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This Week in China

ARC China Conference Brings the China Growth Story to Switzerland

ARC China was pleased to host the inaugural ARC China Switzerland conference last week on May 27th and May 28th. The conference was the first of its kind, bringing high growth domestic consumption-oriented China entrepreneur-owned and operated companies from sectors including energy efficiency, travel, consumer retail, advertising, and resources to present directly to interested Swiss investors. The conference was held at the the Grand Hotel Kempinski Geneva and Dolder Grand Zurich.

The event hosted close to a hundred attendees in each city, including highly prominent independent investors, private bankers, asset managers, and

China's Manufacturing Expands for Third Consecutive Month

China's manufacturing expanded for a third consecutive month, adding to evidence that China is entering a sustainable recovery.

The Purchasing Manager's Index was at 53.1

government officials. I enjoyed sharing my current perspective on the Chinese economy, and special guests included the Consulate General of China in Switzerland, the Deputy Secretary General of the China Chamber of International Commerce, and President Clinton's former Chairman of the White House Climate Change Task Force.

Each featured company completed a 45 minute presentation and engaged in dialogue with the attendees. Presenting companies included NF Energy (OTCBB: NFES), a flow control and energy savings equipment company, China Energy Recovery (OTCBB: CGYV), a global energy recovery system provider, Wowo, a West China based convenience store chain, Capture Advance, an iron ore producer, and

in May, the Federation of Logistics and Purchasing said. A reading above 50 indicates an expansion.


"The Chinese economy is well on track for recovery and economic growth is picking up steam," said Lu Ting, an economist with Merrill Lynch.

The export order index

Chengdu Tiehang Network Service Company, a leading consumer and corporate travel services provider.

Excitement from the conference was driven in part by the demonstrated resiliency of the Chinese economy, including a recently announced third consecutive month of manufacturing growth.

For those of you that attended, I hope you were as pleased as I was with the in-depth look into sectors that continue to benefit from China's strengthening engine of domestic consumption. We welcome your feedback and anticipate many more successful conferences in the future.



Adam Roseman,
Founder & CEO

increased to 50.1, the output index hit 56.9 and the new order index was at 56.6.

China's economic growth may quicken to 6.8 percent this quarter from 6.1 percent in the first three months, according to a Bloomberg News survey of economists.

Source: Bloomberg

This Week in China (cont'd)

Geithner's China Trip Comes at Critical Time

Timothy Geithner's first trip to China as treasury secretary comes at a vulnerable time for the Obama administration.

Mired in a brutal recession, the United States needs Beijing to buy more American goods, allow its currency to rise and make other moves to narrow an enormous trade gap.

Yet Washington's leverage has waned just as China's power over the U.S. has grown.

China is now America's biggest creditor. As of March, it held \$768 billion of Treasury securities, about 10 percent of publicly traded debt.

The U.S. needs China's money to finance U.S. budget deficits, which are soaring as Washington tries to end the recession and bolster the banking system. The administration estimates the budget deficit will hit \$1.84 trillion this year. That's four times last year's deficit.

Geithner carries an ambitious U.S. goal of persuading the Chinese government to adopt policies that would transform its nation of savers into spenders.

Geithner is expected to lay out the administration's recovery program and its current

progress. He was also expected to talk about the administration's determination to deal with the government's soaring expenditures once the U.S. economy recovers.

The U.S. administration insists it isn't worried that the mound of debt it's creating will jeopardize America's sterling AAA bond rating. But treasury officials said Geithner still intends to reassure the Chinese.

That the chief U.S. economic policymaker is going hat-in-hand to the Chinese to explain the soaring deficits shows how much has changed since President George W. Bush's treasury secretary, Henry Paulson, met with the Chinese in 2006.

Paulson managed to arm-twist China into agreeing to a new round of economic talks aimed at prodding Beijing to move faster to let its currency, the yuan, rise in value against the dollar. Doing so would make U.S. exports cheaper for the Chinese to buy.

But this time, Geithner is expected to adopt a softer tone even though some U.S. lawmakers want tough penalties on China and other countries deemed to manipulate currencies to gain trade advantages.

