billion, although the firm offered no dividend as earnings were being used to cover more than CNY10 billion of investment the group made in the past few years to boost production capacity. Following the opening of the plant in Tiexi late last year, the group will be able to nearly double capacity to 200,000 cars this year and to 360,000 cars next year – although the enhanced capacity is only enough to cover domestic demand.

GAC expects rebound after its A-share listing

Guangzhou Automobile Group (GAC) saw its net profit last year come in 15% below target, but expects sales to improve following the listing of its A shares. After a decade-long effort to go public in China, the group became the first state-owned automotive holding company to list both H shares, or mainland stocks traded in Hong Kong, and A shares, which are renminbi-denominated stocks traded in Shanghai and Shenzhen. GAC went public in Shanghai by absorbing Guangzhou Changfeng. It will now move to complete the establishment of a joint venture with Mitsubishi and begin mass production of cars with Italy's Fiat in the second half of this year. The group will also expand its sales outlets from 5,305 to 5,583 by the end of this year, according to a filing to the Hong Kong Exchange. GAC's net profit edged down 0.5% to CNY4.27 billion last year. Its cost of sales jumped 32% to CNY10.56 billion, squeezing its gross profit margin by 4.6 percentage points to 3.9% this year. Profit contributions fell from almost all of its joint-venture subsidiaries, including those with Toyota and Honda, whose supply chains were disrupted following the Japanese earthquake and floods in Thailand. With new models and new joint ventures coming this year, GAC Chairman Zhang Fangyou projected growth of 8% in car sales in China this year, compared to the 5% forecast by the China Association of Automobile Manufacturers (CAAM).

BDNT to present first all-electric Denza model

BYD Daimler New Technology Co (BDNT), the 50-50 joint venture between German automaker Daimler and Chinese battery and car producer BYD Co, released a new brand for its electric vehicles. The first Denza model will debut at the upcoming Beijing auto show and is due to be launched in 2013. The joint venture was established in 2010, with an initial investment of CNY600 million. “Denza is on the right track to be the leader in the green vehicle market in China,” said Wang Chuanfu, Chairman and President of BYD and a member of the board of directors of BDNT. China, the world’s biggest automobile market, plans to become a leader in the new-energy vehicle sector in the next 10 years, with government funding of CNY100 billion. By 2020, it aims to have annual sales of 5 million new-energy vehicles. Under the country’s 12th Five Year Plan (2011-15), China intends to have an annual production capacity of 1 million new-energy vehicles, with pure-electric and plug-in hybrid vehicles accounting for 50%. GM and Volkswagen, together with their Chinese partners, are also planning to launch electric vehicles in China. Swedish luxury car brand Volvo told China Daily earlier that it is considering mass-production of its electric C30 cars in China.

Car after-sales services set to boom

Companies who have invested in after-sales networks for cars are set to reap the benefits of the millions of new cars on the roads that now need repairing and cleaning. The after-sales market – which includes repairs, insurance and detailing – is more profitable than selling cars, with margins of 50% to 70% compared with 15% to 30% on vehicle sales. Chinese car dealers like Dah Chong Hong have been busily acquiring private workshops and garages as rising car prices, fierce competition and slowing demand squeeze margins. Motormech, a car repair chain under DCH Holdings, opened its first store in Dongguan last year and expects the number to rise to 10 this year. China Zheng Tong Auto Services, a listed Hubei-based dealer for Mercedes and Jaguar, acquired three dealerships last year, which will "enable the breakthrough development of the after-sales service business". According to the Ministry of Public Security, car ownership reached 106 million last year, out of an urban population of 691 million.

Vehicle sales grew 4.1% in March

Carmakers sold a combined 1.04 million sedans, sports-utility vehicles and multipurpose vehicles in March, up an annual 4.1%, according to data from the China Passenger Car Association (CPCA). The growth lagged February's 27.7% increase. Vehicle sales slowed down in the last week of March after fuel prices were raised. First-quarter sales of passenger cars gained 2.9% to 2.92 million units. The SUV segment posted the highest sales growth last month, jumping 20% to 155,175 units. Deliveries of sedans rose 2% in March, while sales of MPVs fell 2.5%. Shanghai General Motors was the No 1 seller last month with sales of 110,038 units. Vehicle sales fell 3.4% year on year to 4.79 million units between January and March, the China Association of Automobile Manufacturers (CAAM) said. Car sales dropped 1.25% to 3.77 million units in the first quarter although the fall narrowed from the first two months. Sales of commercial vehicles dropped 11% to 1.02 million units in the period.

