

Adam Roseman, CEO

+1 (310) 402-5901

AR@arcinvestmentpartners.com

Shanghai Office

Bund 23

The Bank of China Building, 14/F

23 Zhongshan East No.1 Road

Shanghai 200002, P.R. China

Chengdu Office

Suite 2603-11

Level 26, Building A, Times Plaza

No. 2 Zongfu Road

Chengdu 610016, P.R. China

Los Angeles Office

9440 Little Santa Monica Blvd.

Suite 401

Beverly Hills, CA 90210

New York Office

590 Madison Avenue

26th Floor

New York, NY 10022

This Week in China

China Sees Deflation; Economic Growth Still Expected to Accelerate

China's consumer prices fell for the first time since 2002 as food, clothing and fuel costs declined. Consumer prices dropped 1.6 percent in February from a year earlier, when they reached an 11-year high, the statistics bureau said. The median estimate in a Bloomberg News survey of 10 economists was for a 1 percent decline. Producer prices fell 4.5 percent, the most in a decade.

"Deflation, though a real concern, is expected to be a temporary phenomenon," said Jing Ulrich, head of China equities at JPMorgan Chase & Co. in

Chinese Banks to Report Record Profits

While their western counterparts struggle for survival, Chinese banks are now the first, second and third largest in the world by market capitalization and will report record full-year 2008 profits in the coming weeks.

Bank of Communications, 18.6 per cent owned by HSBC, will be the first Chinese bank to report its

Hong Kong. The government may cut interest rates and banks' reserve requirements and add measures to spur consumption to avoid "extended" deflation, she said.

The government's efforts to reverse a slide in growth have already included lifting lending restrictions on banks. New loans in February surged to more than 1 trillion yuan, more than quadruple the amount a year earlier, according to a statement by the statistics bureau.

"The total lending this year will definitely exceed 5 trillion yuan," said Su Ning, deputy central bank governor, during the

2008 earnings, with analysts expecting full-year profit growth of 35 percent.

That is roughly in line with the government's announcement of a 30.6 percent increase to RMB 583 billion in after-tax profits for the entire Chinese banking sector last year.

Annual profit growth will mask a decline in the latter part of last year as the economy slowed and

annual sessions of the parliamentary meeting.

"At present, the liquidity is sufficient and new lending is growing briskly. The economy is likely to rebound in the second half. As a result, [extended] deflation, in which falling prices are accompanied by shrinking loans and money supply and an economic recession, will not emerge in China this year," Su said.

"The government's stimulus is working," said Louis Kuijs, a senior economist at the World Bank in Beijing. "China's fundamentals are strong enough to ride out this storm."

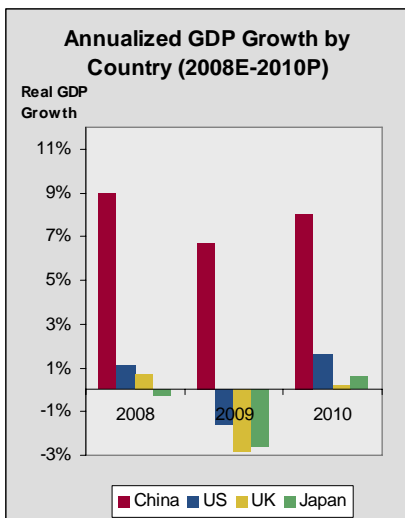
Source: Bloomberg; China Daily

interest rate margins contracted as the government cut benchmark rates.

Sherry Lin, a Credit Suisse equity analyst, said she expects the largest banks, such as China Construction Bank, Industrial and Commercial Bank of China, and Bank of China, to fare better than smaller domestic rivals in the coming year.

