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This Week in China

China Poised to Overtake Japan as the World's Second Largest Economy Sooner than Expected

China's rise in the global economy was on brilliant display last week as Beijing celebrated the 60th anniversary of the founding of the People's Republic. For years, Japan has been readying itself for the day that it is surpassed economically by China, but last week's celebration showed that this day may come sooner than anyone expected.

Though the recent swings in currency may delay the end result, the *New York Times* reported last week that "many economists expect Japan to cede its rank as the world's second-largest economy sometime next year, as much as five years earlier than previously forecast. At stake are more than regional bragging rights: the reversal of fortune will bring an end to a global economic order that has prevailed for 40 years, with ramifications across arenas from trade and diplomacy to, potentially, military power."

China's meteoric rise may even contribute to Japan's decline as it captures Japanese export markets

and as the island once called an "economic miracle" sees an increase in national debt and a decrease in the workforce spurred by an aging population.

Compounding these issues is Japan's GDP per capita, which eclipsed the US GDP at the end of the 1980s but then stalled at \$34,300 per capita in 2007. Today's figures show that income inequality and poverty are on the rise while Japan's GDP is now a quarter below American levels and 19th in the world.

Additionally, current forecasts predict that the Chinese economy will rise by around 8 percent in 2009, while forecasters expect the Japanese economy to shrink 3 percent for the year before returning to growth of about 1 percent next year. The Chinese economy has grown by close to 10 percent a year for much of the past couple decades.

In terms of overall purchasing power, China surpassed Japan in 1992 and will overtake the United States before 2020.

Of course, some of this is just the natural pro-

gression of economies - as countries continue to develop, growth tends to stagnate at times. According to data from Goldman Sachs, annual growth in Japanese GDP averaged 10.4 percent in the 1960s and 5 percent in the 1970s, but only 4 percent in the 1980s and 1.8 percent in the 1990s. Growth has been even slower during the first decade of this century.

While many are quick to point out that this will come as a big shock to Japan, the benefits for both countries should not be ignored. China became Japan's largest trading partner in 2006 and Japanese automakers have yet to fully tap into China's expanding middle class.

Despite the connotations of the passing of the guard in Asia, the continued ascension of the Chinese economy can be viewed as a strong positive for the more mature economies in its geographic neighborhood and for foreign investors across the globe.

Adam Roseman,
Founder & CEO
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This Week in China (cont'd)

IMF Raises China Growth Forecast

China is expected to remain the fastest-growing economy in Asia, the International Monetary Fund said as it raised its growth forecast for the world's third-largest economy to 8.5% for this year and 9% for 2010.

Both estimates are slightly higher than the projections of 7.5% and 8.5% growth, respectively, released in July, and are now roughly in line with estimates by private-sector economists.

Chinese officials have predicted 8% growth this year.

But the fund, in its latest World Economic Outlook, also cautioned China about the risks of the unprecedented flood of credit that Beijing has unleashed to pull the domestic economy out of its downturn.

New lending has surged above 8 trillion yuan (\$1.17 trillion) for the first eight months of this year, equivalent to more than a quarter of annual gross domestic product.

IMF Ups Pressure on China to Let Currency Rise

The International Monetary Fund upped the pressure on China to allow its currency to appreciate in order to help rebalance the world economy as a tentative global recovery gets underway.

"China has an interest in

"Some caution is warranted about the sustainability of the rapid level of credit growth in a few countries, especially China," the IMF said.

While not speaking just about China's case, the IMF said that maintaining credit growth at such rapid levels carries the risk of creating incentives for overinvestment, unsustainable asset price inflation, and worsening of credit quality in the banking system.

"Recent monetary expansion should therefore be unwound as soon as there are clear signs that economic recovery is established," the IMF said.

The IMF also urged Asian economies, including China, to promote growth and direct stimulus efforts toward strengthening domestic demand and less on investment and exports.