Renault set to unveil joint venture with Dongfeng

Renault is finally on the verge of making cars in China after a decade-long effort to link up with a local partner. Renault China's Managing Director Robert Chan said the breakthrough wouldn't have been possible without a corporate shake-up which boosted the company's sales in China by nearly 30 times in the three years to 2011. Renault, which exported just 894 cars to China in 2008, saw sales jump to 24,275 last year, following a revamping of its management team, sales network, model range and after-sales service. The company expected to sell 38,000 cars this year, 55% more than last year. Analysts expect Chief Executive Carlos Ghosn to unveil a partnership arrangement with the Dongfeng Motor Group at the Beijing auto show on April 23. In 1993 Renault established its first carmaking joint venture in China with military group China Sanjiang Space Industry Group. However, in eight years the venture only managed to sell 4,000 cars and was practically defunct by 2000. Renault's subsequent attempt to form a new joint venture with Dongfeng dragged on for years as the French carmaker's poor performance in China continued. It was left with an inventory of 1,200 old-model cars and its sales at one point fell to an average of just 45 a month. Buyers were forced to wait months for spare parts because no dealers wanted to stock them. There are concerns a partnership with Dongfeng would put Renault in direct competition with Nissan, which already makes trucks and buses with Dongfeng and is negotiating with it to form a partnership to make cars. As part of the deal, Nissan wants Dongfeng to surrender its commercial-vehicle joint venture to Volvo. Robert Chan said it was unlikely a Renault-Dongfeng joint venture would compete with Nissan, since the latter's strength lay in producing energy-efficient cars with engine sizes between 2 liters and 3.5 liters, while Renault was better at producing smaller cars with engines of less than 2 liters capacity. The Renault-Dongfeng joint venture still requires approval from the Chinese government, which has just tightened requirements for foreign investment in carmaking. Renault expects to be selling 100,000 cars a year in China by 2016 if the venture goes ahead, and 60,000 a year if it does not, the South China Morning Post reports.

Cabot Corp to boost carbon black production in China

U.S.-based Cabot Corp, the world's largest manufacturer of carbon black, is boosting its output in China. Carbon black is a reinforcing agent essential in the manufacturing of tires. The material is also used in many automotive parts, including adhesives and sealants, battery materials and coatings. The company, together with its Chinese partner Risun Chemicals Co, will invest USD100 million in a carbon black production facility in Xingtai, Hebei province, with an initial annual production capacity of 130,000 metric tons, boosting Cabot's manufacturing capacity in China by 25%. Cabot, which has a 60% stake in the project, will contribute cutting-edge technology, while Risun will provide raw materials and its production experience. "It is important for us to be right next to our customers to meet the demand," said Patrick Prevost, President and CEO of Cabot Corp. The company's overall revenue last year was USD3.1 billion, with the Chinese market accounting for almost 20%. Prevost said he wasn't worried about competition from Chinese suppliers, noting that the demand for the high-quality carbon black products exceeds supply and there is further room for market expansion, the China Daily reports.

China playing catch-up on electric vehicles

China will move faster to develop its clean-energy vehicle industry to regain ground lost to the United States and tackle the pressing issue of rising fuel consumption at home, the Chinese government said. The government would prioritize the development of electric cars, with a focus on promoting the industrialization of pure electric cars and plug-in hybrid vehicles, Xinhua reported. China's reliance on imports of crude oil reached 55.2% in August, surpassing that of the U.S. for the first time. To support the growth of the conventional vehicle industry, China would need to increase its crude oil consumption by 40% in the near future, said Ye Yingmin, General Manager of Beijing-based chemical consulting firm Chem1. The country's consumption of crude oil surpassed its economic growth last year. If consumption patterns don't change, China will rely on imports for 80% of its oil, according to the Ministry of Industry and Information Technology (MIIT). China hoped to produce up to 500,000 pure electric and plug-in hybrid vehicles by 2015 and 5 million by 2020. The U.S. has reclaimed the top spot in the clean-energy race from China, which has been leading the field since 2009, says Pew Charitable Trusts, adding that Germany, Italy, Britain and India are among the nations that successfully attracted private investments last year.