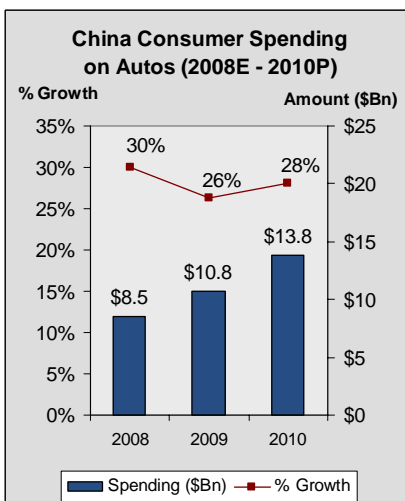
Source: Financial Times

Consumer Products / Retail



Source: Euromonitor International

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



Source: Euromonitor International

China Auto Sales Rise 25% in February

China vehicle sales surged 25 percent in February after the government cut taxes on some models, helping the country extend its lead as the world's largest auto market this year.

Sales of passenger cars, buses and trucks climbed to 827,600, the China Association of Automobile Manufacturers said. The tally in the first two months rose 2.7 percent to 1.56 million, compared with a 39 percent decline to 1.35 million in the U.S.

China has halved retail taxes on small cars and drawn up plans to give out vehicle subsidies in rural areas.

"Consumers are regaining confidence because of the government's stimulus policies," said Ricon Xia, an analyst at Daiwa

China Blocks Coke's Bid for Juice Company

China rejected a bid by the Coca-Cola Company to acquire one of the country's biggest beverage makers for about \$2.4 billion. The move blocked what would have been the biggest foreign takeover of a Chinese company.

The Ministry of Commerce said that Coke's bid to acquire the China Huiyuan Juice Company was rejected on anti-trust reasons. The government said the deal would allow Coke to dominate a huge

Research Institute in Shanghai. "Still, vehicle sales may fluctuate in the coming months."

Sales in March will likely be better than in February, Xiong Chuanlin, vice secretary-general of the automakers group, told reporters in Beijing. The body is "cautiously optimistic" about full-year sales, he added.

Rising sales and production cuts by automakers has caused the nation's stockpile of unsold vehicles to fall to the lowest in two years last month.

GM, the biggest overseas automaker in China, raised its forecast for the nation's market growth this year to a range of between 5 percent and 10 percent from an earlier prediction of less than 3 percent, GM Asia-Pacific President Nick Reilly, said last week.

segment of the beverage market.

In a statement, the Commerce Ministry said it was worried that Coke would "set up some exclusive terms to restrict competition in the juice market," drive up the consumer prices and squeeze out smaller beverage makers.

Steve Dickinson, a China-based attorney at Harris Moure, says China usually restricts foreign takeovers because of a longstanding belief that state assets should not be controlled

By contrast, GM is shuttering plants in the U.S. and seeking a government bailout on tumbling demand. GM's domestic sales collapsed 51 percent in the first two months as the industry-wide sales rate dropped to the lowest level since 1981 amid the recession.

In China, the government halved sales taxes on cars with engines of 1.6 liters or less starting from Jan. 20. It is also providing RMB 5 billion in subsidies to spur auto sales in rural areas.

Volkswagen AG, the second biggest automaker in China, said last month that it plans to double local sales by adding at least four new models a year until 2018. The carmaker sold 1.02 million vehicles in China last year.

Source: Bloomberg

by foreign entities.

"China's very open to green field investments, allowing foreign companies to start up businesses," Mr. Dickinson said. "But China strongly discourages outright purchases of major existing Chinese companies to enter the China market."

Huiyuan Juice which had revenues of about \$380 million in 2007, is one of China's biggest producers of fresh apple, orange and pear juice.

Consumer Products / Retail (cont'd)

The company is privately owned and two foreign companies hold minority stakes: Groupe Danone of France and Warburg Pincus, the American private equity firm.

The bid by Coke was part of the company's aggressive expansion effort in China, where it already has a large presence. The company sells over a billion bottles of Coke annually, and

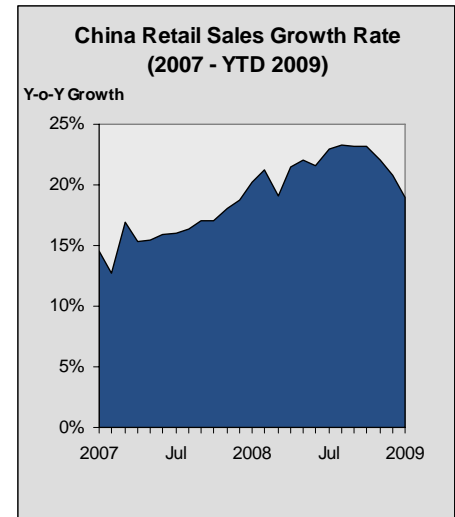
markets its Sprite and Minute Maid brands in China as well.

