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## This Week in China

### Chinese Premier Wen Jiabao Speaks About Economy

China's annual legislative session opened on March 5th with the premier, Wen Jiabao, outlining an aggressive plan of increased stimulus measures to keep the economy growing rapidly and maintain social stability.

In addressing the nearly 3,000 delegates of the Communist Party-controlled National People's Congress, Wen said the central government would boost spending on healthcare and other social programs, and take additional steps to offset

### Chinese Companies to Sell RMB 100 Billion of Bonds

Chinese companies have applied to sell RMB 100 billion (\$14.6 billion) in bonds to help spur economic growth, following the sale of RMB 130 billion of such debt since Sept. 30, the nation's top planning agency said.

More than 50 Chinese companies have applied to sell the bonds via a financial system designed to help raise funds to cover spending included

the rising unemployment resulting from the global financial crisis. But he did not specify new spending on top of the \$586 billion stimulus package announced in November.

"We are facing unprecedented difficulties and challenges," he said in delivering a 44-page text of his working report.

Wen set a target economic growth rate of 8% for this year with inflation around 4% and an increase in urban employment of 9 million. China's economy expanded 9% last year, down from 13% in 2007.

In recent days there have been rays of hope, as measures of China's

in the nation's stimulus package, Zhang Ping, head of the National Development and Reform Commission, said at a briefing in Beijing. About 45 enterprises sold debt since the fourth quarter, he said.

"We will allow road and power grid construction projects to raise additional funds through the local government financing platform," Zhang said. He spoke as China holds an annual meeting of the National People's

industrial production such as power generation have moved in a positive direction.

Zhang Hanya, a researcher at an institute under the government's top economic planning agency, said after listening to Wen's remarks that it was still possible that the stimulus plan would be enhanced.

China, unlike the U.S., has the wherewithal to increase its fiscal spending. Wen said the government's budget deficit this year would be about 3% of China's economy, compared with more than 12% for the U.S.

*Source: Los Angeles Times*

Congress, the country's top legislature.

China's government is allowing a wider array of fund raising as part of the nation's RMB 4 trillion stimulus plan.

Bank of China Ltd., the nation's third largest bank by value, plans to sell as much as RMB 120 billion of subordinated bonds by 2012, joining rivals in replenishing capital to fund loan growth.

*Source: Bloomberg*

## Metals and Mining

### China Encourages Overseas Mining Acquisitions

With resource prices normalizing, China is helping domestic enterprises buy into foreign mines, securing raw supplies to fuel its future economy.

According to a newly revealed stimulus plan for China's steel industry, the country will help selected domestic enterprises invest in and operate foreign mining projects. Companies that qualify can also expect support in tapping overseas mining technology, resources and assets.

The government has drafted supportive measures that will open more financing channels and establish an investment fund to encourage overseas

acquisitions. It's hoped that all this will give Chinese firms a little more weight to throw around in international price negotiation.

The measures are designed to narrow the widening gap between the demand and supply of mining resources.

China's demand for mining resources such as copper and iron has risen in step with its economic growth, but access to these raw materials often falls short.

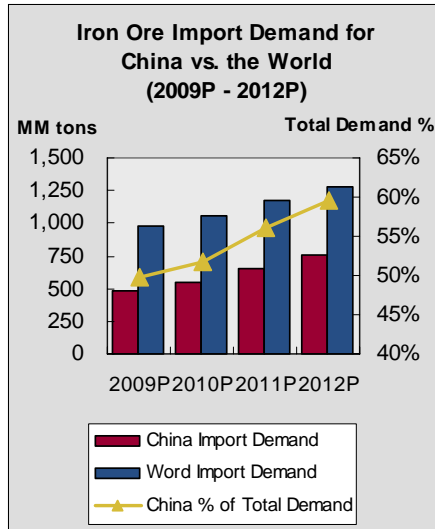
In the case of iron, China's domestic supply satisfies less than 50 percent of its iron ore demand, meaning the country needs to import up to 400 million additional tons of ore every year. However, overseas investments and acquisitions have secured only about 40 million tons for the country.

The slowdown that's befallen markets worldwide may present a prime opportunity for China's large-scale enterprises to further expand into overseas resource sectors.

"In 2008, when resources prices were high, many Chinese companies started to launch overseas acquisitions," said Zhou Tao, chief analyst from Guojin Securities. "Now, with the declining prices, there's no more reason to hesitate."

With prices down, many foreign mining companies are eagerly seeking investors to help them in the gloomy market. The Chinese government is ensuring that many domestic companies are stepping up to the plate.