Short news

- A firm from Nanjing, Jiangsu province, will invest CNY12 billion in China's largest electric vehicle production line at Deyang. Nanjing Jiayuan Electric Vehicle said that more than 350,000 electric cars would roll out yearly once construction would be completed, but did not give a date.
- BYD Co reported net profit in 2011 fell 45% to CNY1.38 billion on weaker demand for vehicles. The Shenzhen-based company sold 437,000 vehicles last year, down 13.3%. BYD's revenues decreased 1% from a year earlier in 2011 to CNY46.31 billion, but its gross profit dived by 17% to CNY6.87 billion. The Shenzhen-based company blamed the profit decrease on its waning battery business. BYD's automobile sales decreased by 13.33% in 2011 from the previous year to 437,000 vehicles. BYD has only sold about 1,000 electric vehicles since it introduced them more than two years ago.
- Geely posted a 13% gain in profit last year to CNY1.54 billion from CNY1.37 billion earlier. The company's vehicle sales increased 1% to 421,611 units in 2011. It has set a goal of 9% growth in sales to 460,000 units this year.
- The first model from Dongfeng Nissan's wholly owned brand Venucia rolled off the production line in March at the joint venture's second factory in Zhengzhou. The D50 model will be available in four configurations priced between CNY70,000 and CNY90,000.
- Bosch Automotive Diesel Systems Co, the joint venture between Germany's Robert Bosch and Wuxi Weifu High-Technology Group Co, recently announced that it will invest CNY1.6 billion in a new facility in Qingdao to produce diesel fuel injectors and other products. The 110,000 square meter site will be Bosch's second manufacturing site for clean diesel technology in China.
- Beijing Communist Party Secretary Liu Qi and Kenyan Prime Minister Raila Odinga unveiled the name plaque of Foton Motor Kenya at a founding ceremony in Nairobi. Chinese automaker Foton Motor also opened a USD50 million assembly plant in Nairobi to explore the market in Kenya and east Africa.
- BMW will recall more than 120,200 models of its 5-Series and 6-Series sedans to fix a battery problem. The recall, from May 10, will affect 118,256 units of the BMW 5-Series sedans produced by its Chinese joint venture, BMW Brilliance Automotive, between March 2003 and September 2010, and 381 imported units of the same model

that were made during the period. The German carmaker will also recall 1,046 units of its imported 6-Series coupés produced between September 2003 and July 2010 as well as 563 units of the 6-Series cabriolet models made from December 2003 to July 2010. The faulty batteries may stall the engine and cause fire under extreme cases.

- The Beijing Municipal Transport Commission is encouraging communities within the fourth ring road to build more than 110,000 new parking spaces by the end of next year by offering a CNY2,000 reward for each space. The capital has more than 5 million vehicles on its roads but only 2.48 million parking spaces.
- Mazda and its joint venture partners in China were recalling more than 62,000 vehicles to fix problems with anti-lock braking systems that could cause false warnings. The three-party joint venture with Ford and Chongqing Changan Automobile will recall 58,949 Mondeo sedans and 3,496 S-Max vehicles and replace problem parts, the General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) said.
- Ford's China unit will invest about USD600 million to increase capacity of its Chongqing passenger-car factory by almost 60% to 950,000 vehicles a year by 2014. The company, with joint venture partner Changan Automobile, would increase capacity by 350,000 units.
- Zhejiang Geely Holding Group, parent of Geely Automobile, plans to spend USD11 billion on Volvo Cars over the next five years. Geely, which took over Swedish brand Volvo from Ford in 2010, aims to build an engine plant, beef up research and development (R&D), and upgrade technology at Volvo, Geely President Li Shufu said. “We want to revive Volvo and give the brand its strength back,” he added.
- General Motors’s Chinese partner reported full-year profit rose 23% on demand for the top-selling Buick Excelle and Chevrolet Cruze sedans. SAIC Motor Corp’s net income rose to CNY20.2 billion last year, while sales rose 18.9% to CNY434.8 billion. GM's sales in China rose an annual 11% to a record for March. Deliveries of cars and Wuling minivans increased to 257,944 units. Unit sales gained 8.7% to a record 745,152 units in the first quarter.
- A long-awaited draft regulation on school bus safety management was passed at an executive meeting of the Chinese government chaired by Premier Wen Jiabao. Higher technical standards are set for school buses and stricter requirements for drivers. The regulation was prompted by a string of road accidents involving school students and pre-schoolers in November and December.
- Volkswagen announced a personnel reshuffle in its China operation, including seven new appointments to strengthen sales and marketing. Lubos Vlcek has been named as Executive Director of Volkswagen Group China in sales, second-hand car and after sale business since April 5. Other new appointments cover marketing, imported vehicle business, premium car affiliate Bentley, the Seat brand in China, as well as the sales division of its Chinese joint venture FAW-VW Automobile Co.
- Bentley Motors announced that China has become its biggest market globally due to significant sales growth in the first quarter of 2012. Bentley sold 578 of its ultra-luxury cars in China in the three months, an 84.9% increase over the same period last year, to surpass the United States, where 468 units were sold. Globally it sold 1,759 cars in the period, a 46.6% increase over the same period last year.
- Jaguar Land Rover sold 17,997 vehicles in China in the first three months of 2012, a year-on-year growth of 110%. China has become the fastest-growing market for the automaker, and is likely to soon be its biggest.
- Mazda Motor Co set a record in the first quarter by selling 57,631 units, 16% more than in the same period in 2011. Its two joint ventures — FAW Mazda and Chang’an Mazda — sold 35,105 units and 22,526 units respectively in the period, a year-on-year growth of 5% and 37% respectively. The company plans to increase the number of its dealers in China from 371 in March to 420 by year’s end.
- Toyota Motors announced that it sold 86,000 cars in China in March, up 2.2% from the same month last year. It sold 211,500 cars in the first quarter, a year-on-year increase of 1.9%. Toyota plans to sell 1 million cars in China this year, an expected increase of 13% over last year’s sales.
- Italian tire maker Pirelli expects sales in the Asia-Pacific region to increase 23% annually to €650 million by 2014, from €353 million last year, as it increases capacity

