

Adam Roseman, CEO

+1 (310) 402-5901

AR@arcchina.cn

#### 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

### Renminbi Appears Set to Rise Again

As covered prominently by Bloomberg last week, many global fund managers expect China will allow the Chinese renminbi will strengthen soon for the first time in more than a year to forestall inflation after strong inflows of foreign capital and record domestic lending.

New loans in China nearly tripled to \$1.1 trillion this year. China's \$585 billion stimulus plan helped boost July's retail sales by 15.2 percent from 2008. Meanwhile China's foreign reserves have ballooned to \$2.1 trillion on June 30 after a record quarterly increase as overseas investments led China to sell the renminbi and purchase other currencies to hold down the value of the domestic currency.

The International Monetary Fund has determined China's yuan is "substantially under-

### Goldman Sachs Raises China Forecasts Again

Goldman Sachs raised its forecast for Asian economic growth this year and next based on a stronger outlook for the United States and China.

valued" and an obstacle to improving the world's fastest-growing major economy, Nigel Chalk, head of the lender's Asia-Pacific division said.

A stronger renminbi would help China preempt rising consumer prices by reducing costs for imported raw materials. The Reuters /Jefferies CRB Index of 19 commodities has risen 15 percent this year, and the central bank warned on July 28 that "imported inflation" pressure may build.

The Chinese government allowed the renminbi to rise in 2008, producing a 7.1 percent gain for the year as consumer prices climbed 5.9 percent. China International Capital Corp predicts prices will increase 5 percent in 2010 after falling 1.8 percent from a year earlier in July.

As the central bank works to keep the currency from appreciating, the amounts involved are growing. An estimated \$60 billion of

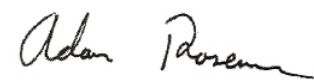
Goldman said it now expects China to grow 9.4 percent this year and 11.9 percent in 2010. Previously the bank had forecast 8.3 percent and 10.9 percent, respectively.

Explaining its upgrade,

speculative investments flowed into China in the 2<sup>nd</sup> Quarter, and currency reserves are predicted to grow to more than \$2.5 trillion this year. China's holdings of U.S. Treasuries have reached \$802 billion, up 58 percent from a year earlier.

"Cost will ultimately count," said Rajeev De Mello, the Head of Asia bonds at Western Asset Management, which manages about \$430 billion. "That's why over the period of a year, China will let the currency appreciate again."

The result will be an increase in the value of renminbi-denominated assets for foreign investors across the globe.



Adam Roseman,

Founder & CEO

ARC China

Goldman said Chinese growth momentum remained strong and policy tightening was behind the curve.

Source: Reuters

## This Week in China (cont'd)

### July Data Reflects More Positive Changes in China's Economy

China's key July economic data adds to the optimism that the world's third largest economy is on the track to recovery amid the global downturn, though challenges still persist.

Both investment and consumption, two major engines that drive China's growth, increased, according to statistics released by the National Bureau of Statistics (NBS).

Urban fixed-asset investment rose 32.9 percent year on year in the first seven months. Retail sales, the main measure of consumer spending, rose 15.2 percent in July, following a 15 percent growth in June.

Further signs of a rebound in private spending supported a sustained growth recovery, Peng Wensheng, analyst at the Barclays Capital, said.

Although exports, another bedrock that has fueled China's fast growth in the past few years, fell on a year-on-year basis last month, there were signs of improvement.

China's foreign trade figures were better than they looked on the surface. July exports fell 23 percent from a year earlier, but increased 10.4 percent from June. Imports declined 14.9 percent year on year last month, but rose 8.7 percent month on month.

According to the General

Administration of Customs, the country's foreign trade has risen since March measured from month to month, and the trend of recovery had stabilized.

Improvements in these data indicated China's economy was recovering and the government's policies to boost domestic demand and stabilize foreign trade had paid off, said Zhang Yansheng, a researcher with the National Development and Reform Commission (NDRC), the country's economic planner.

Among other statistics released, industrial output climbed 10.8 percent in July from a year earlier, quickening from 10.7 percent in June and 8.9 percent in May. Power generation, an important indicator measuring industrial activities, expanded 4.8 percent in July.

Peng expected the country's economic growth to rise above 8 percent in the third quarter this year and 10 percent in the fourth quarter.

China's economy grew only 7.1 percent in the first half this year, compared to double-digit annual growth during the 2003-2007 period and also the first two quarters last year.