Beijing and others remain concerned China's rebound has rested mainly on government stimulus measures and, that once the official support wanes, there won't be sufficient

reorienting towards domestic demand. If it does this, it has to lower external demand. The way to do this is to change its exchange rate," IMF chief economist Olivier Blanchard said.

"We have to work on it. China is open to this kind of strategy. We have to sit down and see where it goes," he said.

private sector demand to carry the growth.

The IMF's raised forecast for China's 2009 GDP remains in line with other non-government estimates; the Asian Development Bank last month also raised its forecast for China's 2009 economic growth to 8.2% from a previous estimate for 7%.

China's GDP in the first half grew 7.1% from a year earlier, after year-on-year growth rebounded to 7.9% in the second quarter from 6.1% in the first. The government is scheduled to release third quarter GDP growth data in mid-October.

China's consumer price index, its key inflation gauge, should fall 0.1% this year and grow just 0.6% in 2010, the IMF said.

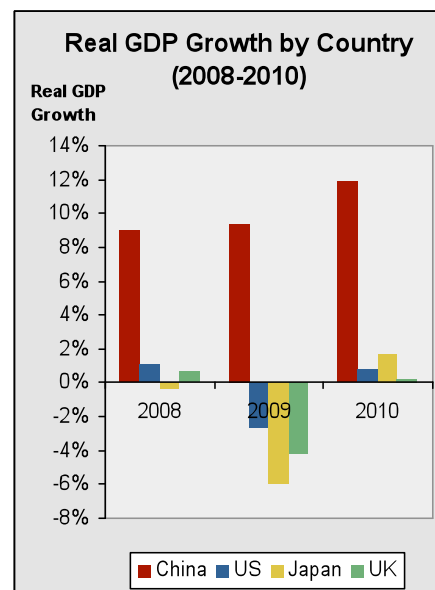
The current account surplus, as a share of GDP, will narrow to 7.8% this year, from 9.8% in 2008, and should reach 8.6% in 2010, the IMF predicted.

Source: Wall Street Journal

In an interview, the IMF's managing director Dominique Strauss-Kahn said: "The crisis is going to bring with it a sort of rebalancing."

"With this rebalancing, the renminbi could regain some of the value that it should have, since we at the IMF continue to think that the renminbi is undervalued," he added.

Source: AFP



Source: Goldman Sachs; Euromonitor

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This Week in China (cont'd)

China to Continue Loose Monetary Policy, Stressing Domestic Consumption

The monetary policy committee of China's central bank said the government will continue the moderately easy monetary policy while highlighting the role of domestic consumption in pushing the economy.

The People's Bank of China (PBC), the central bank, will try to keep both

the sustainability and stability of the policy, the committee heard at its third-quarter meeting.

The PBC would guide reasonable growth in money and credit and maintain sufficient liquidity in the banking system, committee members agreed.

The committee decided to optimize credit structure by supporting the development of rural areas, and small and

medium-sized enterprises.

They also agreed to expand credit for consumption on the premise that domestic consumers could play a great role in pushing economic growth.

Meanwhile, credit to high energy-consuming and environment-polluting industries would be strictly controlled, they agreed.

Source: China View

China PMI Shows Industry Gathering Strength

China's manufacturing sector expanded for a seventh straight month in September to a 17-month high as the country's economic recovery continued to fuel industrial production.

The monthly purchasing managers' index rose to 54.3 last month – the highest since May 2008 – from 54 in August, according to the China Federation of Logistics and Purchasing (CFLP).

The rise in PMI was largely due to increases in export orders and employment, which indicated a continuous

growth of the economy, said CFLP. A PMI reading above 50 signals an expansion, while one below the threshold represents a contraction.

The expansion of manufacturing activities came a day after the State Council warned that overcapacity in the economy could hamper recovery and lead to a surge in non-performing bank loans.

Zhang Liqun, a government economist, said that the growth in PMI had been state-driven, while the transformation to a more enterprise-, consumer- and market-led economy had not been completed.