in China and Indonesia to meet demand. Pirelli supplies tires to BMW, Audi and Mercedes-Benz in China.

- Honda Motor Co plans to double sales in China to about 1.2 million vehicles by 2015. The company will introduce more than 10 new and revamped models to China from 2013 to 2015 to support sales growth. Honda will also develop cars especially for the Chinese market and increase purchases of components from local suppliers to lower cost. Honda has a joint venture with Guangzhou Automobile Group with an annual output of 480,000 units and another with Dongfeng Motor Corp that is able to produce 240,000 vehicles a year.
- Domestic carmaker Chery sold more than 58,700 vehicles last month, up 35.8% from February, and shipped some 12,400 cars overseas, up 18% from the previous month and an increase of 5.2% from a year ago. Sales of the Tiggo SUV in March totaled 12,895 units, a record high.
- BYD announced it will expand the warranty on all its products to four years or 100,000 km, twice its previous two-year, 60,000 km warranty. For its all-electric and plug-in hybrid vehicles and their core components, the company offers a five-year or 100,000 km warranty. The move is expected to boost consumer confidence.
- Shanghai Volkswagen reported a growth of 19.7% in March sales to 107,840 units. Strong sales for the month brought its quarterly wholesale shipments up 11.5% year-on-year to nearly 320,000 vehicles, including 262,968 Volkswagens and 56,920 Skodas. The company now has more than 600 dealerships in China for its Volkswagen-brand vehicles.

METALS

Maanshan Iron & Steel's profit plunges 94%

Maanshan Iron & Steel, the second-biggest Hong Kong-traded steelmaker, saw profit tumble 94% last year to CNY69.6 million, as slowing demand cut prices. The result missed the CNY337.5 million mean estimate of six analysts polled by Bloomberg by almost 80%. The profit margins of Chinese steelmakers dropped to a record low of 0.43% in November, as housing curbs and the withdrawal of stimulus measures for the car industry limited demand, the China Iron & Steel Association (CISA) said. Production may be unchanged or slightly higher this year as waning demand and rising competition weigh on prices, according to Gu Jianguo, Chairman of Magang Group Holding, Maanshan's parent. “Steelmakers' profit may be further squeezed as the Chinese government has lowered development targets and iron ore prices remain high,” Maanshan said. However, Gu said, railway construction may rebound from an investment trough last year, boosting demand for the company's products. Maanshan, which is China's biggest maker of train wheels, received approval from the Ministry of Railways (MOR) to start trial production of wheels for high-speed trains that can run at 200 to 250 kilometers per hour, the Xinhua News Agency reported. Maanshan set aside CNY677 million last year for a drop in the value of raw material and product inventories.

Zijin aims controlling stake in Norton Gold Fields

Zijin Mining Group Co, China’s largest gold producer, plans to make a further move into the Australian market by acquiring a controlling stake of at least 50.1% in Norton Gold Fields for AUD229 million. Zijin currently holds a 16.98% stake in Norton. Norton said that its directors were minded to recommend acceptance of Zijin's offer. Zijin ranks first in gold production in China, second in copper and sixth in zinc. In 2012, the company plans to mine 30 tons of gold and refine 50 tons. It will mine 100,000 tons of copper-containing ores and smelt 124,800 tons of metal. China is the world’s largest gold producer, with its annual output reaching 360 tons in 2011. The top-five gold producing areas in China are Shandong, Henan, Jiangxi and Fujian provinces and Inner Mongolia. The country’s gold consumption stood at 761 tons last year, an increase of 33% year-on-year. In 2011, Zijin bought 60% of Central Asian miner Altynken, a company based in Kazakhstan with access to a gold mine in Kyrgyzstan, but walked away from an offer for Australia-based Indophil Resources, part-owner of the Tampakan gold-copper project in the Philippines, after delays in seeking approval from China. Zijin plans to spend CNY5.5 billion on acquisitions, the bulk of which will be overseas gold and copper assets. The company currently has assets in Australia, Peru, Russia and Central Asia.