The government set a target of at least 8 percent for this year's economic growth.

China previously unveiled a RMB 4 trillion (\$585 billion) stimulus package

and adopted a proactive fiscal policy and moderately loose monetary policy to expand domestic demand to make up for losses from exports.

To further stimulate the economy, lenders pumped RMB 7.73 trillion of new loans into the economy in the first seven months, the People's Bank of China, the central bank, said.

The surge in credit, however, sparked concerns over possible inflation and speculation about a shift in the country's monetary policy.

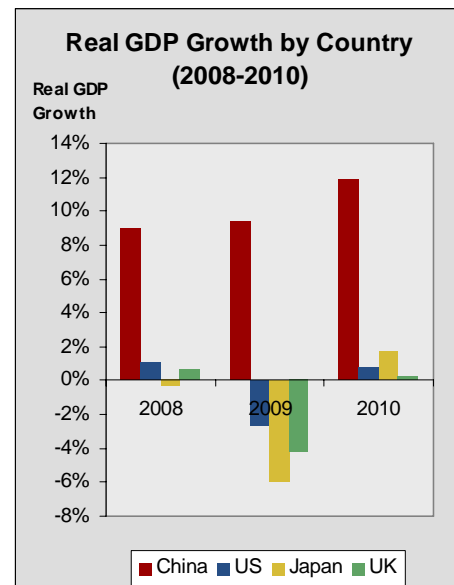
Many economists dismissed such concerns, saying consumer prices were still falling and the growth in new bank loans eased in July.

The consumer price index (CPI), a main gauge of inflation, dipped 1.8 percent in July from a year earlier. The producer price index (PPI), which measures inflation at the wholesale level, fell 8.2 percent year on year last month.

New lending in July cooled to RMB 355.9 billion, less than a quarter of the June total of more than RMB 1.5 trillion.

Premier Wen Jiabao reaffirmed that China would adhere to its stimulative fiscal and monetary policies in the face of continuing weak exports and industrial overcapacity.

Source: China View



Source: Goldman Sachs; Euromonitor

# Metals and Mining

## China's Steel Mills to Ask Rio, BHP for 35% Iron Ore Price Cut

China will ask Vale SA, Rio Tinto Group and BHP Billiton Ltd. for a 35% cut in iron ore prices, scaling back demands for a larger reduction after seven months of stalled talks with the world's biggest producers.

The China Iron & Steel Association agreed on the reduction with Australia's Fortescue Metals Group Ltd., and will seek the same cut with larger suppliers, Shan Shenghua, the secretary general of the China Iron & Steel Association, said on 8/17.

The agreement marks a step back from China's earlier demand for a 45 percent price cut, and brings it closer to the 33 percent reduction offered by Rio and BHP. The nation's lenders will arrange \$6 billion of financing to help Perth-based Fortescue expand as part of the deal, as the world's largest iron ore buyer seeks to reduce its reliance on Vale, Rio and BHP.

"Fortescue and China are hoping the miner has the potential to break the duopoly of BHP and Rio" for Australian iron ore, said Zhou Xizeng, a Beijing-based analyst with Citic Securities Co. "The 35 percent deal is symbolically a bigger cut. It signals Fortescue and China have made concessions."

"We do not see this pricing agreement as relevant to our pricing for fiscal 2009," Gervase Greene, a spokesman for London-based Rio Tinto said from Perth.

"The FMG agreement won't end the long talks between China and the largest suppliers," said Hu Kai, a Shanghai-based analyst with Umetal Research Institute. "Fortescue is too small to be representative in setting benchmark prices."

Baosteel Group Corp., China's largest steelmaker, and other mills will pay 94 U.S. cents a dry metric ton unit for fine iron ore, the association's Shang said. That's equal to \$55.50 a metric ton FOB, Fortescue said in a statement. Rio is charging 97 cents a dry metric ton unit, or about \$61 a ton FOB, for its fines.

"China will apply this price in talks with BHP, Vale and Rio," Shan told reporters. "The agreement is an important step for establishing a China model of only having one price in China, whether it's for small, large, private or state-owned mills."

Talks between China and producers have lasted longer than any time in the past 40 years. The steel association last month accused suppliers of encouraging "speculative actions" in pricing and imports after volumes surged to a record.

China last week formally

arrested four Rio executives, including Australian Stern Hu, head of the company's iron ore business in China. The executives are accused of stealing commercial secrets from its steel industry.

