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This Week in China

Fears over China Bubble Prove Unfounded

The tides have turned abruptly for a number of China observers concerned with the state of the nation's economy. Earlier this year, many believed that the RMB 4 trillion (\$586 billion) stimulus plan would not be sufficient to rescue the economy from the downturn affecting other nations across the globe. More recently, the focus has shifted to concerns that China's policies have created a bubble in share and housing prices.

Figures that will be released later in the month from the 3rd quarter of this year are expected to show that China's real GDP has grown by around 9% thus far in 2009 — a period over which output in most other economies declined. Recently, a flood of bearish reports have warned of an impending market crash and that the number of bad loans will rise steeply as a result of overinvestment and excessive borrowing, leading to a decline in growth. These reports lead many to believe that China is at risk of ending up with seriously over-valued share and housing prices

if the government fails to take action to tighten liquidity soon.

However, these fears appear exaggerated upon examination of the facts, according to a recent article published in *The Economist*. First, neither China's stock nor property markets looks historically overvalued. Notably, the average domestic exchange PE ratio stands at 24, which is well below China's long-run average. Despite the fact that property prices have continued to rise in large cities, average house prices in the country as a whole fell over the past ten years, with house-price growth just turning positive in 2009.

Next, as China's housing and share prices have not resulted in a surge of debt-driven borrowing, the damage from a possible rise and fall in China's asset prices is not expected to have as great a bearing there as it would elsewhere. Only about 25% of middle-class homeowners have mortgages and the average loan-to-value is less than 50% thanks in part to help from government subsidies over the past decade.

Third, although there has

been great debate over the need to improve capital allocation in China, these record rates of lending may not be as inefficient as some believe, given that investment into infrastructure will likely improve the rate of productivity growth. Finally, the government in Beijing has often expressed concerns over excess credit growth and asset-price bubbles, and while they maintain that monetary conditions will stay loose, there has been a recent tightening on regulations such as increased amounts needed for down-payments on second homes and higher provisioning from banks.

As argued in *The Economist*, the most effective means by which China can start to curb excessive liquidity is to allow the yuan to once again appreciate, which will be of great benefit to foreign investors with capital already in the country. Clearly China is able to operate from a position of strength in the global economy and in the management of its own economy.

**Adam Roseman,
Founder & CEO**

This Week in China (cont'd)

China Pledges To Continue Supportive Policies For Economic Rebound

China sees its economy on an upward trend and will continue to implement the proactive fiscal policy and moderately eased monetary policy to support growth as the rebound is yet to be stable, said Chinese Finance Minister Xie Xuren. In a speech to the plenary session of the International Monetary Fund (IMF) and the World Bank annual meetings held in Istanbul, Turkey.

"China will continue with the proactive fiscal policy and moderately eased monetary policy, further implement and improve the policy package, and

China's Domestic Firms Raise \$113.8 Billion by Listing Overseas

By end July, China's domestic enterprises had raised \$113.8 billion through listing their shares on overseas bourses.

Statistics from the China Securities Regulatory Commission (CSRC) showed 154 Chinese enterprises had started initial public offering (IPO) overseas by

China's New Bank Loans Expected to Reach RMB 300-400 billion in September

China's new loans in September were expected to reach RMB 300-400 billion (\$44-59 billion), Liu Ming-kang, Chairman of the China Banking Regulatory Commission

ensure the achievement of our social and economic development goals," he told the meeting.

In the second quarter of this year, China's gross domestic product growth is 7.9 percent, faster than the 6.1 percent in the first quarter, which was the worst quarterly growth in a decade, dampened by a slump in exports.

The recovery was boosted by the active fiscal policy and moderately loose monetary policy the central government put into place late last year as well as a \$585 billion dollar stimulus package to spur domestic demand and investment.

Xie called on other countries to continue to streng-

then the end of July.

Tsingtao Brewery Corporation started listing H-shares on the Hong Kong bourse in June 1993, becoming China's first firm to list outside the mainland.

Meanwhile, China opened up its capital market to foreign investors by launching qualified foreign institutional investors (QFII).

By end July, China had

(CBRC), said during an IMF conference held in Istanbul, Turkey.