China Gold looking to acquire mines abroad

China Gold International Resources, the overseas development arm of state-owned China National Gold Group, China's second-largest gold producer, is scouting for acquisition opportunities in both developed and developing nations. "In developed nations, opportunities exist, but the costs are high due to high market information transparency. In developing nations, we are selectively looking at some politically stable regions that have resources," Chief Executive Song Xin said. "We are mainly looking at gold, copper, and silver mines that have at least one million tons of copper resources or 100 tons of gold resources." China Gold, which has no overseas project at present, will also look into buying its parent's recent overseas asset acquisition when its viability is proven. In January, China National Gold agreed to buy a 70% stake in a mine in the Kyrgyz Republic from Hong Kong-listed water purification equipment maker Chaoyue Group for USD21 million. The mine has around 97 tons of gold resources and one ton of copper resources. "When it is about to become commercial, the parent can sell it to the listed company on the latter's request," Song said. China Gold in late March posted a 200% increase in net profit to USD84.27 million. The company plans to produce 3.69 tons to 3.83 tons of gold this year, little changed on last year's 3.79 tons. Copper output is projected at 9,800 tons to 11,500 tons, an increase of up to 17.6% from 9,781 tons last year. Its mainstay Chang Shan Hao mine in Inner Mongolia has 134.7 tons of gold resources, of which 78.1 tons are economically extractable reserves. A feasibility study on a second capacity expansion is being conducted. Song said the scale of expansion would be announced in the second half of this year. Citi has estimated the expansion could see mining and ore processing capacity double to 60,000 tons per day by 2015, the South China Morning Post reports.

Short news

- Metals miner Minmetals Resources posted a 32% rise in net profit to USD540.9 million for last year, as revenues rose 16% to USD2.23 billion on the back of higher metals prices. Excluding discontinued metals trading and fabrication businesses, net profit grew 35.2% to USD454.1 million.
- The growth rate of China's foreign trade in nonferrous metals dropped to 8.7% in the first two months of 2012 year-on-year, down from a growth rate of 30% last year, bringing the total trade value to USD24.71 billion for the period. China's total imports and exports of nonferrous metal in 2011 came to more than USD160 billion, showing a 28% growth rate year-on-year. China produced 34.38 million metric tons of 10 types of nonferrous metals in 2011, an increase of 9.8%.
- Baoshan Iron and Steel Co reported net profit for 2011 slumped 44% to CNY7 billion last year as rising raw material prices ate into profitability. Sales grew 10% to CNY222.9 billion.
- Novelis, an aluminum rolled-products subsidiary of Indian aluminum and copper producer Hindalco Industries, will build its first automotive sheet making facility in China. Located in Changzhou, Jiangsu province, the USD100 million plant is expected to come on stream in late 2014.
- China produced a record 496 tons of jewelry last year, up an annual 15% and double the amount made five years ago, according to the quarterly Thomson Reuters GFMS Gold Price Survey. The rising demand for jewelry is pushing up the gold price, which rose 23% last year. Investors contributed to China's record imports of gold bullion, which more than doubled last year to 515 tons.
- Angang Steel announced it expected to lose CNY1.89 billion in the first quarter, compared with a CNY71 million gain in the same period last year. High iron-ore prices compounded by weak product prices had seen Chinese steel mills hit by CNY2.8 billion in losses in the first quarter, the China Iron & Steel Association (CISA) said. Hunan Valin Steel Co, one of the top 10 steel makers, estimated its first-quarter loss was CNY690 million to CNY730 million, up nearly CNY200 million year-on-year.

MINERALS

China to limit coal production to 3.9 billion tons by 2015

China aims to cap annual coal production at 3.9 billion tons by 2015, which implies an annual growth of 2.6% from last year's output of 3.52 billion tons. The output had soared 38% in the five years through 2010. Coal as a proportion of China's primary energy mix will fall sharply over the five years though demand will keep rising amid industrialization and urbanization, according to a five-year plan unveiled by the National Development and Reform Commission (NDRC). China will encourage imports of coal, especially in coastal areas, and support companies to purchase coal assets overseas. The plan also said China aims to add new output capacity of 750 million tons per year by 2015, bringing the total to 4.1 billion tons annually. Mines in the western areas, which include Xinjiang, Shaanxi and Gansu, will be the main growth driver while traditional coal-producing areas like Shanxi and Inner Mongolia will see slower growth. China will form 10 large coal companies that are capable of producing 100 million tons of coal a year and another 10 companies that are capable of producing 50 million tons a year. These 20 companies will be responsible for 60% of the country's output of coal. The country will continue to shut down small coal mines to eliminate outdated operations. Also listed in the plan is the establishment of an emergency storage system for coal. The first part of the system will include a reserve containing 5 million tons of coal and the second will be developed in Southwest China.