Source: *Caijing Online*



Source: Morgan Stanley

## Alternative Energy

### Clean Tech Investment Surges 120% in 2008

The Chinese mainland saw venture capital (VC) and private equity (PE) investment in clean tech surge 120 percent year-on-year to \$1.3 billion in 2008 despite the economic downturn, according to a report

released by market researcher Zero2IPO.

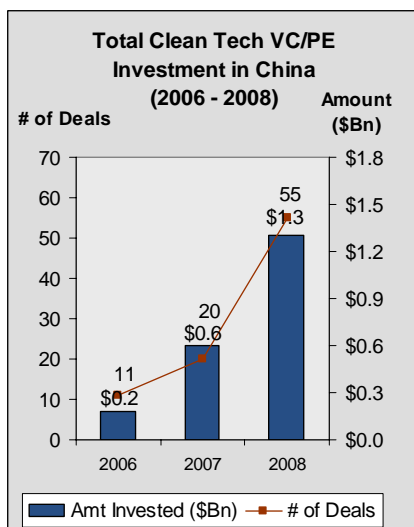
In 2008, domestic and overseas VC and PE companies invested in 55 clean tech deals, up 175 percent from 2007.

Between 2006 and 2008, VC and PE companies raised capital worth \$2.36 billion in clean tech, of

which 60 percent went for solar energy, said the report.

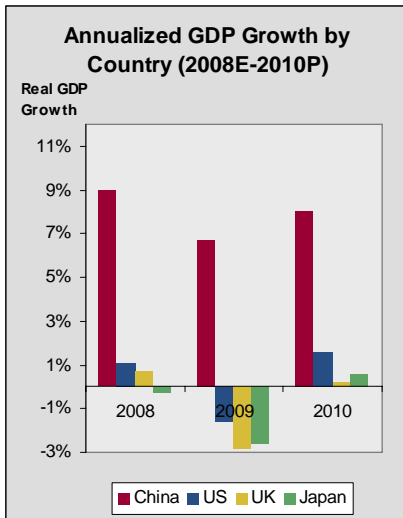
Water treatment also accounted for a large proportion of the total clean tech investment, reaching \$287 million in 12 deals.

Source: *Zero2IPO*



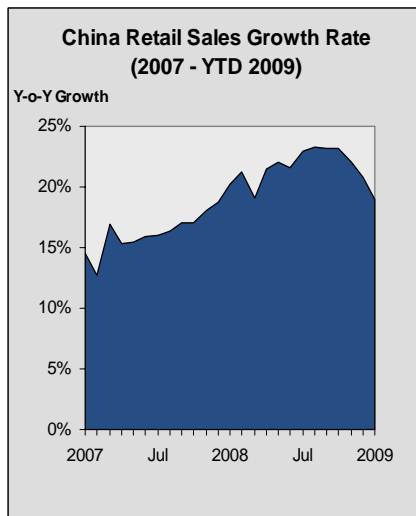
Source: Zero2IPO

## Alternative Energy (cont'd)



Source: Euromonitor

*China's GDP growth will greatly exceed that of other major economies in the coming years and beyond.*



Source: Bloomberg

### Chief Energy Official: Alternative Energy "A Must" for China

Development of alternative energy should be established as an important strategy for China to address energy shortages and environmental woes, said Zhang Guobao, head of the National Energy Administration

Developing new sources of energy has become an important strategy for many countries to combat against climate change, and China should closely follow global developments in this area, beef up R&D of alternative energy technologies, and invest more in the industry, said Zhang.

"If we fail to address the development of alternative energy from a long term perspective, we will regret to find ourselves falling behind others within 10 years," said Zhang, a member of the National Committee of the Chinese People's Political Consultative Conference

(CPPCC).

Zhang's advocacy is echoed by Ouyang Minggao, a Tsinghua University professor, who underlined the use of new-energy vehicles at the same plenary meeting of the top political advisory body.

"The promotion of energy-efficient and new energy vehicles is a necessary step in the country's energy development and in the revival of the auto industry," said Ouyang.

In China, coal makes up about 70 percent of its total energy consumption, 40 percentage points higher than the world average.

The country is seeking the development of other energy sources than coal to shift its heavy reliance on coal and reduce pollution.

Premier Wen Jiabao said in the government work report delivered to lawmakers that the country will "energetically develop a circular

economy and clean energy."

The country would promote R&D on technologies in new energy sources and develop clean energy such as nuclear, wind, and solar power this year, according to Wen's report.

Yang Qi, honorary president of the Nuclear Power Institute of China and a CPPCC National Committee member, urged the country to develop new technologies to conserve energy and reduce emissions.

He said the country is stressed by targets to improve energy efficiency and reduce emissions, as the country is expected to initiate more projects under the huge RMB 4 trillion stimulus plan.