New loans in the first eight months stood at RMB 8.15 trillion, far exceeding the full-year target of 5 trillion yuan, according to he People's Bank of China, the central bank, this September.

then macroeconomic coordination, maintain economic stimulus, implement appropriate and responsible fiscal and monetary policies, oppose and resist trade protectionism in any forms.

"We are seeing some positive signs in the world economy. However, the foundation of recovery is not yet solid. Uncertainties still remain," he said. "It will be a long and winding path towards a fully installed global recovery."

The IMF projected last week China's economy to grow by 8.5 percent this year and 9.0 percent in 2010, saying China will lead Asia out of the economic recession.

Source: Xinhua News

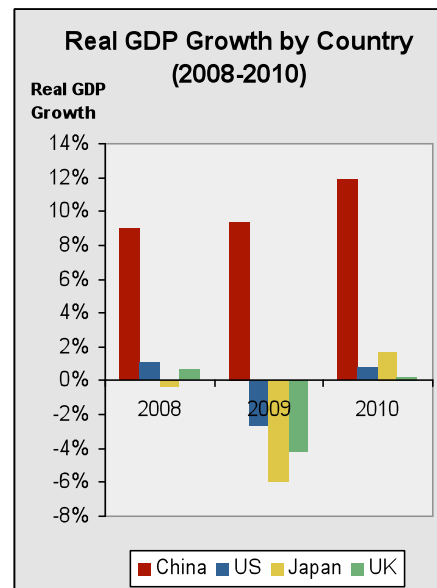
approved 9 Sino-foreign securities ventures, 33 joint venture fund management companies, 113 foreign securities institutions and 38 foreign assets management companies.

China is also considering allowing high-quality overseas firms to list in China in an effort to stabilize foreign direct investment.

Source: China Daily

The CBRC reiterated in September that domestic lenders should seek to enhance their risk management and stick to regulatory requirements to reduce worries over financial risks caused by rapid credit growth this year.

Source: Xinhua News



Source: Goldman Sachs; Euromonitor

The IMF projected last week China's economy to grow by 8.5 percent this year and 9.0 percent in 2010, saying China will lead Asia out of the economic recession.

This Week in China (cont'd)

China To Lead Asian Recovery With 8.5% Growth In 2009

The International Monetary Fund (IMF) projected that China will grow by 8.5% this year and 9.0% in 2010, saying China will lead Asia out of the economic recession.

Recent indicators point to a strengthening recovery in Asia "led by a rapid rebound in China, where growth accelerated to an annual rate of 7.1% in the first half of the year," IMF said in its World Economic Outlook (WEO).

Asia's growth momentum will build during 2H09, forming the basis for a generally moderate recovery

US Companies Upbeat on China

Most US companies doing business in China are profitable and many want to step up their investments, according to a new survey.

The poll by the US-China Business Council indicated that the global recession led to reduced sales and slowed investment plans for member companies as well as job cuts for some.

However, 51% of the 100 respondents projected their revenues in China would grow in 2009, and 84% said their China operations remained profitable.

"China has been a rela-

ery in 2010.

China and India will lead the expansion this year and will grow at 8.5% and 5.4% respectively, boosted by large policy stimulus which is increasing demand from domestic sources.

"The policy stimulus in China could support recoveries in other parts of Asia," the report said.

China will see growth rise to 9.0% in 2010, while "emerging" Asia will grow by 5.0% this year and 6.8% in 2010.

While the manufacturing-oriented economies such as South Korea and Singapore slumped and had recorded peak dec-

tively bright spot for companies in the midst of the global slowdown," said council President John Frisbie. "There is no doubt that the global economic recession has affected their China sales, but the impact has been less than in other markets."

The survey was conducted in the summer, when global economic data was still looking dim after the financial crisis plunged the world into its worst recession in decades.

For the most part, business opportunities from China's massive stimulus package have not yet been realized by the majority of companies, although those in certain sectors, such as infra-

lines in industrial production of about 25% by end 2008, only China, Indonesia and India escaped a severe recession.

The intensifying rebound in Asia can be linked to three factors, namely expansionary fiscal and monetary policy, a rebound in financial markets and capital inflows, and manufacturing growth following large inventory adjustments.