CNNC seeks stake in uranium mines

China National Nuclear Corporation (CNNC) has begun talks to buy a stake in uranium mines owned by Areva. "We are also discussing opportunities with many countries to cooperate in terms of uranium exploration and mining," Sun Qin, President of China's biggest atomic power plant operator, said at the Seoul Nuclear Industry Summit. CNNC, which started operations at its first overseas uranium mine in 2010, is looking to acquire additional assets to meet rising domestic demand. Rival China Guangdong Nuclear Power is offering to buy Australian explorer Extract Resources for AUD2.2 billion to gain access to the world's fourth-biggest uranium deposit. Sun added that the company was "preparing to list CNNC Nuclear Power Company" as part of its expansion plans. CNNC is also the parent of Hong Kong-listed CNNC International, a uranium producer in Niger. The Chinese government is very likely to resume approval of new nuclear projects this year as the government completes a safety review prompted by last year's Fukushima disaster in Japan, Sun said. China, which started operating its first commercial nuclear plant in 1994, is building at least 27 reactors and has 50 more planned, the China Nuclear Energy Association said.

Vale looks to China for an increase in demand

Brazil's Vale, the world's second-largest mining company, is moderately optimistic about the outlook for iron ore and expects significant demand from top consumer China, Claudio Alves, Global Marketing Director, said. "Regarding the future, we at Vale are moderately optimistic for the next few years. We believe China will continue to grow," Alves told a mining conference, referring to the outlook for iron ore. "There is still room for steel production maybe to grow at a more moderate rate, but based on huge steel production capacity, it [iron ore demand] is still very significant." Miners are betting on a soft landing for the world's second-biggest economy and forging ahead with longer-term iron ore output expansion plans, analysts said. "We are very, very confident we will see very significant growth coming from China. China in our opinion will face a slowdown in terms of growth. But we don't see a hard landing. We see a soft landing," Alves said at the conference in Singapore. Chinese steel mills have ramped up output on hopes that demand from builders will pick up as the weather gets warmer, keeping demand for iron ore healthy.

China Shenhua predicts smaller sales growth

China Shenhua Energy, the listed unit of China's largest coal producer Shenhua Group, predicted small production and sales growth this year despite posting an annual result that was in line with market expectations. The company is aiming for a 2.8% rise in production volume to 289.9 million tons and for sales to grow 6% to 410.5 million tons. This contrasts with last year's output growth of 14.8% and a sales rise of 23.7%. China Shenhua Chairman Zhang Xiwu said however that targets would likely be over fulfilled. "We believe we can achieve 300 million tons of output and 425 million tons of sales for the full year," he said. This represents an output growth rate of 6.4% and sales growth rate of 9.7%. China Shenhua relied primarily on sales volume growth last year to achieve a 17.6% rise in net profit to CNY45.68 billion, as production costs offset higher coal prices. Meanwhile, Yanzhou Coal Mining, the listed unit of Yankuang Group, aims to lift output this year from its own mines by 7.2% to 60 million tons of coal and raise sales by 24.5% to 80 million tons – including volumes purchased from other miners, said Chairman Li Weimin. Yanzhou aims to control production cost increases within

10% after an 11.5% rise last year. Underlying net profit grew 15.5% to CNY8.56 billion last year.

Rio Tinto becomes a member of CBMX

The China Beijing International Mining Exchange (CBMX), China's new spot iron ore trading platform, secured Rio Tinto as its member. The electronic trading platform, which will officially start operation in May, is backed by major Chinese steel makers and traders and designed to strengthen China's pricing power on iron ore. "We welcome the development of CBMX as it gives us a new option for selling any available tons to China, over and above those already contracted. We look forward to the exchange developing into a transparent, independent, efficient and sustainable iron ore trading platform supported by broad market participation," said Alan Smith, President of Rio Tinto Iron Ore Asia. The move came a day after Brazilian miner Vale signed a memorandum of understanding (MOU) with CBMX to support the development of the platform, though Vale is yet to officially join the network. The CBMX is widely seen as a rival to the Singapore-based globalORE trading exchange, which is backed by Australia's second-largest iron ore producer BHP Billiton. "Our position is that we are positively studying participation and are in principle supportive of any platforms that support market transparency and liquidity," a BHP Spokeswoman said. Fortescue Metals Group, Australia's third-largest iron ore exporter, also joined CBMX, becoming its first foreign miner member. China accounts for 60% of the global seaborne iron ore trade and has the world's largest iron ore spot market.

