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This Week in China

China Cross Border Mergers & Acquisitions Rebounding Strongly

Mergers and acquisitions (M&A) in China's domestic market are on the rebound, demonstrating that the negative effects of the global financial crisis may have only been a temporary hindrance. Beginning in the second quarter of 2010, reports indicate that foreign strategic buyers will resurface in larger volume and deal size as well, reflecting a built-up appetite for China targets. According to a report by PricewaterhouseCoopers (PwC), deal volumes in domestic and inbound M&A in China, including Hong Kong and Macau, will have returned to the robust levels seen in 2008 during the second half of 2009. More than 1,800 domestic transactions are likely to be recorded in the second half of this year, bringing the year's total to about 3,200 deals. Comparatively, the second half of 2008 saw about 2,000 deals with a total of 3,797 for the year.

"We already see increasing appetite for deals from both foreign and domestic buyers in our practice over the past few weeks," said Andrew

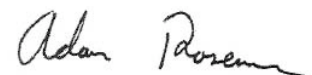
Li, a PwC China transactions partner. PwC's report cited that the major risk for Chinese companies in fostering overseas M&A deals is the insufficient risk analysis capabilities, particularly in financial and legal aspects.

Some decently sized exit transactions were reported in 2009, such as TPG/Newbridge's sale of its Shenzhen Development Bank stake to Ping An; as well as 3i's and PraxCapital's sale of their stake in restaurant chain Little Sheep Group Ltd To Yum! Brands Inc.

Outbound activity is on an upward trajectory as deal volumes for all of 2009 are likely to hit a record level of around \$30 billion-\$35 billion, more than three times higher than 2008. The largest announced deal was the \$8.9 billion offer by Sinopec for Swiss Addax Petroleum in the first half year, and there were four other deals valued over \$1.5 billion announced in the second half of 2009 including Yanzhou Coal Mining Co Ltd's acquisition of Australian Felix Resources; Sinochem Corporation's bid for Australian Nufarm; PetroChina's investment in Canadian

Anthabasca's oil sand assets; and CIC's 15% investment in US-based AES Corporation. "But this value of outbound deals is still only around a third of the value of domestic and inbound transactions, and it emphasizes again that the majority of outbound transactions are still in the energy and resources space. With the Chinese government's encouragement and the trend of Chinese companies wanting to expand overseas, we are expecting to see outbound transactions continue to grow next year," said Danny Po, a PwC China M&A tax partner.

It is expected that the China outbound growth story will continue with year-on-year outbound M&A growth of 40%+ for some time. As Chinese companies continue to add cash to their balance sheets and the renminbi eventually resumes its trend of rapid appreciation, ARC China will help facilitate the investment of Chinese companies in attractively priced foreign assets that create value for both those companies and our limited partners.



Adam Roseman,
 Founder & CEO

This Week in China (cont'd)

China Likely To See Return To High-level PE Investment In 2010

Though the financial crisis raised uncertainties in the economic outlook of many countries, China's improving macro-economy is erasing the concerns of the private equity (PE) investors focusing on the country. And the PE investment is very likely to return to a high level during 2010, says Michael Thorneman, the Managing Director of Bain & Company (Greater China).

PE investment in China has increased during the second half this year, boosted by a stabilizing economy in the country. "Many funds are seeing industries that are still growing, especially in an international context...and they see an increasing number of especially private Chinese companies with good entrepreneurs that are very dynamic. And they want to be part of that," Thorneman commented.

Among the most attractive sectors in China, the consumption and retail industry represents one third of the total investment into them, and this year it's expected to be

Chinese Banks Capital Adequacy Ratio Reaches 11.4%

Chinese banks reported 11.4 percent of capital adequacy ratio at the end of the third quarter, well above the international safety standard of 8 per

cent. Thorneman believes that China's macro-economy, which is seeing an increasingly affluent population, is a key reason for the trend.

PE funds have largely supported the enterprises in the consumption and retail sector to expand their businesses into China's inland provinces, a vast, largely undeveloped area.