IMF raised its 2010 growth forecast for the world economy to 3.1% from 2.5%, saying the global recession "is ending."

Source: Xinhua News

structure-related industries, benefited from stimulus project spending.

Indirectly, however, many companies reported a general increase related to China's overall economic recovery driven in part by an expansion of bank lending.

"US companies remain optimistic about their prospects in that market once the recession has passed," Frisbie said. "Almost 90% of the council's members indicate that China remains the top or among the top five priorities for their global investment plans. It remains a marketplace with dynamic development."

Source: China Daily

Alternative Energy

Companies See "Shining" Opportunities in China

China is currently planning an 11,950MW renewable energy park, the Ordos New Energy Industry Demonstration Zone, which includes a proposed 6,950MW of wind energy, 3,900MW of PV, 720MW of concentrating solar power plants, 310 MW of biomass and 70 MW of hydro storage. This will all help China to reach its renewable standard of 15% by 2020.

China has created government subsidies for solar panels, PV and CPV that are luring North American companies. In March, the government further offered \$2.94 per watt for PV installations greater than 50KW, which could cover half or most of smaller-scale solar projects.

City Increases Effort to Attract Funding to Power 'Innovation-Industry' Strategy

Shanghai is stepping up efforts to encourage private capital to help finance development of companies involved in clean energy, new materials, biomedicines and information technology.

The effort will be backed by RMB10 billion (\$1.47 billion) in government funding that will provide seed investment, research subsidies and low-interest bank loans to support start-up firms in the target industries, according to the Shanghai Economic and Information Technology Development Commission.

Four American utilities announced that they would take advantage of the deal and work with China. First Solar, LDK and Canadian Solar have all signed agreements for PV projects in Ordos City and Jiangsu Province while Duke Energy is sharing solar, zero-emissions coal and smart grid technology with Huaneng and ENN groups.

Tom Shiel, spokesman with Duke Energy, said the company's CEO Jim Rogers pushed them to go overseas. "He's been amazed at their advances in technologies. China is pretty much building entire cities around renewable sources, so they're able to utilize technologies in a more practical matter."

First Solar signed the

MOU with Ordos City to develop the world's largest PV power plant at 2,000MW along with investments in Chinese manufacturers.

First Solar will also establish commercial relationships with Chinese suppliers, construction firms and other businesses.

Canadian Solar is planning a 500MW solar power plant in Inner Mongolia and LDK Solar also signed an agreement for up to 500MW of PV power in Jiangsu Province. LDK has already manufactured solar wafers in China after opening a turnkey solar manufacturing facility by GT Solar Technologies.

William Lawton, senior trade specialist with the U.S. Department of Commerce, said investments in Chinese technologies are definitely a growing trend.

Source: Renewable Energy World

It's all part of the city's strategic development plan to shift the focus of the local industry mix from manufacturing to hi-tech.

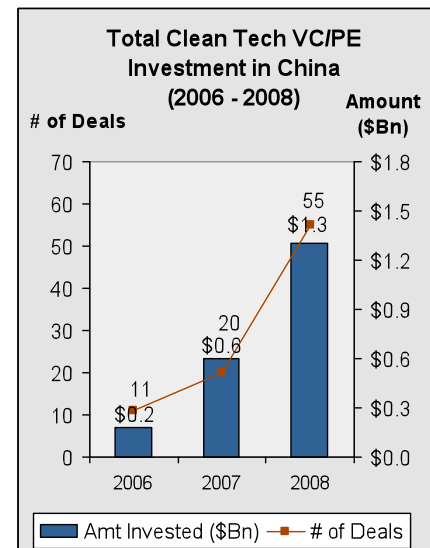
The new effort builds on an existing program to attract capital for hi-tech development. Investment firms have poured RMB24.9 billion into 69 city-level projects so far this year, the commission said. Of that, the government has provided RMB320 million.

In June, Shanghai became the first city on mainland China to allow overseas equity investment firms to be registered.

"With China's Growth Enterprise Market, private equity and venture capital firms now have better exit channels," said Wang Chunqi, vice president of First Eastern, which operates a RMB5 billion fund and is seeking opportunities in Shanghai.