Chalco aims to acquire up to 60% of SouthGobi Resources

Aluminum Corporation of China (Chalco), a Hong Kong-listed subsidiary of the Chinese state-owned metals and mining group Chinalco and China's largest aluminum producer, intends to acquire a stake of up to 60% in SouthGobi Resources, a Mongolia-focused coal company listed in Toronto and Hong Kong, for up to CAD925 million – the biggest investment yet by a Chinese mining company in Mongolia. The deal follows years of frustration for Chinese miners trying to gain access to Mongolia's deposits of copper and coal, the Financial Times reports. Although Mongolia has opened up to foreign investors over the past decade, Chinese companies have often found themselves sidelined because of historic mistrust between the two countries. The deal could pave the way for more Chinese investment in the Gobi desert. The transaction will not require Mongolian approval because the share transfer will take place in Canada, but a representative of SouthGobi said the Mongolian government had been informally notified and was supportive. Ivanhoe, the Toronto-listed mining company headed by Robert Friedland, has agreed to sell Chalco its 57.6% stake in SouthGobi. China's sovereign wealth fund also holds a 13.7% stake in SouthGobi and has a right of first refusal for Ivanhoe's shares, but the fund is expected to give its approval to Chalco's bid. Chalco seeks to expand beyond its core aluminum and bauxite business into base metals and energy. Previous discussions with Ivanhoe over a stake in the Oyu Tolgoi copper and gold mine did not come to fruition. South Gobi's main producing asset is a coking coal mine less than 50 km from the Chinese border. Alexander Molyneux, President and Chief Executive of SouthGobi, said the company would benefit from being controlled by a big state-owned miner such as Chalco, which has coal distribution networks inside China and will buy coal from SouthGobi as part of the deal. SouthGobi could also become a platform for Chalco's overseas coal deals in the future. Chalco will make a formal offer to SouthGobi before July 5, the company said, and the acquisition will be funded either by issuing external debt, drawing on internal funds or some combination of the two.

Chinalco eyes HKD6.4 billion expansion in rare earths

Aluminum Corp of China (Chinalco), parent of Chalco, plans to invest CNY5.2 billion to increase production capacity of rare earth metals in Hezhou and Chongzuo cities in Guangxi, company Spokesman Yuan Li said. Beijing-based Chinalco is investing in copper, iron ore and rare earths as overcapacity and rising power costs shrink profit margins from aluminum smelting. Chinalco's rare-earth venture in Guangxi, set up with China Tin Group and Grirem Advanced Materials, aims for a public share sale in five years and CNY3.5 billion in revenue within three years. Chinalco will have the capacity to produce 34,700 metric tons of rare earths a year, after it took over five rare earths companies in Jiangsu, the company said in June. The government will increase punishment for firms exceeding production targets on rare earths and also encourage the formation of large producers, the Ministry of Industry and Information Technology (MIIT) said in March.

Rare earths association set up

China set up a rare earths industry association on April 8 in a move to speed up consolidation of the industry. The association, with 155 members, will report to the Ministry of Industry and Information Technology (MIIT), which regulates rare earths production. Baotou Steel Rare Earth in Inner Mongolia, Rising Nonferrous in Guangdong and China Minmetals are among 13 heavyweight members. MIIT Vice Minister Su Bo said Beijing wanted to shake up the industry by phasing out small smelters. Gan Yong, Academician of the Chinese Academy of Engineering and also President of the Chinese Society of Rare Earths, will be the Association's President. He said the association will work to form a reasonable price mechanism and to create a win-win situation for developers and consumers. Gan said the association will help deepen international communications and "properly" handle trade disputes according to international standards and WTO rules.

China Coal suspends operations at some mines

China Coal Energy, the listed unit of China's second-largest coal producer China National Coal, suspended operations at some of its mines for the third time in two years. As a result of flooding, four out of seven trapped workers in its subsidiary Shanghai Datun Energy Resources' Kongzhuang mine, in Jiangsu province, were found dead, China Coal said. The other three workers were rescued. The company's safety record is much worse than that of rivals China Shenhua Energy and Yanzhou Coal. Besides the Kongzhuang mine, Shanghai Datun also runs the Yaoqiao, Xuzhuang and Longdong mines in the Datun region in Jiangsu. Kongzhuang is undergoing a CNY532 million renovation which would raise its annual output capacity to 1.8 million tons from 1.05 million tons. Shanghai Datun's four mines had a combined raw coal output of 9 million tons in 2011, amounting to 6.6% of China Coal's target output this year. All four mines had suspended their operations, "in order to learn lessons from the flooding accident and take all effective measures to … ensure safety", China Coal said. China Coal last month posted a 31.3% rise in net profit to CNY9.8 billion for 2011, mainly because an 11.6% jump in sales volume of self-mined coal and a 9.6% increase in the coal's average selling price more than offset a 7.8% rise in production costs. Analysts polled by Reuters have forecast its net profit to rise 13.3% to CNY11.1 billion this year. Chairman Wang An last month said the firm aims to raise raw coal output to 200 million tons by 2015 from 129 million tons last year, through development of existing projects and acquisitions. Output is targeted to rise 5% this year, the South China Morning Post reports.