American manufacturers see the undervalued yuan

as the major culprit in the trade deficit with the Chinese, which last year hit \$266 billion, the highest recorded with one country.

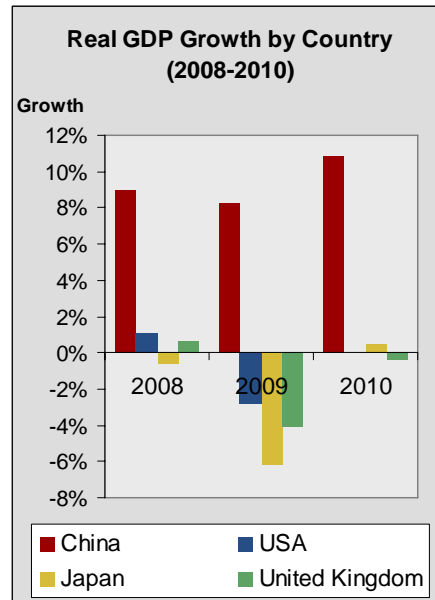
The Chinese agreed in 2005 to begin letting their currency rise against the dollar, and it has risen about 20 percent. But those gains stopped last summer as China began to fear that a stronger yuan was reducing its export sales.

Though the crisis has given Geithner a weak hand, treasury officials said he will seek to push this bargain:

The U.S. will work to reduce its budget deficits once the crisis ends, urge Americans to save more and shrink the trade deficits. To replace diminished U.S. spending, the Chinese will be asked to step up spending and stop saving so much. The administration says this can be done if Beijing improves pensions and health insurance so Chinese households don't feel pressured to save so much.

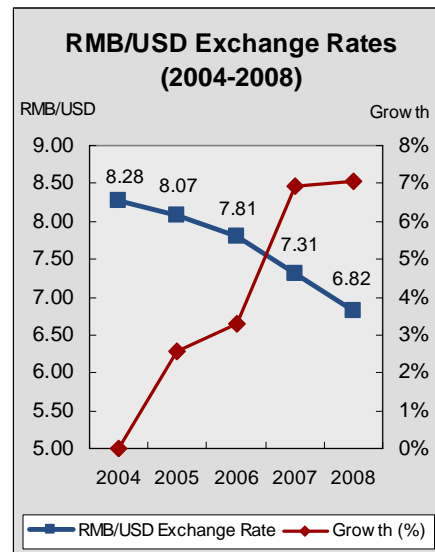
Analysts said they expect Geithner and the Chinese to pledge to do all it takes to end the recession. Both sides know any hint of discord between the world's largest and third-largest economies would unsettle the global financial markets.

Source: Associated Press



Source: Goldman Sachs; Euromonitor

"China is now America's biggest creditor. As of March, it held \$768 billion of Treasury securities, about 10 percent of publicly traded debt."



Source: Capital IQ

Alternative Energy

\$30 Billion Set Aside For Green Stimulus to Double Alternative Fuel Use

China is emerging as fertile ground for green investment with the government supporting the growth of a green economy.

As part of the country's RMB 4 trillion (\$586 billion) stimulus package, the National Development and Reform Commission will put \$30 billion into green projects. Now China is planning to draft another stimulus package to double the nation's 2007 output of alternative energy by 2020, according to Liang Zhipeng, director of the Renewable Energy Department, National Energy Administration.

The plan to boost investments in the production of fuel - with hydro, wind and solar - will be announced this year,

Official Says China's Energy Saving Target Must Be Ensured

China will make sure to meet its energy saving and emission cut target up to 2010, which is a "solemn promise" to the world, a senior official said.

China is "hopeful" to cut energy consumption per unit of GDP by 20 percent, and cut emissions of major pollutants by 10 percent between 2006

and 2010, said Xie Zhenhua, Deputy Director of the National Development and Reform Commission (NDRC).

China said it would spend RMB 2 trillion (\$293 billion) on its alternative energy industry from 2006 through 2020. Now it will add another RMB 1 trillion (\$146 billion), said Liang.

The New York Times reported that environmental protection and energy savings have huge development potential, with the Chinese government's supportive green policy boosting the confidence of foreign investors.

