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## This Week in China

### Latest Chinese Economic Data Shows Expanding Recovery

In the latest positive news regarding China's economy, the manufacturing sector grew in October at the fastest pace since April 2008, according to the country's official purchasing managers' index. The survey results have confirmed that the country's economic recovery is broadening now that renewed export demand and domestic consumption have joined government stimulus as drivers of growth.

As reported in the *Financial Times*, The China Federation of Logistics and Purchasing said its index rose to 55.2 from 54.3 a month earlier, the eighth straight monthly reading above 50, the threshold marking economic growth. The index had dropped as low as 38.8 last November but has moved back into positive territory since March of this year. The index for new export orders rose to 54.5 from 53.3 in September, and imports, which had lagged the overall index in showing recovery, jumped to 52.8 from 50.7 a month earlier. The import index was also the highest since

April 2008. Nineteen out of the 20 surveyed sectors reported a PMI index above 50 percent last month.

Zhang Liqun, an economist at a think tank under the State Council, China's cabinet, said the broad recovery in demand reflected in these readings was an indication that economic growth would accelerate. "The growth rate in the fourth quarter is likely to be 9.5 percent," Mr. Zhang said. China's GDP has increased by 6.1 percent in the first quarter, 7.9 percent in the second quarter, and 8.9 percent in the third quarter.

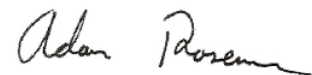
The survey's results in October were particularly strong compared with past readings for the same month. "Although the official PMI is supposed to be seasonally adjusted already, it still exhibits a clear and strong seasonal pattern," said Yu Song and Helen Qiao, economists at Goldman Sachs. "Since the start of the series in 2005, its October readings were 1.0 percent, 2.3 percent, 2.9 percent, and 6.6 percent lower than September readings in 2005, 2006, 2007 and 2008 respectively."

Jing Ulrich, Chairman of

China Equities and Commodities at JP Morgan, said the recovery in demand would offset any slowdown in government spending. "While public investment may moderate in the months ahead, private real estate investment, consumer spending and export demand should drive growth in the coming months," she said. "The improvement in China's trade outlook should alleviate problems with overcapacity in some manufacturing industries and reduce the importance of government-backed investment in the next several quarters."

In response to the latest economic data, HSBC has raised its forecast of China's GDP growth this year from 7.8 percent to 8.1 percent.

China's economy is continuing its trend of exceeding expectations. China's Minister of Commerce repeated on November 1<sup>st</sup> that despite the continued signs of economic strength, China will "stick to the proactive fiscal policy and moderately easy monetary policy." The Chinese economy will be ensured a high level of momentum going into 2010.



Adam Roseman,

Founder & CEO

ARC China

# This Week in China (cont'd)

## 22 Chinese Companies Listed on NASDAQ in 2009

The NASDAQ OMX Group has welcomed 22 companies from China to the NASDAQ Stock Market year-to-date in 2009.

The 22 listed Chinese companies, include eight IPOs, 13 OTCBB upgrades, and one switch to NASDAQ from NYSE AMEX.

"China is the largest and most important overseas market for us, with 116 listed companies," said

## China's Economy: Not Yet Mission Accomplished

Since the global financial crisis hit last year, Chinese officials have been firm about the need to maintain about 8% economic growth to ensure stability. Before the last office door swung shut at Lehman Brothers in New York, Beijing was planning how to get there, eventually unleashing a massive \$586 billion stimulus package in the spring and freeing up lending to allow billions more to put into the economy. With the announcement that GDP had expanded by 8.9% in the third quarter, China is well on its way to reaching its target for the year. That will make China the first major economy to emerge from the slowdown. But it may be too soon to declare "Mission Accomplished."

Bob Greifeld, Chief Executive Officer of NASDAQ OMX.

"Companies going public in today's market are looking for greater visibility to global investors and seeking better intelligence on investor activity from their exchange. As a result, we are seeing more companies coming to NASDAQ and increased interest in the public company support services we provide," he added.