The funds not only fueled those headquartered in the inland area, but also offered capital for those located in other provinces to finance their projects in this undeveloped area. The phenomenon is expected to stimulate China's domestic consumption.

The trend of "going into inland provinces" does not only happen in the consumption and retail sector. "What we have seen increasingly is that about half of investment in China by private equity goes into the inland areas," said Thorneman.

PE funds go into China's inland area largely due to the lack of competition for deals and an increasing number of emerging medium and small enterprises located in the cent, which added evidence that the nation's banking industry was in good shape.

The banks' core assets capital adequacy ratio reached 9 percent

China's banks extended

second-tier cities in this area, which provide opportunities for PE investment.

Chinese enterprises generally build up win-win deals with their PE partners, though some challenges, such as disputes on focuses of the invested-companies, can still be seen in the cooperation between two sides. "In addition to capital, invested companies see significant values of PE investors as a partner, in fields such as financial advice, management and administration advice, strategy and operation," Thorneman said.

As to a further development of China's PE industry, Thorneman saw a trend in the surge of RMB funds. He said that RMB funds could allow the PE capitals access to a wider range of the deals, and would probably benefit the development of local PE funds. He also believes that experienced fund managers play a key role in developing the RMB funds, and then diversify China's PE industry dominated by foreign funds.

Source: Zero2IPO

9.4 trillion yuan in the first three quarters, among which 61.6 percent were medium and long term loans. New loans would total 9.6 trillion yuan (\$1.41trillion) for the whole year.

Source: China Daily



Source: Goldman Sachs; Euromonitor

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This Week in China (cont'd)

Foreign Investment in China Jumps 32% on Year Earlier

Foreign direct investment in China climbed at the fastest pace in 16 months in November, lured by a strengthening recovery in the world's third-largest economy.

Investment rose 32 percent from a year earlier to \$7.02 billion. That compared with a 5.7 percent increase in October. Investment fell 9.9 percent in the first 11 months of the year.

China's economy grew the most in a year in the third quarter and the expansion should be 9.3 percent in 2010. Fast-growing developing nations will lure funds away from advanced economies for the next 10 to 20 years, according to Thomas Deng, head of China strategy at Goldman Sachs Group Inc. in Hong Kong.

"China's recovery, and especially the expanding consumer market, will continue to attract foreign investors," said Xing Ziqiang, an economist at China International Capital Corp. in Beijing.

The benchmark Shanghai Composite Index fluctuated between gains and

Next ChiNext Firms Triple Their IPO Sizes

The eight companies that make up the second batch of listings on China's new start-up board have tripled the amount they are seeking through initial public offerings.

losses, falling 0.3 percent, paring this year's gain to 79 percent.

Luxury carmaker Bayerische Motoren Werke AG said that it will build a new factory worth RMB 5 billion (\$732 million) in China to tap an auto market set to overtake the U.S.

Foreign direct investment will grow steadily in the next few months and may stay within the \$7 billion to \$8 billion monthly range attracted since August.

"China's long-term growth potential is bringing foreign capital into the country at an accelerating pace in the second half," said Dariusz Kowalczyk, chief investment strategist at SJS Markets Ltd. in Hong Kong.

Investment inflows have climbed for four months, boding well for private investment in a country that this year has garnered most of its growth from government-linked spending, said Kowalczyk.

"It's important for policy makers to see that the private sector can pick up the baton at some point," he said. "The fact that the foreign private sector is recovering and investing quite a lot is definitely

The eight companies said they will raise a total of RMB 4.9 billion (\$717.6 million) from their IPOs, compared with the RMB 1.6 billion originally planned.

The companies have an average price / earnings

positive."

Developing economies will expand 5.1 percent in 2010 compared with 1.3 percent in advanced nations, according to the International Monetary Fund.

Investment from the U.S. and European Union tumbled in November while inflows from Japan, Singapore and the countries in the Association of Southeast Asian Nations climbed, said ministry spokesman Yao Jian.