HSBC estimates that of China's roughly \$586 billion package, \$221 billion has green features, making it the largest green stimulus package in the world, followed by the US at \$112 billion and South Korea at \$31 billion.

and 2010, said Xie Zhenhua, Deputy Director of the National Development and Reform Commission (NDRC).

As the world's largest CO2 emitter, China has been making consistent efforts to curb pollution and save energy through improving the industrial infrastructure

In 2006, China's energy consumption per unit of GDP fell 1.79 percent, the first drop since 2003. The

"The central government's leadership in creating the largest green stimulus package in the world is to be applauded," said Ellen Elle Carberry, Co-Managing Director of China Greentech Initiative.

The Chinese government set a goal in 2007 for the country's renewable energy to account for 1.8 million kilowatts of solar power capacity, 300 million kilowatts of hydro-power, 30 million kilowatts of wind power and 30 million kilowatts of biomass power by 2020.

The nation's solar power capacity may rise to 10 million kilowatts by 2020, helped by government subsidies, Wang Zhongying, the renewable energy development director at the research center of the NDRC, told Bloomberg earlier this month.

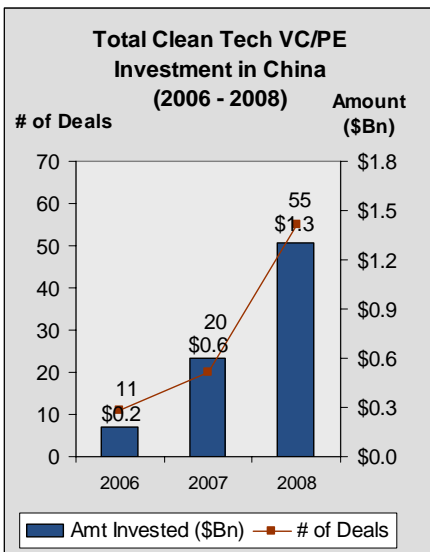
Source: China Daily

figure fell 4.04 percent in 2007 and 4.59 percent last year.

The goal has been met by half, and the task remains arduous, Xie said. "It is a hard task which should be ensured."

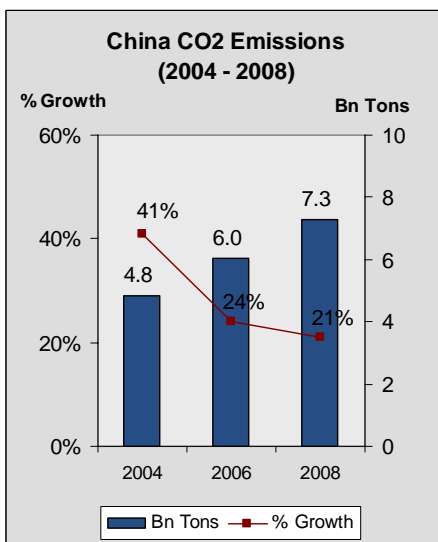
China plans to eliminate 15 million kw of power-generating capacity in small coal powered plants this year.

Source: China Daily



Source: Zero2IPO

"China, the world's second-biggest oil user, will boost its ability to produce power from clean energy sources to about 35 percent of total capacity by 2020 to counter climate change."



Source: Euromonitor

Consumer / Retail

Sanquan Foods To Set Up Manufacturing Base In Sichuan

Zhengzhou-based frozen food company Sanquan Foods has announced plans to invest RMB 500 million to build its southwestern manufacturing base in Sichuan, aiming to increase its market share.

According to the report published by the company, Sanquan Foods plans to set up a wholly-owned subsidiary, Chengdu Quanyi Foods Company, with registered capital of RMB 50 million. At the

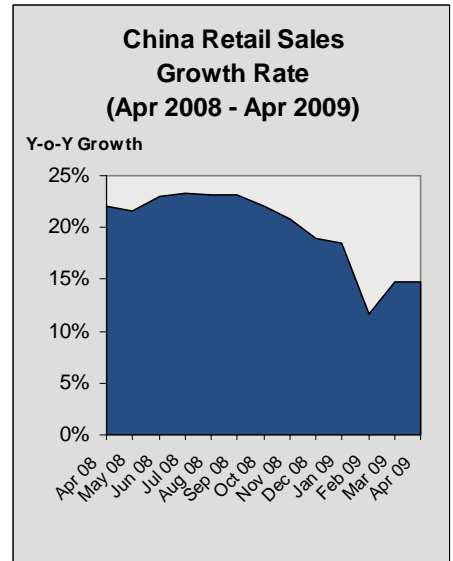
same time, it plans to build a manufacturing base in Sichuan through the newly established subsidiary. The total investments in this project will be no less than RMB 500 million, including RMB 350 million in fixed asset investments. The newly established subsidiary will be mainly engaged in the production and sales of frozen food, instant food, and fresh food.