Shengda Games, which was listed on Sept 25, is one of the largest US

Qin Xiao, chairman of China Merchants Group, said he didn't think "a quick, steep bounce driven by fiscal fixed investment is a good thing for China," adding that the current loose monetary policy should shift to neutral.

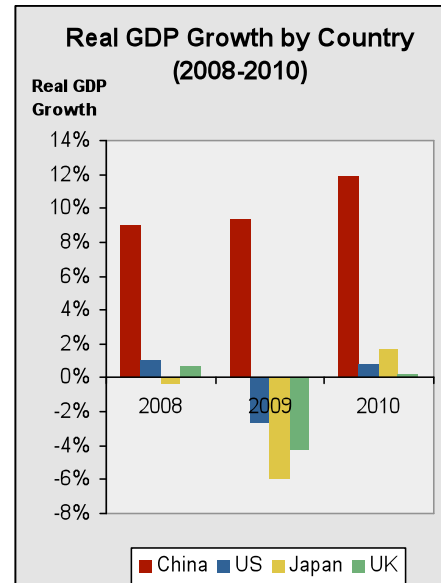
But economists said the country is likely to keep its foot on the gas to ensure the recovery doesn't falter. The State Council, China's cabinet, said it would focus on achieving a balance between promoting growth, rebalancing the economy and "managing inflation expectations." Nomura economist Mingchun Sun argues that because the State Council's statement emphasized "expectations," rather than inflation itself, the government doesn't believe inflation is a major risk and will maintain a loose monetary policy in the near future.

IPOs this year and the largest capital raise for a Chinese company in 2009.

There are currently 116 Chinese listed companies on NASDAQ, including Baidu, NASDAQ's largest listed company in China and a member of the prestigious NASDAQ-100 Index. Companies span across all major sectors including technology, media and telecom, consumer, industrials, health-care, energy, materials and financials.

Source: China Daily

Despite China's strong rebound this year, Chinese officials remain cautious. Premier Wen Jiabao said "the stabilization and recovery of the Chinese economy is not yet steady, solid and balanced." China's stimulus package — the equivalent of 14% of GDP — focused on large infrastructure projects, work often done by large state-owned construction firms. Similarly, the lending spree was primarily directed at state-owned enterprises that offer banks an implicit guarantee that the government will cover outstanding debts. The downturn in exports mainly hurt small- and medium-sized firms in the south, which are usually private owned. The result is that while profits are climbing for large, state-owned firms, the private sector has been lagging.



Source: Goldman Sachs; Euromonitor

"China is the largest and most important overseas market for us, with 116 listed companies," said Bob Greifeld, Chief Executive Officer of NASDAQ OMX.

## This Week in China (cont'd)

"The biggest challenge for the authorities is that the private sector has yet to fully recover. This makes it difficult to tighten early," said Ben Simpfordorfer, a Hong Kong-based China economist for RBS. "It also funnels money into equity and housing rather than the real economy. The temptation will be to leave policy too loose, for too long, resulting in another asset price bubble."

China has subsidized purchases for some goods including small passenger

### Beijing Sees Opportunity in US Dollar's Fall

Scepticism about US financial policy is widespread in China. With its \$2.3 trillion in foreign currency reserves, an estimated 70 per cent of which are in US dollar assets, Beijing's pride in its own relative ascendancy against the US over the past year is mixed with fear that Washington will seek to inflate away its massive debt. Indeed, the audience at a Beijing university talk by Tim Geithner laughed out loud when the US Treasury secretary said China's huge investment in US bonds was safe.

Even the country's leaders have stepped in. Premier Wen Jiabao said in March: "I request the US to maintain its good credit, to honor its promises and to guarantee the safety of China's assets."

cars and household appliances, which has led to a boom in spending in certain sectors. Passenger vehicle sales climbed 84% last month, and China is expected to surpass the U.S. as the largest car market this year. Consumers have also bought hundreds of thousands of refrigerators, washing machines and other appliances under a government promotion this year.