Shanghai is fertile ground for the growth of "innovation industry" start-ups. It is home to about 10 hi-tech industry zones, including Zhangjiang High-Tech Industrial Park in the Pudong New Area. Companies located in these zones are running businesses ranging from electric car batteries to laser TVs to digitized X-rays.

Source: Zero2IPO



Source: Zero2IPO

"China is pretty much building entire cities around renewable sources, so they're able to utilize technologies in a more practical matter."

Consumer / Retail

China's Retail Sales Hit \$83.5 Billion During Holiday

China's retail sales of consumer goods totaled 570 billion yuan (\$83.50 billion) during the National Day holiday, with average daily sales up 18% compared with the same period of last year.

Sales of household appliances soared during the eight-day holiday. Among them, high-definition flat screen TV sets, digital

cameras, side-by-side refrigerators and 3G mobile phones are consumers' favorites.

Jewelry and cars became hot sellers as well. The sales of jewelry of Caishikou Department Store in Beijing topped 100 million yuan, up 30% year on year. Car sales of major car-selling companies in Chongqing Municipality increased by 71.7% year on year.

The selling boom in the

home appliance and car sectors was partly stimulated by a policy approved by the State Council in June this year, aiming to spur domestic consumption by subsidizing buyers of cars and household appliances.

Meanwhile, sales promotion in major cities also played an important role in the holiday consumption boom.

Source: Xinhua News

Asian Convenience Stores On Frontline Of Economic Recovery

Underpinned by high savings rates and an expanding middle class, Asia's big convenience store operators outside Japan are witnessing sturdy profit growth and expanding margins.

What makes them a long-term play is a strategy shift into high-margin items such as ready-to-eat foods as well as a preference by consumers for the cheaper foods as a consequence of tighter spending in the downturn.

That optimism contrasts with the outlook in the United States and parts of Western Europe, where debt-burdened consumers complicate the retail picture.

In Thailand, a country of 67 million people that emerged from recession in March-June, CP All saw a 42% surge in second-

quarter profit that beat market forecasts by 12%.

The debt-free operator of about 5,000 7-Eleven stores wants to open up to 450 new outlets a year for the next five years, projecting a rise in 2010 earnings and adding ready-to-eat menus to lure cost-conscious customers.

Singapore-based Dairy Farm International, with operations in China and Malaysia, reported a 10 percent rise in net profit in the first half of the year, a period when it opened 207 stores, and said it would "trade well" for the rest of the year.

South Korea's big convenience stores are expected to post double-digit profit growth in 2009 as they expand operating hours and offer gift vouchers to lure customers from department stores.

Some of the biggest chains are private, such as Bokwang FamilyMart with

about a third of the \$5.5 billion South Korean market. Lotte Shopping Co, South Korea's top retailer and a local operator of 7-Eleven stores, has seen its shares rise 43 percent this year, in line with the KOSPI Index.

Chinese supermarket chain and convenience store operator China Resources, with over 2,600 stores under brands such as Vanguard and SUGUO, said this month it expected "significant improvement" in growth of store sales in its supermarket operation in the second half.

Much of the gains across the region are linked to a revival in Asia's export-driven economies and a pick-up in consumer confidence. But many chains are also benefiting from an apparent shift to discount-oriented shopping during leaner times.

Source: People Daily



Source: Bloomberg

China's carriers have tried to remedy their lack of fashionable handsets through deals with well-known foreign vendors.

Recent Transactions

Alibaba Buys HiChina Control

China's Alibaba.com Ltd is to pay RMB540 million (\$79 million) for a controlling stake in China Civilink (Cayman), which operates in China as HiChina Web Solutions.

Alibaba will acquire HiChina for cash in two phases. The first phase will see Alibaba acquire

China Firm's German IPO to End Europe's Dry Spell

Chinese mobile data-card manufacturer Vtion Wireless Technology AG will issue up to 4.5 million shares on the Deutsche Börse, after canceling an initial public offering last November.

The last company to list on the primary market was SMA Solar Technology in June 2008, just as global financial markets began to melt down and the business for new listings went into a deep freeze.