Sanquan Foods said that the reason for building the manufacturing base in Sichuan is to cut the distance between its manufacturing base and

the sales markets in addition to introducing its products into the market within the shortest time. A representative from Sanquan Foods revealed that the new manufacturing base will research and produce products that can meet the features of the local market to further raise its market share in this area.

Sanquan, along with Synear and Longfong, is one of the top three frozen food brands in China and the three companies occupy about 60% of the total market.

Source: ChinaRetailNews.com



Source: Bloomberg

Subway Opens Its First Restaurant In Chongqing

Fast food franchising giant Subway has opened its first restaurant in Hongyadong, Yuzhong District, Chongqing.

A person in charge of the project told local media that their consortium had initially contacted Subway in November 2008. After four months' negotiation, the Subway's headquarters in the United States finally decided in

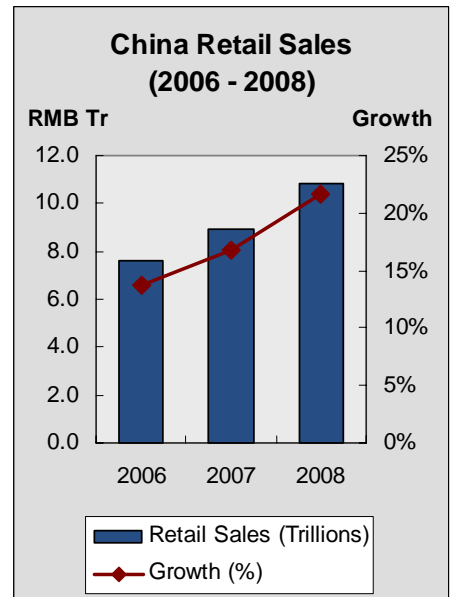
February 2009 to open the restaurant in Hongyadong.

Li Chuang, general manager for Subway's Chongqing branch, said that the reason for opening the restaurant at Hongyadong is because its neighbor, Starbucks, has shown good performance in this area, which improves Subway's confidence. According to a third party survey, Starbucks' Hongyadong store is the company's best-performed store in the

southwestern area of China.

A representative from Subway Chongqing revealed that Subway currently has two restaurants in the southwestern area of China and these are located in Chengdu and Chongqing. The company is preparing to open two more restaurants in Chongqing before the end of this year.

Source: ChinaRetailNews.com



Source: All China Marketing Research

Shanghai Home To New Best Buy Retail Outlet

Electronics retail giant Best Buy has announced the official opening of its Xinzhuang store in Shanghai.

Xinzhuang is one of the largest white-collar communities in Shanghai. With

the opening of its new Xinzhuang store, Best Buy not only further improves its layout in the Shanghai market, but also has started to implement a new site selection strategy in which it will focus on sites that are close to community life.

Located on the third floor

of the Super Ocean Business Center, the new Best Buy store covers a business area of about 4,000 square meters, providing more than 4,000 kinds of electronics products to ensure consumers one-stop shopping experiences.

Source: ChinaRetailNews.com

Recent Transactions

SmartHeat Inc. (Nasdaq: HEAT) Makes \$9.7 Million Acquisition

SmartHeat Inc. (Nasdaq: HEAT) recently acquired Siping Beifang Heat Exchanger, Manufacture Co., Ltd, for \$9.7 million in cash and stock.