But while sales have climbed, many economists say the government has

Yet in recent months, as the depreciation in the dollar has gathered pace, there has been less public discussion about the issue by Chinese leaders. In part, Beijing realizes its comments could hasten the dollar's decline. Moreover, a measured fall has served its short-term interests. Given the renminbi has in effect been re-pegged to the dollar since the middle of 2008, the struggling export sector has found some relief as the Chinese currency has followed the dollar down against its other trading partners.

So far, too, China's bark has been worse than its bite. Monthly data on Treasury bond purchases seem to indicate Beijing remains a major buyer of US bonds. The debate has shifted to a more long-term one about the future role of the dollar and the renminbi. Beijing

not fully transformed consumer spending into a solid economic pillar. Chinese are still among the world's biggest savers, in part because of the lack of good public systems for retirement pensions and health insurance. "Most economists think they've overdone investment and underdone consumption and spending for social welfare," says Stephen Green, the Shanghai-based head of research for Standard Chartered Bank.

Source: *Time Magazine*

has taken steps to boost the global role of its currency, including setting up a pilot program for Chinese companies to settle trade orders in renminbi, and held talks with Russia and Brazil about settling bilateral trade in each others' currencies.

However, even within China there is a recognition that any changes in the status of the dollar are distant. "The market is too pessimistic on the dollar in my opinion. As long as the United States is still the most competitive and innovative economy, the US dollar will remain the most important currency and the global reserve currency," says Guo Shuqing, chairman of China Construction Bank, one of the country's largest. "I would like the renminbi to be a hard currency like the dollar or euro, but this will take a long time."

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*Passenger vehicle sales climbed 84% last month, and China is expected to surpass the U.S. as the largest car market this year.*

## This Week in China (cont'd)

China needs to abandon currency controls and develop a large market-driven, domestic bond market, economists say, for the renminbi to play a global role.

### China Retail Sales Likely to Grow 16% in 2010

China's retail sales will grow around 16 percent in 2010 as boosting domestic demand will remain the focus of policy, a commerce official said last week.

Wang Bin, an official in the market operation department of the Ministry of Commerce, said

### China to Improve Rural Bank Access

China's top banking regulator has promised to deliver basic financial services to every town across the country within three years in an ambitious program supported by China's largest state-owned banks.

"The problem of inadequate rural financial services in less developed areas is still very prominent, and in the remote township level is even more apparent," said Liu Mingkang, chairman of the China Banking Regulatory Commission.

Mr Liu said the aim was to provide financial services for every town-level administrative region. China has 35,000 town and township-level administrative areas, each of which has a population of

Yet economic reformers now have an important card to play. In the past, their ideas were often criticized for being too western. By presenting relaxation of currency

consumption had not yet recovered to the rapid expansion path seen before the global financial crisis, and there was still plenty of space to expand demand in the country, the China Securities Journal reported.

The 16 percent growth rate in retail sales is largely in line with what China posted in the first

roughly 20,000.

Beijing has encouraged the spread of financial services to rural areas in recent years after commercialised state-owned banks spent the past decade shutting many of their rural branches to concentrate on more profitable urban expansion. But on the orders of the central government, those banks are now searching for new markets and customers in the rural areas they previously shunned.

Guo Shuqing, chairman of China Construction Bank, the second largest Chinese lender by assets, said the bank was intent on increasing rural services and was especially interested in providing loans to small companies and peasant farmers involved with agricultural reclamation projects.

controls as a challenge to the dominance of the dollar, they are able to give their proposals a nationalist veneer.

Source: *Financial Times*

quarters of this year.

He said though it was not certain whether all stimulus policies like promoting car sales to rural consumers would continue next year, expanding domestic demand was poised to be a key note of macro policy.

Source: *Reuters*

Mr Guo said his bank and the other large state lenders were training staff and reorienting their services to cater more to smaller companies and rural borrowers, partly in response to Beijing's policy directives.

CBRC data suggests that 60 million people do not have ready access to banking services, with 15 million of those having no access to any financial services.

Even large foreign banks, such as JPMorgan, Citibank, HSBC and Standard Chartered, have heeded Beijing's call to expand into the hinterland, setting up their own rural banking branches in one or two locations.