The recovery in foreign investment centers on the coastal provinces of Jiangsu, Guangdong and Liaoning, Yao said, adding that Chongqing also featured. M&A will account for an increasing proportion of the inflows, Yao added.

China's gross domestic product will expand 10.5 percent this quarter, helping the government to top its 8 percent target for the year, according to the median estimate of 38 economists. Industrial output grew more than economists estimated last month and exports fell the least in 13 months.

Source: Bloomberg

ratio of 83.6, much higher than the average of around 50 among the 28 companies that first listed on the high-growth, high-risk board.

Source: Zero2IPO

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Consumer / Retail

Daimler To Triple Beijing JV Capacity

Daimler AG, parent of German luxury car brand Mercedes-Benz, will triple the production capacity at its Beijing joint venture amid skyrocketing local demand.

The capacity of Beijing Benz-Daimler Chrysler Automotive Co. Ltd. (BBDC), a joint venture between Beijing Automotive Industry Holding Co. Ltd., Daimler AG and

Daimler North East Asia Ltd., would be raised to 75,000 to 100,000 units per year, depending on shift patterns.

BBDC has increased the localization rate of Mercedes cars to 45 to 50 percent and identified 85 new China-based suppliers and worked with them to support the local production.

It is estimated that Daimler will sell more than 70,000 cars, vans and trucks in

China this year, more than a 50 percent increase over last year. For the coming year, sales would increase at a faster rate than the 15 to 20 per cent of China's automobile market.

The company would introduce four or five new Mercedes models next year and expand the dealerships from the current 141 to 180.

Source: *China Daily*

Philippine Tycoon To Expand Mall Operations In China

Philippine tycoon Henry Sy's SM group is to accelerate its shopping mall expansion in China after 2010, by building 2-3 new malls each year.

"If you have business there, the potential is huge," said JoseSio, chief investment officer of SM Investments Corp (SMIC). "I think beyond next year we have to review whether we should

accelerate."

At present, the SM group has three shopping malls in China and is set to open the fourth one in the coming year. The group now opens only one new shopping mall each year. It plans to increase the shopping malls in China to eight or ten for any initial public offering.

The fourth mall is located in Suzhou with a total floor space of 73,000 square meters. The next two outlets, located in the cities of

Chongqing and Zibo, are scheduled to open in 2011 and 2012, respectively.

SMIC is the largest holding firm in the Philippines. Its core businesses are retailing, shopping mall development and leasing, banking and residential property development. A fifth division focused on hotel and tourism development has been recently added in its portfolio.

Source: *China Retail News*

Fendi Adds Luxury To Shanghai Flagship Store

Luxury Italian fashion house Fendi recently opened a newly refurbished flagship store in Shanghai rendered in black and honey travertine marble juxtaposed with hand-carved fiberglass panels in white.

Now the fashion house wants to turn all 15 of its stores in China into luxurious copies of its flagship store.

"We will invest more in turning old stores into flagship-style stores in the next five years rather than opening up new stores, because you need to keep Fendi really in the high end. The Fendi model will be more luxurious, limited and exclusive," CEO Michael Burke said.

Although Fendi suffered a slump in sales in the third quarter on a global scale due to the financial crisis, Fendi continues to enjoy growth exceeding 10 per cent in China.

"There was never a crisis in China," Burke said. "And by the end of 2011, there will be another large store in Hubei province.

He also said Fendi will have new garments for men and a new line of watches to introduce in China next year. "China is the only market in the world where the men's business is larger than the women's. By June next year, you will see a series of men's collections."