China aims to cut energy consumption for every RMB 10,000 (\$1,298) of GDP by 20 percent from 2006 to 2010, with emissions to drop 10 percent.

Source: China View

## Consumer Products / Retail

### CR Snow to Buy 3 Beer Firms for RMB 749 million

China Resources Snow Breweries Ltd. (CR Snow) announced that it would acquire three of its domestic peers for RMB 749 million, including RMB 633 million cash.

The three targets are

Anhui-based Anqing Beer Co., Ltd., Liaoning Songlin Beer Co., Ltd. and Zhejiang Luck Beer Co., Ltd. CR Snow plans to set up three subsidiaries to take charge of the deals. And in the three subsidiaries, it will take an 80 percent stake, an 85 percent stake and a 100 percent stake, respect-

ively.

Liaoning, Anhui and Zhejiang are three major markets for CR Snow, Chen Lang, managing director of China Resources Enterprises Ltd. (SEHK: 0291), said in an interview. And the deals will help it show a greater presence in the three markets.

## Consumer Products / Retail (cont'd)

Tianzhu Beer sold about 40,000 kiloliters in 2007. Songlin Beer, which has two subsidiaries, sold about 105,000 kiloliters of beer in 2007. Its annual production capacity was 208,000 kiloliters, and the figure is expected to be lifted up to 250,000 kiloliters after technology innovation. Luck Beer had an annual production capacity of 120,000 kiloliters in 2007, with sales volume hitting 33,000 kiloliters. CR Snow, which has an annual production capacity of 11.7 million kiloliters currently, will own an

annual production capacity of about 12.17 million kiloliters after the deals.

Small and medium sized beer companies in China were under rising pressure from soaring raw materials and frequent natural disasters in 2008. Because of this, the large beer companies in China stopped merger and acquisition activity in the country in succession, which caused the value of the nation's beer assets to fall to about RMB 2,000 per kiloliter from RMB 7,000 per kiloliter previously. However, this

may be viewed as an indication that it is an opportune time to launch acquisitions in the nation's beer market, said industry experts. The average cost of the aforesaid three CR Snow deals is less than RMB 2,000 per kiloliter.

Backed by China Resources Enterprises Ltd. (SEHK: 0291) and SABMiller (LSE: SAB), CR Snow invested RMB 650 million in setting up a 400,000 ton plant in Shanghai, the financial hub of China, at the end of 2008.

Source: *AsialInfo Services*

### Red Star Furniture Mulls IPO in Shanghai or Hong Kong in 2010

Shanghai-based Red Star Furniture Group is planning to raise at least RMB 1 billion (HK\$1.13 billion) in an initial public offering (IPO) on either Shanghai Stock Exchange (SSE) or Hong Kong Stock Exchange (HKEx) in 2010, the South China Morning Post reported.

The company expects to

take advantage of the mainland's urbanization and the rising demand for home renovations, said Guo Binghe, board secretary of Red Star Furniture.

Guo added that the company also has the option to adjust the IPO plan in line with its future development and the timetable of the listing plan will be subject to its demand for growth capital.

The weakness in the capital market was not the company's primary concern, because it was focusing on development and striving to establish its own niche in the highly competitive market, said Guo.

The furniture retailer had previously received around \$200 million from the global private equity firm Warburg Pincus.

Source: *China Daily*

### Petland China Opens New Stores

Petland China, a franchise of U.S.-based Petland Inc., recently opened two additional Petland stores in Shanghai, the company's second and third outlets in China.

The second store, on Xingmei Road in Shanghai, opened in December 2008 and the third store, on Changning

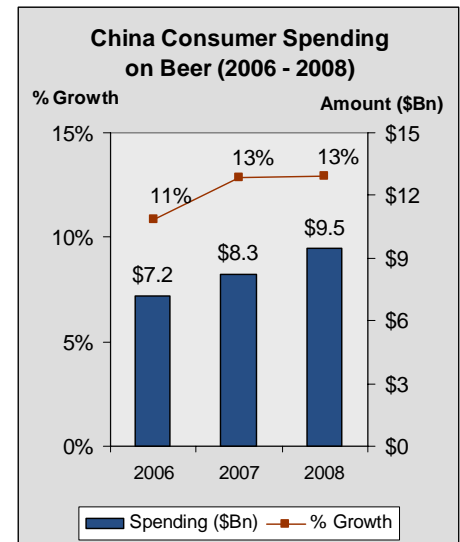
Road in Shanghai, opened in February 2009. Petland China master franchisor Charlie Lu, and his business associate Tina Yang, serve as operators of the pet stores. The first Petland outlet in China opened in Shanghai in April 2008.