"It is hard to be fair to China if another country, with only 10 million to 20 million tons of imports, decides prices for China which imports 500 million tons a year," Liu Zhenjiang, vice chairman of the China Iron & Steel Association, said.

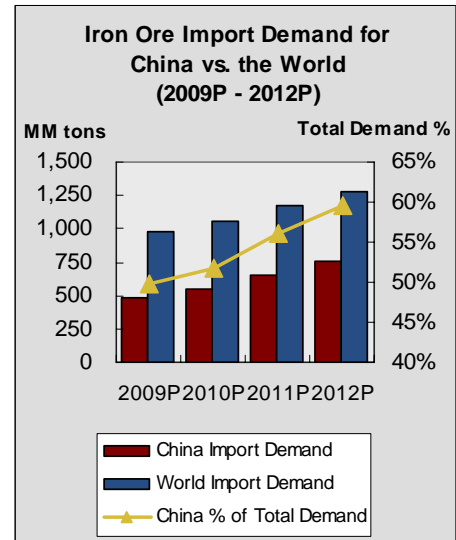
China overtook Japan as the world's largest buyer of iron ore in 2003. The Asian nation, the biggest steelmaker, accounted for 52 percent of globally iron ore traded last year. That could increase to 65 percent this year.

Fortescue will sell 20 million tons of iron ore in the six months ending Dec. 31, and China will give it the priority to negotiate prices for 2010, the company said.

Talks will start in December and China hasn't decided if the negotiations would be for annual or semi-annual prices, the steel association's Shan said.

The State Council, China's cabinet, has issued a statement backing the plan to have one iron ore price within China, the steel association's Liu said.

Source: Bloomberg



Source: Morgan Stanley

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## Consumer / Retail



Source: Zero2IPO

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### China's Retail Sales Up 15.2% in July

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The growth rate was 8.1 percentage points lower than July last year, but 0.2 percentage points higher than that of June.

The country's retail sales in the first seven months

rose 15 percent from the same period a year earlier to RMB 6.86 trillion.

The growth rate was 6.7 percentage points lower than the same period of last year and equaled that of the first half.

In July, urban sales of consumer goods rose 15.1 percent to RMB 679 billion, while sales in rural areas were up 15.4 percent to RMB 314.3 billion.

The sales volume of the wholesale and retail

sectors rose 15.2 percent to RMB 841 billion. Hotel and catering sectors rose 16.8 percent to RMB 136.5 billion. Other industries posted an overall growth of 2.6 percent to RMB 16.2 billion.

Sales of grain and oil products were up 11.9 percent, garments were up 19.6 percent, daily necessities 16.3 percent, automobiles 32 percent and construction materials 25.8 percent.

Source: China Daily

### Wumart Financing to Fund Store Expansion

Wumart Stores Inc, Beijing's largest super-market chain, announced that it would cumulatively raise about HK\$1.65 billion (\$200 million) from strategic investors, including a TPG-managed fund, and use the money to open new stores and make acquisitions.

According to the company's stock exchange filing, TPG Asia V LP will buy HK\$930 million of Wumart's Hong Kong-listed stock and a unit of Chinese private equity firm Hony Capital LP will buy HK\$170 million of shares. These strategic investors' shares would account for 10.9 percent of the company's total shareholding equity.

Hony is part of Legend Holdings Ltd, parent of PC maker Lenovo Group Ltd. TPG Asia V LP had

invested in Legend Holdings Ltd in 2005.

The price of the deal was set at HK\$10.5 per share. The Wumart stock rose 4.4 percent to HK\$11.96. Wumart's shares in Hong Kong have more than doubled this year, compared with a 42 percent gain of the benchmark Hang Seng Index.

Hony and Legend also agreed to pay RMB 485 million for unlisted domestic Wumart shares, the statement said. Wumart plans to seek a listing in Shanghai or Shenzhen within three years, it said.

"It's natural to raise money from the market where the business is operated. The domestic stock market is getting more mature now and we are seeking chances to list on the A shares market," Wu Jianzhong, chairman of Wumart Stores, said at a

press conference in Beijing.

"We plan to copy the company's successful operating model in Beijing to more cities and regions. The growing competition in this industry requires us to get the benefits of scale," Wu said.

"The company will step up expansion of its retail network through organic growth and acquisitions while implementing its regional development strategy," Wu added.

Founded in 1994, Wumart now has about 424 stores in Beijing, Tianjin and Zhejiang. It has a nearly 33 percent market share in Beijing and plans to open at least 10 hypermarkets, 40 convenience stores and mini-marts in the country this year.