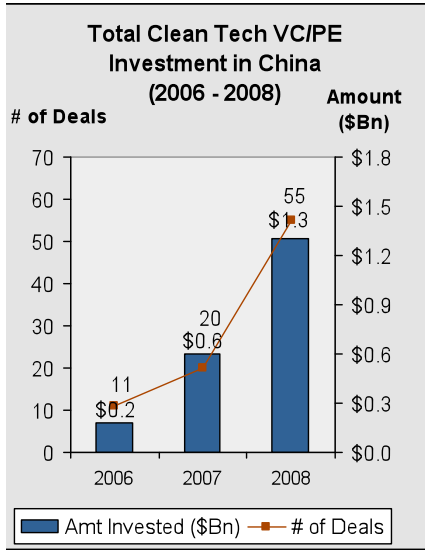
Source: *China Daily*



Source: Bloomberg

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Alternative Energy



Source: Zero2IPO

China has become the third largest wind power generator with an installed capacity exceeding 16 million kW by June this year. Just 72 percent of the total wind power capacity is connected to the power grid. The remaining 28 percent is still unexploited.

Power Majors Form Nuclear Alliance

China's two major power companies will work together to build a nuclear project in eastern Shandong province using domestically improved third generation technology, in a move to enhance the technology level in the industry.

The demonstration project, located in Weihai, will have one 1,400MW reactor in the first phase. It will use CAP1400 technology, which is based on the AP1000 technology developed by the US-based firm Westinghouse.

State Nuclear Power Technology Corp (SNPTC) and China Huaneng Group hold stakes of 55 and 45 percent in the joint venture

Goldwind To Spread Wings Overseas For Growth

Leading wind power equipment maker Goldwind Science & Technology Ltd is planning to invest in an Australian wind farm as part of its efforts to expand its turbine technology business overseas.

"We are also looking at markets in US, Central Europe and Africa, either by investing in local wind farms or by directly selling our products," according to Wu Gang, the company chairman. "We expect the overseas markets to account for 20 to 30 percent of our business over the next 3-5 years."

Goldwind's current clients are mainly domestic wind

power operators. It is also selling products to Pakistan, Turkey and several central Asian countries.

In 2008, Goldwind acquired VENSYS, a Germany wind turbine designer, to enhance its technology in wind turbine manufacturing.

Wind farms account for 10 percent of the company's business and also give it access to overseas markets for its products. "We are expanding into the upstream and downstream businesses, from turbine blade manufacture to wind farm operation," Wu said.

Goldwind's revenue has been doubling for 9 consecutive years. Its profit for the first three quarters of this year has nearly tripled to RMB 1 billion. However, Wu

that has a registered capital of RMB 300 million (\$43.94 million). Construction of the project is expected to start in April 2013. Operation is scheduled to start by December 2017.

After the CAP1400 project, CAP1700 project using similar technology but with larger capacity of 1,700 MW, will begin. China is now putting much focus on the use of advanced technology in the country's nuclear power industry. The country decided to use the AP1000 technology to build 4 reactors. Two of these are in Sanmen in Zhejiang province and the others are in Haiyang, Shandong province.

The 4 reactors are also the first in the world to use the third generation technology. So far, construction of 3 has already started, 2 in Sanmen and 1 in Haiyang. Nuclear power now accounts for less than 2 percent of China's total power capacity. It will witness accelerated development in the next few years.

Source: China Daily

An increasing number of domestic power companies have entered the nuclear power sector to take advantage of the rapid growth of the industry in China. For instance, Huaneng is building another nuclear project near the location of the CAP1400 project.

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With its stated ambition to be among the world's top five wind power equipment makers by 2013, Goldwind is now focusing more on developing megawatt equipment, including the 3 MW and 5 MW wind turbines.

Source: China Daily

Recent Transactions

Media China Completes Open Offer And Share Placement

Media China Corporation Limited announced that it has completed a share placement and an open offer on the basis of 3 shares for every 8 existing shares at HK cents 4.8 per share. A total of 2.02 billion new shares were placed to the independent third party IDG Capital Partners, while independent investors including Richard Li, TCL Corporation chairman Li Dongsheng and Enerchina Holdings Limited subscribed for 2.3875 billion unsubscribed open offer shares. CBC China Media

Medical System Secures \$10M in Second Round Financing; JAFCO ASIA Leads Investment

Medical System Technology Co., Ltd. (Medical System) announced that it has raised \$10M in second round of VC financing, which was led by JAFCO ASIA and participated by first-round investors WI Harper Group and China-Singapore Suzhou Industrial Park Development

Esprit to Buy Out China Resources in Mainland Venture

Esprit Holdings Ltd., the biggest Hong Kong-traded clothier, is buying out mainland venture partner China Resources Enterprise Ltd. and plans to make China its top market.