SmartHeat, Inc. engages in the manufacture and sale of plate heat exchangers (PHEs) and packages, thermometer testing devices, and heat usage calculators in the

People's Republic of China. The company offers PHEs; units that combine PHEs (PHE units) with various pumps, temperature sensors, valves, and automated control systems; and heat meters for a range of industries, including petroleum refining, petrochemicals, power generation, metallurgy, food and beverage, and chemical processing. Its PHE and PHE units reduce energy waste, and

enhance temperature and pressure controls and cool equipment. The company sells PHEs under the Sondex brand name; and PHE units under the Taiyu brand name. It markets its products through its sales force and national distributors. SmartHeat, Inc. was founded in 2002 and is headquartered in Shenyang, the People's Republic of China.

Source: Capital IQ

Noah Education Holdings (NYSE: NED) Acquires Little New Star Education Group

Noah Education Holdings, Ltd. (NYSE: NED) recently signed a definitive agreement to acquire Little New Star Education Group in cash and stock. The total consideration is subject to earn out adjustments. The transaction is subject to customary closing con-

ditions including regulatory approvals. The deal is expected to close by July 2, 2009.

Noah Education Holdings, Ltd. engages in the development, marketing, and distribution of interactive education content in the People's Republic of China. The company offers interactive, multimedia learning materials primarily to complement prescribed text-

books used in China's primary and secondary school curriculum covering subjects, such as English, Chinese, mathematics, physics, chemistry, biology, geography, political science, and history; and sells E-dictionaries. Noah Education Holdings, Ltd. was founded in 1999 and is headquartered in Shenzhen, the People's Republic of China.

Source: Capital IQ

China Energy Recovery, Inc. (OTCBB: CGYV) Raises \$5 Million in Private Placement

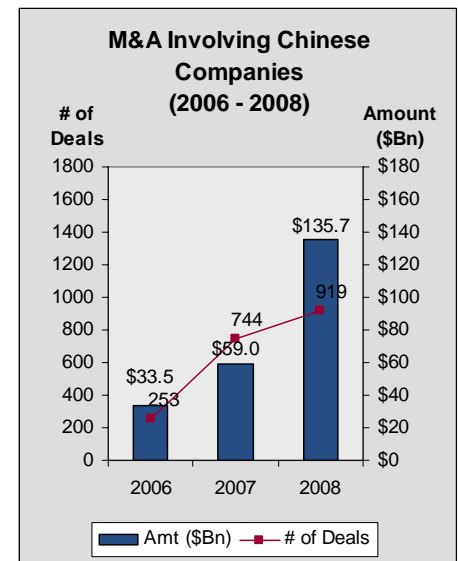
China Energy Recovery, Inc. (OTCBB: CGYV) recently announced a private placement of unsecured convertible notes for gross proceeds of \$5 million. Any amount borrowed will bear interest at 9.5% and each draw is due 24 months after the draw down date. The amounts due under the loan are convertible into

common stock of the company at \$1.80 per share.

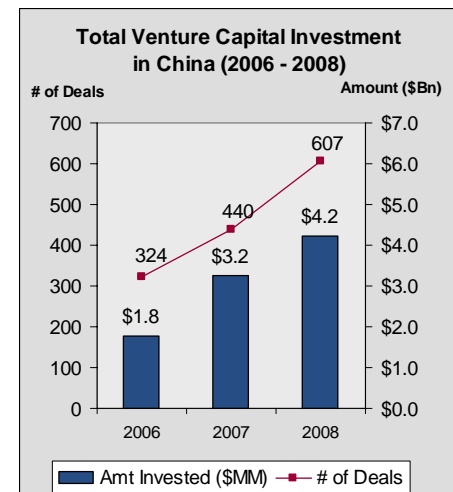
China Energy Recovery, Inc., through its subsidiaries, provides energy recovery systems internationally with a primary focus on the Chinese market. The company involves in designing, fabricating, implementing, and servicing energy recovery systems. Its technology captures industrial waste energy to produce low-cost elect-

ricity and thermal power, enabling industrial manufacturers to reduce their energy costs, shrink their emissions footprint, and generate sellable emissions credits. China Energy Recovery has deployed its systems throughout China and in international markets, such as Egypt, Turkey, Korea, Vietnam, and Malaysia. The company is headquartered in Shanghai, the People's Republic of China.

Source: Capital IQ



Source: Capital IQ



Source: Zero2IPO