Source: *Financial Times*

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# Metal & Mining

## China Minmetals Urges Diversification of Iron Ore Supply

China Minmetals, the country's largest State-owned metals trader, has urged industry leaders to diversify iron ore supply and improve negotiation tactics to reverse China's unfavorable position in global iron ore deals.

"Chinese steel mills seeking lower prices (of iron ore) should think more about reducing dependence on the three global miners," said Zhang Ye, vice-general manager of China National Minerals Co Ltd (MINCO), a wholly owned subsidiary of China Minmetals.

His remarks come at a time when China's steel industry is facing a de facto breakdown in iron ore negotiations for the year, while the outlook for next year's talks seems gloomy at best.

The three global miners, Brazil's Vale SA, Australia's Rio Tinto and BHP Billiton, contributed to about 50 percent of Minmetals' iron ore trading volume. But the company is looking to diversify its iron ore suppliers, he said.

Minmetals will expand its list of buyers from the current five, which include Ukraine, Chile and Russia, to eight next year. The targeted iron ore suppliers will be from North and South America, Zhang said.

He also revealed that Minmetals is close to finalizing some overseas investment and acquisition deals, but declined to reveal specifics.

MINCO's iron ore imports will touch 12 million tons this year, 2 million tons higher than anticipated, due to higher steel output, he said.

China produced 266.58 million tons of crude steel in the first half, up 1.23 percent over the same period last year, according to official data.

"It is difficult to reduce the proportion of iron ore imports from the three giant miners, given the quality of their iron ore and geographic position, but what we can do is to cut the dependence. For example, when the three miners cut supplies, we can at least have alternative resources," he said.

The relationship between Chinese steel mills and iron ore miners should be mutually beneficial since China is the largest iron ore consumer and the three giant miners account for 70 percent of the iron ore trading market, Zhang said.

"Chinese steelmakers should realize that the three global miners are very eager to sell in China and are competing with each other. So, Chinese steel mills should take advantage of this to ask for a better discount," he added.

Zhang suggested all Chinese steel mills should join hands to exert their influence during iron ore price negotiations.

China's steel industry lobby and top iron ore price negotiator, China Iron and Steel Association (CISA), is made up of 216 members, with 72 key members being State-owned steel mills. CISA is often questioned on whether it really represents China's 1,200 steel companies.

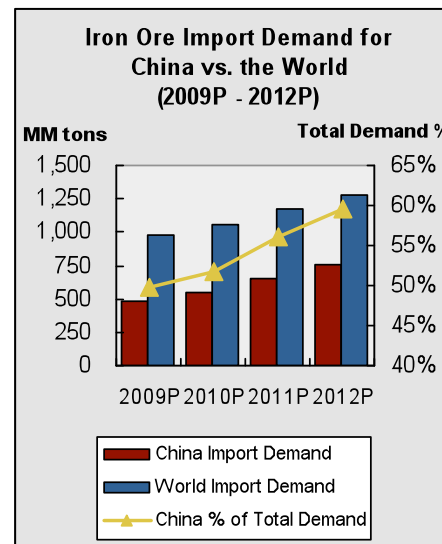
Zhang suggested that all the smaller steel mills that meet the government's industry requirements should be part of CISA.

This year's iron ore price negotiations have been deadlocked since June after China insisted on a 45-percent price discount, but Chinese steel mills opted to buy on the spot market or privately accepted long-term prices that had been set with other Asian steel mills.

The Chinese media, including some State-run organizations, have criticized CISA's inability to get a better discount from the global miners.

During the next round of negotiations, CISA should consult with experienced negotiators and market researchers to get a better price for iron ore imported from the giant miners, People's Daily Online quoted industry insiders as saying.

Source: China View



Source: Morgan Stanley

*MINCO's iron ore imports will touch 12 million tons this year, 2 million tons higher than anticipated, due to higher steel output.*

## Consumer / Retail

### Chinese Company In Lead to Buy Volvo

Ford Motor Co. tapped Chinese automaker Geely as its preferred bidder for its Volvo unit, the company announced.

Ford has been looking for a buyer for Volvo since December 2008, after a plunge in industry sales forced it to retrench to focus on its core U.S. brands of Ford, Mercury and Lincoln.