Esprit will pay HK\$3.88 billion (\$500 million) to acquire the 51 percent of

Limited will have a 17.62% interest in the Company upon completion of the share placement and the open offer and will remain to be its largest shareholder, while IDG Capital Partners will become an important strategic shareholder with a 7.28% interest. Net proceeds of approximately HK\$430 million were raised from both transactions. The proceeds will be used as additional working capital for the Group and for future strategic investments and acquisitions.

Media China's shareholder structure and capital base will be further strengthened with the introduce-

Co., Ltd. (CSSD). Balloch Group, as the financial advisor of Medical System, was involved from the very beginning.

Weng Kang, founder of Medical System, said money raised in this round will be used to fund new product development and market expansion.

Medical System is a professional hospital clinical information system supplier and service provider. Its

the venture, Esprit China, that it doesn't already own, the companies said in a joint statement to the Hong Kong stock exchange.

The seller of casual clothing, accessories and cosmetics in more than 40 countries is expanding in Asia as sales in Germany, its biggest market, have slumped. China Resources, which operates businesses in food

tion of IDG as a strategic shareholder, laying a stronger foundation for business expansion in the future. IDG possesses in-depth knowledge and extensive experience in China's media, cultural and tourist sectors and has made a lot of successful investments in this regard. Its investment in the Company reflects that it is very optimistic about the cross-media businesses of Media China. IDG will work together with the Company to develop and implement new business strategy.

Source: Zero2IPO

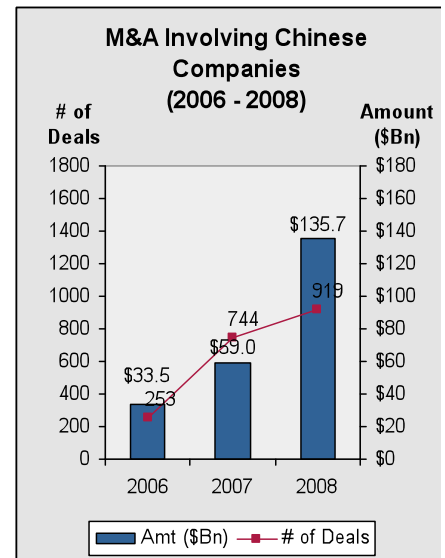
products were mainly used in the operation rooms and intensive care units (ICU), hence boasting highly professional and technical barriers. The General Hospital of the People's Liberation Army and Wuhan Tongji Hospital are among its more than 100 clients from more than 20 provinces and cities around China.

Source: Zero2IPO

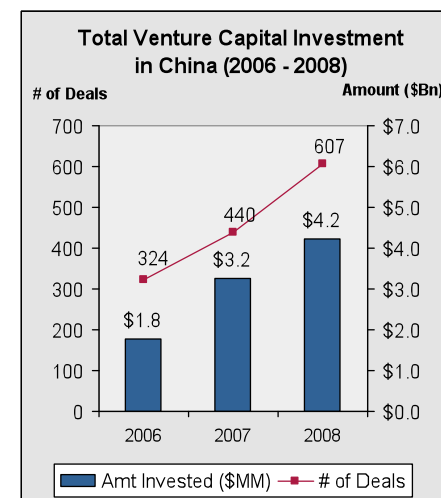
processing, textiles and ports, is revamping its units to focus on its consumer businesses.

"Our growth in Europe is naturally more limited than China," Esprit Chairman Heinz Krogner told reporters. "Esprit is becoming a completely different company with this acquisition."

Source: Bloomberg



Source: Capital IQ



Source: Zero2IPO