According to Petland, despite various cultural differences between American and Chinese consumers, the basics of

customer service, animal care, and presentation have universal appeal. All three of the Shanghai locations also include a grooming service and the second location also houses a boarding facility.

Petland China plans on opening several more Petland retail locations in 2009, including two or three Petland Express stores.

Source: *ChinaRetailNews.com*



Source: Euromonitor



Source: Euromonitor

## Recent Transactions

### DMG Receives \$30 million from Gobi Partners and Oak Investment Partners

Digital Media Group Company Limited (DMGCL) has received \$30 million from Gobi Partners and Oak Investment Partners.

DMGCL is a leading provider of digital out-of-home media and advertising solutions for subway systems in China.

### Sanyuan Acquires Sanlu Dairy Company at Auction for \$90 million

Beijing-based dairy producer Sanyuan Group Ltd. (SEHK: 140) has bought Shijiazhuang Sanlu Group, the Chinese dairy company at the center of last year's milk contamination scandal.

Sanlu was declared insolvent by a court and was auctioned in north China's Hebei Province at the Intermediate People's Court of Shijiazhuang.

It was sold to Sanyuan for RMB 616.5 million (\$90 million).

Sanlu was declared bankrupt on February 12, by the same court, as it failed to repay outstanding

On the same day, DMG announced to have signed an exclusivity agreement with Shanghai Metro Television (SMT), according to which the former will operate exclusively all the metro TV advertisements of Shanghai Metro Line 1 to 13 in the next five years.

As per the CEO of DMG, the contract is expected to bring revenue of \$250 million for the company in

debts, which surpassed its assets.

The auction started at RMB 6 million, based on the valuation of Sanlu Group's core assets, including land use rights, buildings, machinery and equipment as well as one of Sanlu's subsidiaries, the Linhe Dairy.

The Beijing Sanyuan Group Co Ltd, the parent company of the Shanghai-listed Beijing Sanyuan Foods Co Ltd, made the joint bid with the Hebei Sanyuan Foods Co Ltd, a subsidiary of the Beijing Sanyuan Foods Co Ltd.

The auction, which was open only to domestic dairy producers, required bidders to meet two criteria: no involvement in

a period of five years.

Founded in 2002, Gobi is a VC firm targeting the IT and digital media industries in China. Oak is a multistage VC firm with a total of USD 8.4 billion in committed capital. The company focuses on high growth sectors in various industries, including IT, financial services technology, healthcare, and clean energy.

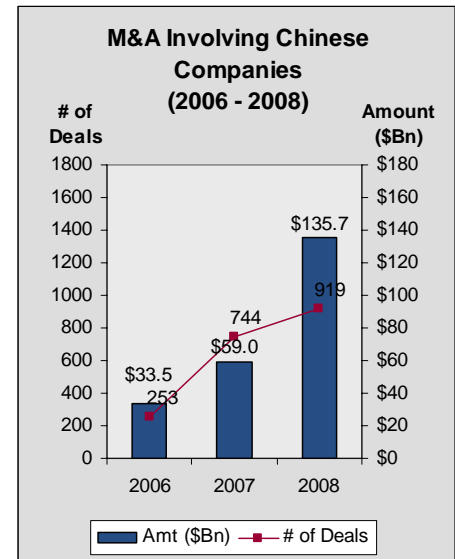
Source: Zero2IPO

the melamine scandal; and total revenue of their liquid milk and milk powder products last year should reach RMB 1 billion.

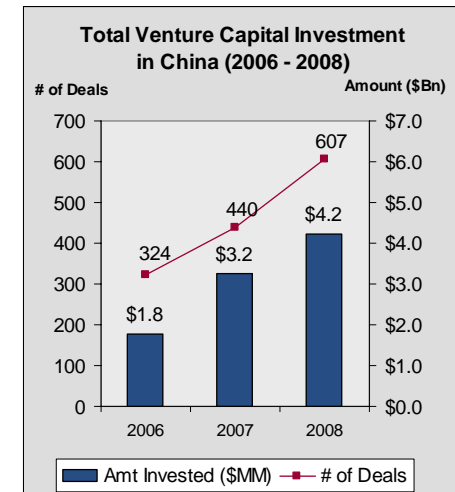
Both of China's leading dairy producers, Yili and Mengniu, were unqualified to bid, since the chemical substance melamine was found in their milk products, though in smaller proportions than that detected in Sanlu's products.

Sanlu had been China's leading seller of milk powder for 15 years until the melamine scandal broke in September last year. The group's revenue hit RMB 10 billion in 2007, while Sanyuan's revenue was RMB 1 billion.

Source: China Daily



Source: Capital IQ



Source: Zero2IPO