China Zhongsheng Resources eyes HKD197 million in HK IPO

China Zhongsheng Resources, the largest privately owned iron ore producer in Shandong province, plans to raise as much as HKD197 million from an initial public offering (IPO) in Hong Kong. "The stock market remains low recently," said Chairman Li Yunde. "But after operating for more than a decade our firm has grown and our business is stable." The average selling price of its iron concentrates with iron content of 65% fell 13.6% to CNY1,024 per ton in the first two months of this year from the same period last year. Geng Guohua, the firm's COO, said the total output of iron ore in Shandong was 18 million tons last year, while the output of crude steel was 56.2 million tons. Zhongsheng has only one mine, the Yangzhuang iron mine, in operation. Less than 60% of the listing proceeds will be spent on expanding the mining capacity of Yangzhuang to 3.5 million tons in the final quarter of next year from 2.3 million tons. The rest of the proceeds will be used to fund the first stage of the Zhuge Shangyu ilmenite mine, a project the firm plans to begin this year. The target is to realize mining capacity of 2 million tons by the fourth quarter of next year, and subsequently increase that to 8 million tons by the second quarter of 2016. The shares are expected to list in Hong Kong on April 27. Last year, the firm's revenue more than doubled to CNY1 billion from CNY485 million in 2010. Net profit rose to CNY130 million from CNY109 million in 2010.

CNMC to list Zambian copper assets

State-owned China Non-Ferrous Metal Mining Group (CNMC) plans to float its Zambian copper assets in Hong Kong to raise as much as USD500 million, half the size of its previous listing attempt last year. The mining company aimed to launch the initial public offering (IPO) this month, but details of the share placement and the price range have yet to be released. It was forced to scrap its share sale to raise USD1 billion last year because of volatile market conditions. CNMC finished a CNY2 billion five-year debt issue late last month to inject liquidity into the company. Mining and processing at least 25 types of minerals including copper, zinc, nickel, gold and rare earths, the company is actively engaged in overseas asset acquisitions around the world, including in Australia, Africa, and Asia. As of 2009, it had spent more than USD1.7 billion in Zambia alone building mines and smelting facilities. The state-owned miner is said to be planning to accelerate investment in Zambia, which has established an economic cooperation zone with China, focusing on resource and infrastructure projects. The zone has been operating for five years. Aluminum Corp of China is also expected to float its Peruvian copper-mining assets in Hong Kong to raise a maximum of USD1 billion.

Short news

- The net profit of Yanzhou Coal Mining fell 3.8% to CNY8.93 billion in 2011, while operating revenue rose 38.7% to CNY47.07 billion. The company's coal sales rose 29.5% to 64.25 million tons last year.
- Maoming Petrochemical Mining Co in Guangdong province has been fined more than CNY725 million for continuing to operate after its license expired. The fine, imposed by the Land and Resources Bureau in Maoming, is the biggest in the city's history. The fine could rise further to CNY1 billion to punish the company for gaining illegal profits. The company's license for the Jintang mining area in Maoming expired on June 30, 2009.
- Coking coal producer Shougang Fushan Resources experienced volatile share trading after the company denied allegations by U.S.-based short seller Glaucus Research that it had overpaid a related company for three mines and inflated its profit margins. The Shanxi-based, Hong Kong-listed company is 29.4% owned by Shougang.
- Inner Mongolia Yitai Coal, one of the biggest coal producers in China, plans to raise between USD1 billion and USD1.5 billion from an initial public offering (IPO) in Hong Kong this year, making it the country's first B-share company to issue H shares. The company received approval from the China Securities Regulatory Commission (CSRC), but has yet to get clearance from the Hong Kong stock exchange. Yitai Coal already listed B shares, after it was spun off by state-owned Inner Mongolia Yitai Group on the Shanghai stock market to raise CNY520 million. Yitai Coal recorded net profit of CNY5.5 billion for last year, compared with CNY5.1 billion in the previous year. Revenue rose to CNY16.84 billion from CNY14.08 billion.

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This newsletter is realized with the support of the Federal Government of Belgium, the Flemish Government, the Walloon Government and the Government of the Brussels-Capital Region.

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