"The basis of a sustainable economic recovery is still not solid enough. Therefore macro-economic policy needs to continue to aim to support growth, restructure the economy and deepen reform," Mr Zhang said.

CFLP also warned of squeezing profit margins for manufacturers. It noted that although the index of purchasing prices fell for the first time in 10 months, costs of raw materials and energy remained high.

The CFLP reading is broadly in line with a separate survey by HSBC, which said on Wednesday that PMI reached 55 in September, slightly lower than August's 55.1.

Source: Xinhua News

Regulator says Citi Should Expand in China

Citigroup, the 3rd largest U.S. bank, should expand its operations in China, according to a Chinese regulator.

Citigroup's China unit was prudent during the

financial meltdown and now should be "expanding, absolutely," Yan Qingmin, director of the Shanghai branch of the China Banking Regulatory Commission said.

Yan Qingmin said he was not worried about the U.S. government's 34 percent

stake in Citigroup, adding that Washington's support for Citigroup was the right decision and that it has done little to alter how Chinese policy makers regard the financial services giant.

Source: Wall Street Journal

China's manufacturing sector expanded for a seventh straight month in September to a 17-month high

Alternative Energy

China's Green Leap Forward

Behind the notorious clouds of greenhouse gases that China's industrial behemoth spews into the atmosphere every day, a little-noticed revolution is under way. China is going green. And as the authorities here spur manufacturers of all kinds of alternative energy equipment to make more for less, "China price" and "China speed" are poised to snatch the lion's share of the next multi-trillion-dollar global industry.

Chinese factories already make a third of the world's solar cells – six times more than America. Next year, China will become the largest market in the world for wind turbines – overtaking America. This fall, a Chinese firm will launch the world's first mass-produced all-electric car of this century. And where are American utilities buying the latest generation of "clean coal" power stations? China.

"The Chinese government thinks of renewables as a major strategic industrial option" that will help fuel this country's future growth, says Li Junfeng, deputy head of energy research at China's top planning agency. "We will catch up with international advanced technology very quickly."

"This country is installing a one-megawatt wind turbine every hour," points out Dermot O'Gorman,

head of the World Wide Fund for Nature in Beijing. "That is more encouraging than the one coal fired power station a week" that normally dominates foreign headlines.

Indeed, China is pushing ahead on renewable technologies with the fervor of a new space race. It wants to be in the forefront of what many believe will be the next industrial revolution. If it succeeds, it will hold far-reaching implications for the planet – affecting everything from Detroit's competitiveness to global warming to the economic pecking order in the 21st century.

"The rest of the world doesn't even realize that we are very likely ceding the next generation of energy technology to the Chinese," says Todd Glass, an energy lawyer with Wilson Sonsini Goodrich and Rosati in San Francisco.

A 20 minute drive from the Great Wall, along the south shore of the Guanting reservoir, straw-hatted peasants tend their corn crop as the elegant blades of windmills spin idly above them in the gentle breeze, farming the wind.

Guanting's 43 wind turbines provided some of the power for last year's "Green Olympics" of which China was so proud, and they continue to generate not only electricity, but admiration: The wind farm

is a favorite spot for newlyweds to take their wedding photos.

"They find the windmills beautiful and magnificent," says Yin Zhiyong, the Guanting wind farm manager, as he shows a visitor around. "So do I."

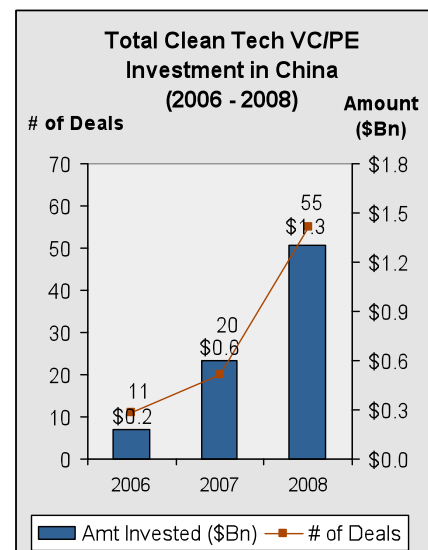
Mr. Yin trained as a coal engineer; when he was at college 20 years ago, wind-power courses were not offered. Today, he is convinced, "new energy sources are the new way of development. I'm part of the future."