Coke recently pledged to further expand its presence in China, despite the economic downturn, by investing an additional \$2 billion in China over the next three years.

In a statement, Muhtar Kent, the president and chief executive of Coca

Cola said he was disappointed but respected the Chinese government's decision. He said the company's commitment to China remains strong. "We will now focus all of our energies and expertise on growing our existing brands and continuing to innovate with new brands, including in the juice segment," he said in a statement.

Source: Intl Herald Tribune



Source: Bloomberg

Metals and Mining

Rio Tinto: China to Lead Recovery in Metals Demand

Rio Tinto Ltd sees demand for metals and minerals picking up rapidly once economic activity recovers, driven by a sharp recovery in Chinese demand.

In the company's annual report, Chairman Paul Skinner also said a need to rebuild stockpiles of minerals after cutbacks by many miners due to the economic slowdown would help lift demand.

Vale Sees Stable Iron Ore Exports to China

Brazilian miner Vale's iron ore exports to China should hold steady for the rest of the year, Chief Executive Roger Agnelli said.

The CEO of the world's largest iron ore miner said some small- and medium-

"China particularly may surprise the market. It is the rate of deceleration and acceleration of the Chinese economy which drives metal demand and prices, given its major share of total global demand," Skinner said in the report.

"Just as China decelerated sharply, with a strong impact on metals demand, it will also work powerfully in the upswing."

Rio Tinto, seeking to reduce debt, has signed a \$19.5 billion deal with

sized Chinese steel mills had begun producing again and buying iron ore.

Vale announced that it expected to ship a record 30 million tons of iron ore to China in the first quarter of 2009.

The mining giant has been adding new customers among steel producers in

Chinese aluminum producer Chinalco that will give the Chinese stakes in some Rio mining assets as well as an 18 percent stake in Rio itself.

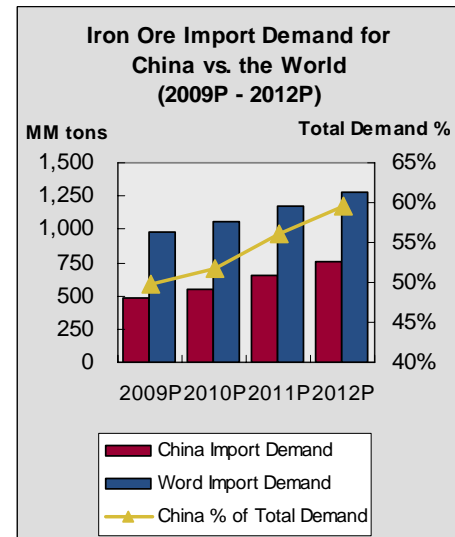
Rio is also selling assets to reduce debt that stood at \$38.7 billion at the end of 2008. It hopes to reduce net debt by \$10 billion this year, and Chief Executive Tom Albanese said in the report that more assets will be divested than those already earmarked for sale.

Source: Reuters

China and that trend is expected to continue.

"We have signed a lot of contracts with small and medium-sized Chinese mills. I am positive about China. I'm really positive. I think they are adjusting their growth rate. But they are still in a growth scenario," he said.

Source: China Daily



Source: Morgan Stanley

Recent Transactions

Volkswagen's China Joint Venture to Buy FAW Chengdu Unit

FAW-Volkswagen Automotive Co., Ltd. agreed to acquire Chengdu FAW Co., Ltd. from China FAW Group Corporation for approximately RMB 500 million. Chengdu FAW Co., Ltd. had net sales of RMB 354.66 million in 2008.

FAW-Volkswagen Automotive Co., Ltd. manufactures cars and golf carts. The company was founded in 1991 and is based in Changchun, China. FAW-Volkswagen Automotive Co., Ltd. is a subsidiary of Volkswagen AG and China FAW Group Corp.