Ford has already sold the Land Rover, Jaguar and Aston Martin brands, as well as its controlling stake in Japanese automaker

Mazda.

But the premium Swedish brand Volvo was by far the strongest of the non-core Ford brands, with a well-established reputation for quality and safety and a solid dealership network. Even with doubts about its future, Volvo's U.S. market share stayed essentially unchanged this year at 0.6%, according to sales tracker Autodata.

Ford cautioned in its statement that there was still much work needed to be done in sales negotiations with Geely and that there was no timeline to close the deal.

No terms were announced.

"Ford believes Geely has the potential to be a responsible future owner of Volvo and to take the business forward while preserving its core values and the independence of the Swedish brand," said Ford chief financial officer Lewis Booth in a statement.

China's auto market now rivals the U.S. in terms of size. But even though sales are growing fast in China, the Chinese auto industry has relatively few exports.

Source: CNN Money

### Aegis Sees Strongest Ad Growth in China

Aegis Media said it expects China to be the world's fastest-growing advertising market in dollar terms and the only one to grow significantly next year as other ad markets experience slower recovery.

While the marketing business of Aegis Group PLC expects U.S. advertising spending to decrease by 16.3% this year, Chief Executive Jerry Buhlmann that the company estimates ad spending in China will grow by 6.9% this year.

Aegis increased its 2010 projection for China's growth in ad spending to 9% from 7.2%.

"China is unique," Mr. Buhlmann said. "It's the only growth market this year, and it'll be the only significantly growing mar-

ket next year."

In effect the company, which cut 5.5% of its work force late last year in anticipation of an economic slowdown, has continued to expand its business in China and expects to at least double in size in the country over the next three years, according to Patrick Stahle, chief executive of Aegis Media's Asian-Pacific operations.

Aegis Media, for which China currently represents 7% to 8% of global revenue, has 650 employees and plans to have 1,000 employees by next year, he said.

Mr. Stahle said the Chinese government's subsidy programs, which included appliance and electronics rebates for consumers in the countryside, aided the speedy recovery of China's ad

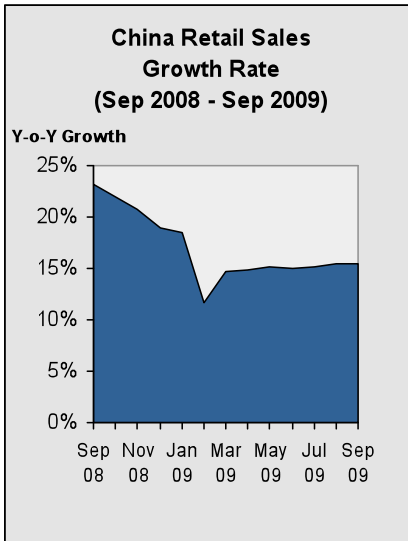
market.

Aegis Media's clients in China include Nokia Corp. and Coca-Cola Co. Meanwhile, the global economic slowdown has made way for some trends, including signs that spending on digital marketing will become stronger.

In China, the proportion of spending on digital marketing is still low relative to other markets, even though the nation has the most Internet and mobile-phone users in the world.

Mr. Stahle said advertisers in the U.K. allocate about 20% of their spending on digital marketing, while in China they allocate 4%, despite Chinese Internet use being "by far the most active in social media compared to anywhere in the world."

Source: Wall Street Journal



Source: Bloomberg

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# Recent Transactions

## China Nepstar Enters Wenzhou Market with Acquisition

China Nepstar Chain Drugstore Ltd. (NYSE: NPD) ("China Nepstar" or the "Company"), the largest drugstore chain in China based on the number of directly operated stores, announced that it has entered into a definitive agreement with Wenzhou Ren Ren Hao Chain Drugstore Ltd. ("Ren Ren Hao") to acquire the operations of all of its eight drugstores in Wenzhou City. This acquisition represents China Nepstar's first retail presence in Wenzhou, one

of the most affluent markets in Zhejiang province in terms of consumption power. The transaction is expected to be completed by the end of 2009.