Two Chinese firms, BYD Auto (for Build Your Dreams) and Qingyuan are vying to bring an all-electric car to market this fall. In December, BYD started selling the world's first mass-produced plug-in hybrid vehicle.

With the passenger vehicle sector moving forward, the government ordered 1,000 hybrid buses for Beijing and Shanghai earlier this year. It announced customer rebates of up to 40 percent off the price of new cars, depending on their energy efficiency.

Almost overnight, Beijing has focused world attention on the Chinese hybrid vehicle market. "They saw that Detroit was in a muddle, so they will leapfrog," says Carberry.

Source: Christian Science Monitor



Source: Zero2IPO

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Consumer / Retail

China's Carriers All Turn to Mobile App Stores in 3G Race

China's three mobile carriers are all developing download platforms like the iPhone App Store as their competition for 3G users intensifies.

China Mobile has launched an application download store, and rivals China Telecom and China Unicom are developing them, sources said.

China licensed the three state-owned carriers to build networks based on different 3G standards early this year. The carriers have since worked to match each other's expansion of 3G handset offerings and other services as they race to win users.

The application stores a major part of their efforts, which have sped up in recent weeks. But the download stores confront a range of obstacles that could dampen their appeal to users. Those include billing issues, a lack of user familiarity and the availability of pirated applications online, said Shi Weixing, founder of 2 Chinese companies that make mobile applications.

The China Mobile store, called the Mobile Market, went online last month with a little over 1,000 downloads available for operating systems including Symbian and Windows Mobile.

China Telecom is also

working on a mobile application store and expects it to launch this year. Like its rival, the carrier aims to support multiple OSes and is currently seeking support from handset makers for the store.

China Unicom is developing a download store as well, said Shi, the application developer. Local media have also reported China Unicom's plans for an application store. A China Unicom spokesman declined to comment on plans for a store, but said the company is developing applications for 3G users, with focuses including music and video.

One stumbling block for the carrier-run download stores in China is low user demand for mobile services beyond voice calls and text messaging. Chinese users are unfamiliar with software downloads for devices besides the iPhone, and carriers will need popular handsets to lead buyers to their download stores, said Shi. A lack of attractive handsets offered by China's carriers has helped keep down growth in their 3G subscriber numbers.

But developers, who are often individuals or small companies, will not create applications for the carrier stores unless they have many users, and some may be unable to shoulder the cost of adding support for multiple OSes to their

products, said Shi.

Pirated applications offered for free online could also draw users away from the paid downloads in the carrier stores. Cracked versions of popular handsets like the iPhone, which can run any software and are sometimes smuggled into the country, are widely sold at Chinese electronics bazaars. But users can also crack official handsets with help from one of a few large Chinese Web sites to make them run pirated applications.

"I do not view the model of carriers running application stores very highly," he said.

China's carriers have tried to remedy their lack of fashionable handsets through deals with well-known foreign vendors. China Unicom said it would sell the iPhone in China in October, and China Telecom is in handset distribution talks with vendors including Palm and Research In Motion (RIM), the maker of the BlackBerry. China Mobile displayed a prototype of a Dell smartphone that runs its mobile OS.

China Mobile's 3G network uses an unproven domestic mobile standard being heavily backed by the government, while its rivals' networks use 3G standards commonly used overseas.

Source: PC World



Source: Bloomberg

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Recent Transactions

Chinese Iron Ore Miner Raises \$266 Million from IPO

China Vanadium Titanomagnetite Mining has priced its initial public offering just above the mid-point of the offering range at HK\$3.50 for a total deal size of HK\$2.06 billion (\$266 million). The shares were offered in a range between HK\$3.12 and HK\$3.86.