China FAW Group Corporation, along with its

subsidiaries, designs, develops, manufactures, markets, and sells passenger cars, trucks, and buses. China FAW Group Corporation was formerly known as First Automotive Works. The company was founded in 1953 and is headquartered in Changchun, China.

Source: Capital IQ

Sichuan Airlines Extends Local Roots with United Eagle Stake

Chengdu-based United Eagle Airlines, a privately held carrier, agreed to the sale of a 56% stake to Sichuan Airlines for RMB 200 million (\$29.2 million).

The deal comes days after another struggling private airline, East Star Airlines, rejected a purchase offer from Air China parent

CNAC and was thereafter suspended by Chinese regulator CAAC. Sichuan is controlled by the local government (40%) and China Southern Airlines (39%).

Sichuan Airlines aims to be better positioned in its home market because China Eastern Airlines and Shenzhen Airlines plan to enter the market soon. Sichuan's "deeper coop-

eration" with United Eagle Airlines will focus mainly on regional transport.

UEA will use the RMB 200 million to pay off its debts and expand its business with new routes and fleet additions. It plans to launch Chengdu-Lijiang flights on March 28 and will resume all routes it had to suspend earlier this year.

Source: Zero2IPO

CR Snow to Acquire Amber Breweries

China Resources Snow Breweries Ltd. made an offer to acquire a 90% stake in Amber Breweries for approximately RMB 290 million (\$41.7 million). China Resources Snow Breweries Ltd. will

acquire the remaining 10% stake in Amber Breweries in three years.

China Resources Snow Breweries, Ltd. engages in the production, marketing, and sale of beer and beverages in China. The company was founded in 1994 and is based in

Beijing, China. China Resources Snow Breweries, Ltd. operates as a subsidiary of China Resources Enterprise, Ltd.

Amber Breweries was founded in 1984 and is based in Shandong, China.

Source: Capital IQ

Sino French Water to Increase Wastewater Facility Investment

Sino French Water Development Co. Ltd. agreed to acquire the remaining 48% stake in Tianjin Sino French Jieyuan Water Co. Ltd.

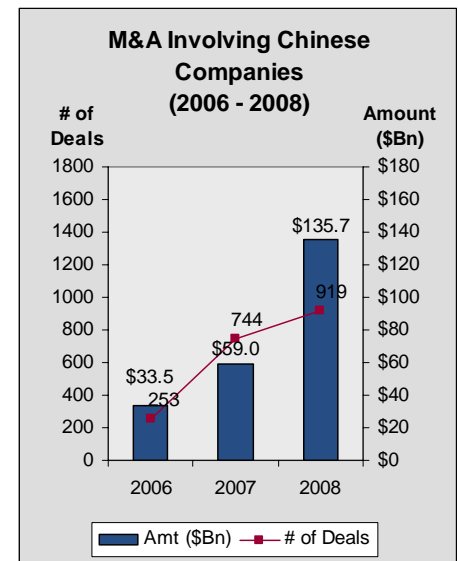
from Earth Technology Corp. for \$17 million.

Sino French Water Development Co. Ltd. provides drinking water and wastewater treatment services in China. The company was founded in 1992 and is based in

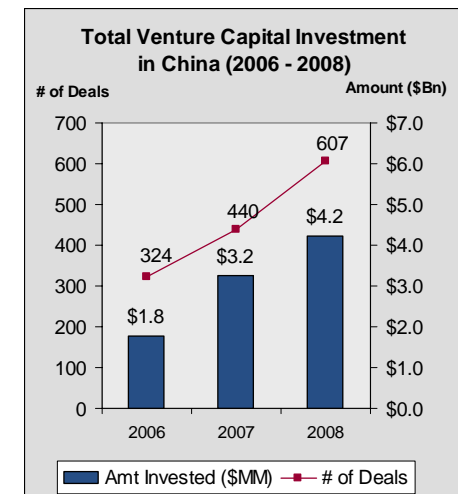
Macau.

Earth Technology Corp., provides various environmental engineering and consulting services and operates as a subsidiary of AECOM Technology Corporation (NYSE:ACM).

Source: Capital IQ



Source: Capital IQ



Source: Zero2IPO