Located on the east coast of China, Wenzhou is situated between the Yangtze River delta and Pearl River delta and is Zhejiang province's most populous city with a total residential population of approximately 8 million. Together with the cities of Hangzhou and Ningbo, Wenzhou is one of the key contributors to the GDP of Zhejiang province, which is one of China's top three

## Herun Media Secures RMB 20 Million Investment

Shenzhen Co-power Venture Capital Co., Ltd ("Co-power VC") and Beijing Herun Detang Media and Advertising Co., Ltd ("Herun Media") entered into a formal investment agreement, according to which Co-power VC shall make a

total investment of RMB 20 million in Herun Media. Recently, the capital injection of RMB 10 million at the first phase has been completed, with 33% of equity stake in Herun Media being owned by Co-power VC.

Established in 2007, Herun Media is mainly engaged in development and sale of branded

economic growth regions. As of June 30, 2009, China Nepstar had 186 stores in Hangzhou and 178 stores in Ningbo, and holds the largest market share in each of these markets.

Founded in 2006, Ren Ren Hao generated revenues of approximately RMB 17 million in 2008. The eight Ren Ren Hao drugstores have an average store size of 250 square meters and are located in the city center or in prime locations in nearby major townships.

Source: Zero2IPO

## China Resources to Buy Hypermarket Chain

China Resources Enterprise Holdings said it aims to focus on the rapidly growing consumer market on the mainland through an asset swap with a major shareholder, in a deal valued at nearly HK\$5 billion (\$645 million).

As part of the deal, the conglomerate will transfer its interest in a textile division and 10 percent interest in each of the two container terminal operations in Hong Kong and

China's Yantian, valued at HK\$4.78 billion, to its major shareholder China Resources (Holdings) Co Ltd, in exchange for a hypermarket chain and a brewery in Shandong, valuing HK\$4.94 billion.

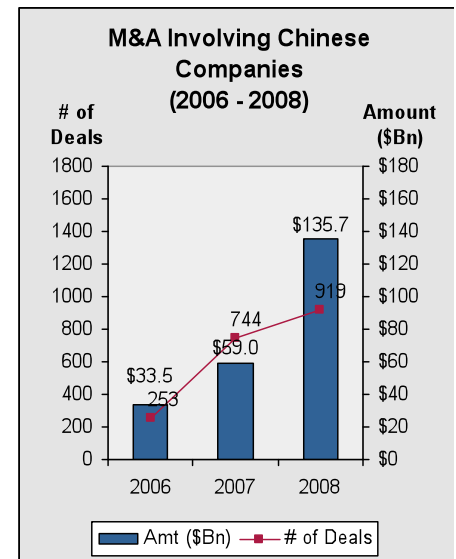
The conglomerate will pay another HK\$30 million in cash to settle the deal.

Lai said the hypermarket chain, which has 75 stores operating in northern and central China, is expected to break even this year and may contribute to profit in the years ahead.

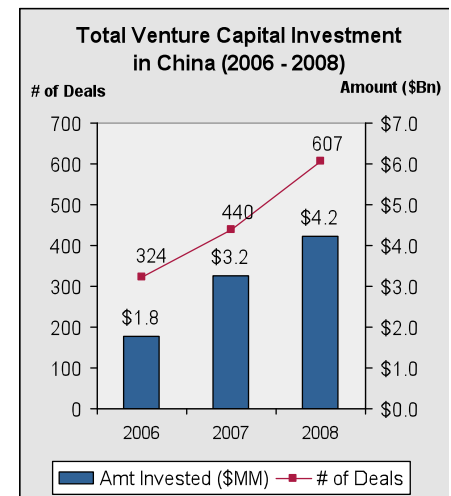
The major shareholder will also transfer a brewery to the company's brewery unit China Resources Snow Breweries Ltd in a move to expand the distribution network and production capacity in Shandong province.

Lai also said the company was in talks with various potential buyers for its stake in a joint venture with Esprit (0330.HK) but he declined to elaborate.

Source: Reuters



Source: Capital IQ



Source: Zero2IPO