The deal attracted just over 100 institutional investors and a pretty good retail following, which should come as a relief for other listing candidates at a time when the secondary market has taken on a more negative tone -- the

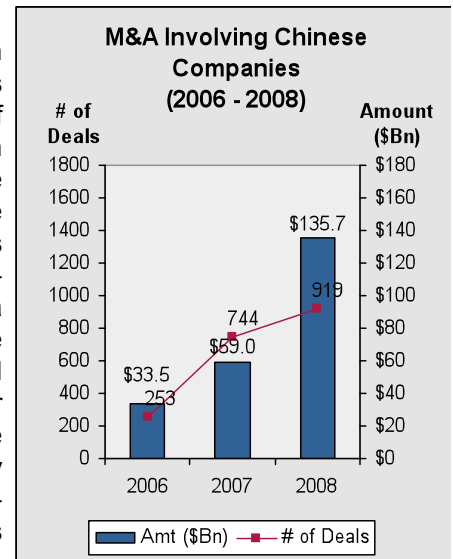
Hang Seng Index has fallen in six of the past eight sessions -- and the last few newcomers have fallen on their debuts.

China Vanadium owns majority stakes in two mines with 78.66 million tons of proven and probable reserves based on the Joint Ore Reserves Committee (JORC) code. It plans to complete an expansion of its existing assets by adding a 300,000 tons per annum production line and also has an option to acquire another five mines in the area with estimated resources of 126.2 million tons. Longer-term, the company is likely to be one of the main

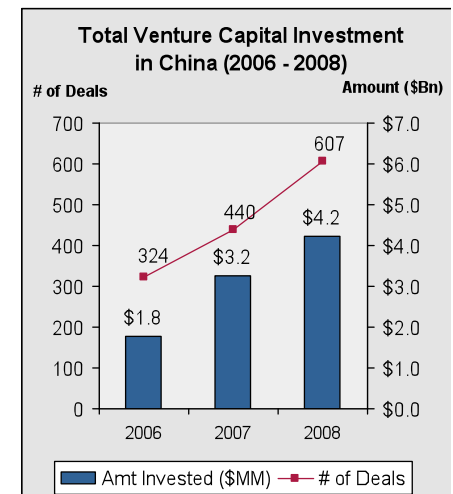
consolidators in the industry, sources say.

Being based in Sichuan means the company is able to take advantage of strong demand for iron and steel due to the reconstruction work in the wake of last year's earthquake. The government has also issued a policy that encourages the use of steel strengthened by vanadium for construction in earthquake zones, which is extremely positive for China Vanadium since its iron ore is naturally rich on vanadium and doesn't need to be artificially strengthened.

Source: China Daily



Source: Capital IQ



Source: Zero2IPO

Sina, Focus Media Merger Deal Falls through

Sina Corp, China's largest Internet portal, announced that it dropped the merger plan with Focus Media Holding Ltd, as the deal failed to get the approval from China's Ministry of Commerce.

Jason Jiang, chairman of Focus Media, showed his disappointment about the decision, which is made by both sides. However, Jiang stressed that Focus Media's cooperation ties with Sina will not be affected.

The termination of the deal is two days prior to the

deadline. According to the original plan, Sina was estimated to spend US\$1.3 billion to buy the core media assets of Focus Media.

The pending transaction negatively impacted the business operations of both firms, said Sina CEO Charles Chao, adding that the firm still holds a positive outlook towards out-of-home advertising business based on the collapsed merger plan.

The two sides jointly announced that they will continue to cooperate on business development in order to provide efficient integrated marketing services to advertisers.

Separately, Sina revealed that its management board, Charles Chao and his team, will spend US\$180 million to buy 5.6 million new ordinary shares of Sina, hence becoming the firm's largest shareholder.

The proceeds from the share deal will be used to finance the possible acquisition and merger plans in future and replenish working capital, according to Sina's statement.

The shares will have a lock-up period of six months.

Source: Zero2IPO