Source: China Daily

## Recent Transactions

### Sequoia Invests \$63 Million in American Dairy

American Dairy Inc., a Chinese food maker listed on the New York Stock Exchange, announced on Aug.13 that it would issue an additional 2.1 million common shares to Sequoia Capital China to raise a total of \$63 million from the.

This is the first investment Sequoia has made in a listed company, and will enable Sequoia to take a 10.5% position in the dairy

producer.

The current financing will be paid both in cash involving \$47 million and a debt-to-equity plan involving \$16 million.

The deal is expected to be completed around August 27th. According to the ratchet agreement made by both parties, American Dairy will continue issuing new shares to Sequoia if it fails to fulfill the established profit target in 2009 or 2010, while

Sequoia will also have the right to require American Dairy to buy back the shares it holds under when certain events occur. American Dairy undertakes it will no longer issue new shares below \$30 each within three years after this deal. Moreover, American Dairy has also agreed to provide a seat on its board for a director appointed by Sequoia.

Source: Zero2IPO

### Shede.com Raises \$4 Million in Second Round Financing

Shede.com, the largest online marketplace for overstock goods in China, announced that it has secured a \$4 million capital injection from SIG Asia Investment. This represents the second round of investment Shede.com has received since its founding.

According to Ma Jian, CEO of Shede.com, the website will intensify promotion after the financing, and it is expected to have 5 million registered users and preliminarily break even by the end of this year. As of this July, almost 2 million users have registered in the website, with 1.3 million registered items, and more than 1 million successful deals, or 90%

of the total deals.

An official with SIG says the company sees great potential behind the new e-commerce mode of Shede.com. According to the official, disposal of overstock goods is a basic public demand which has not been fully satisfied both at home and abroad, and is now growing into an emerging industry.

Source: Zero2IPO

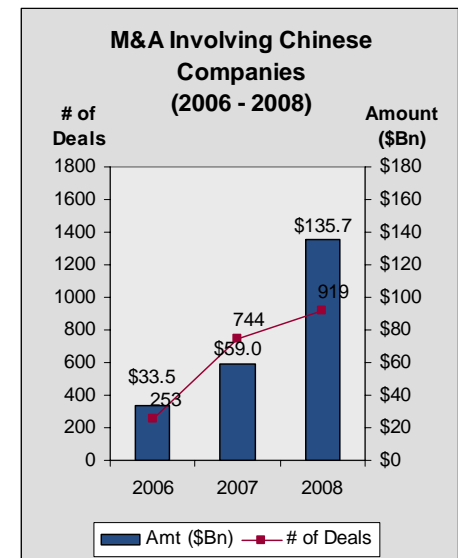
### Greatdreams Completes New Round of Financing

Hunan Greatdreams Cartoon Media Co., Ltd., a Chinese animation builder, has recently secured more than RMB 100 million in a new round of financing from the existing investors led by Sequoia China Fund and its founding team. This was the company's third round financing.

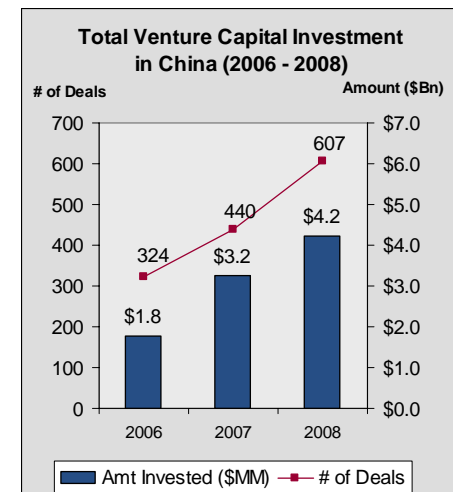
Greatdreams, founded in May 2004, is one of the most renowned players in China's animation industry. Homer & Landau Seven Warriors, a benchmark creation of the company, has grown into the most influential brand in China's animation industry. Greatdreams launched the cartoon in 2006. This product forged the leading position of Greatdreams in China's animation market.

He Mengfan, Chairman and CEO of Greatdreams, said that in the first half of 2009, his company has reported a retail income of over RMB 20 million, more than tripling that of the previous year, and nearly RMB 30 million was contributed by the licensing business, almost doubling that in the year earlier.

Source: Zero2IPO



Source: Capital IQ



Source: Zero2IPO