GM Finalizes Deal To Sell Hummer To China's Tengzhong

General Motors finalized an agreement to sell its Hummer truck brand to Sichuan Tengzhong Heavy Industrial Machinery Co., marking China's first major entry into the U.S. auto market.

Tengzhong bought Hummer in a \$150 million deal. Under the terms, GM will continue to produce the vehicles until no later than 2012, when Tengzhong will take over production.

In Hummer, Tengzhong

85% of HiChina for RMB435.42 million.

The additional 14.67% retained by the founders of HiChina could be sold to Alibaba for RMB104.56 million dependent on HiChina reaching certain performance targets.

HiChina, founded in 1996, provides Internet infrastructure services to enterprises, covering domain China has led a recent global thaw, offering up the world's biggest IPO this year with a heavily oversubscribed \$7.3 billion listing from China State Construction.

Europe's thaw has been hampered by the view that its recovery will lag behind the rest of the world. But a rebound in financial markets, with Dow Jones 600 up 22% since start of the year, has prompted private equity houses eager to lighten their portfolios, as well as individual companies to begin approaching

hopes to create a stable of trucks that are more fuel-efficient and environment-friendly than the current lineup, which had become synonymous with America's addiction to gas-guzzling SUVs. The company is working to develop a diesel powered Hummer to go on sale outside North America.

Tengzhong will acquire the Hummer brand, trademark and intellectual property rights needed to make the vehicles. Hummer brand dealers will continue to operate under the same contracts they had in place

and hosting services, enterprise e-mail systems, Website building and e-commerce consultation.

The deal is the largest investment yet by Alibaba, a global leader in business-to-business e-commerce. It was founded in 1999 in east China's Hangzhou City.

Source: Zero2IPO

banks with proposals.

"It's been a long dry spell in IPOs, but it looks like it's gradually coming to an end," said Christian Steffens, head of equity capital markets at UniCredit in London.

While he would classify Vtion as a fairly small transaction that may not "be the swallow that makes the summer," Mr. Steffens said there has been a notable pickup in equity capital markets.

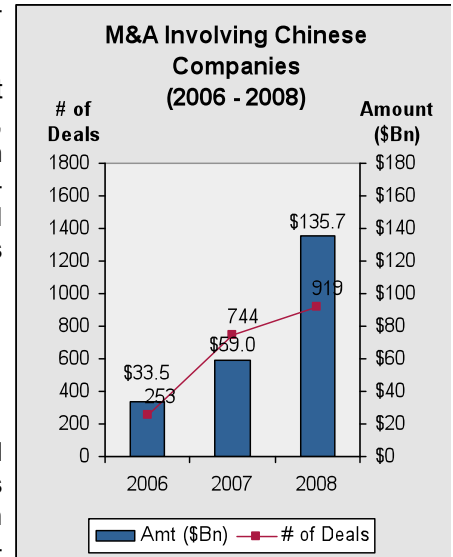
Source: Zero2IPO

with GM.

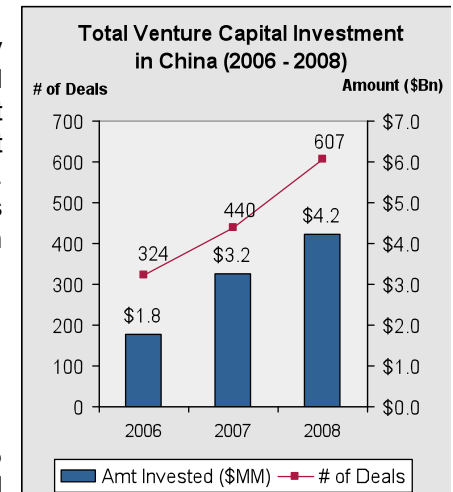
Tengzhong is buying 80% of Hummer, with local tycoon, Li Yan buying the rest through Lumena Resources Corp. (0067.HK). The 46-year-old is chairman of the Sichuan-based company, which he founded and successfully listed on Hong Kong Stock Exchange.

Lumena is one of the world's biggest producers of sodium sulphate, a key raw material used in detergents, glass and pharmaceutical products.

Source: Wall Street Journal



Source: Capital IQ



Source: Zero2IPO