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This Week in China

2009 Proves to be China's Global Coming Out Party

It is no revelation that 2009 was China's year to shine. China's economy not only weathered the global recession that brought so many other countries to its knees, it led the way as the world began to recover. China hosted U.S. officials intent on ensuring that the country remain invested in the struggling U.S. economy as they recognized the immense power China holds in the form of U.S. government bonds.

China played a key role in the recent Copenhagen Accord, finally allowing the principle of "monitoring, reporting and verification" of actions promised by developing countries with some level of international oversight. China has pledged a reduction, of between 40% and 45% by 2020, in the level of its "carbon intensity" — the amount of carbon emitted in proportion to output.

Just last week, China reported revisions to official data that showed its economy was faster-growing, more services-based and closer to overtaking Japan as the world's second-largest

economy than previously estimated. The National Bureau of Statistics reported that China's 2008 GDP was RMB 31.4 trillion (\$4.6 trillion), about 4.5% larger than the previously released estimate of RMB 30.1 trillion. Real economic growth for the year was revised to 9.6% from 9%.

The bureau said the updated numbers better reflect the true importance of services in relation to the economy. The revisions also showed that China used 5.2% less energy per unit of GDP than previously reported, thus making the nation's economy more energy-efficient relative to economic output. The updated numbers provide a higher statistical base for China's economy going into 2009. Ting Lu, an economist at Bank of America Merrill Lynch, said China would likely revise higher its economic growth rates for the first three quarters of 2009, with overall economic output for the year likely to reach RMB 33.5 trillion.

Yet, the tough and confident face that China showed the world in 2009 is only part of the story. The country itself is changing and the ways in

which it continues its rise will likely continue to be one of the most amazing growth stories the world has ever seen. Over the past 30 years, China's economy has prospered due to a combination of low-cost labor at home and high market demand for its goods abroad. In China, these idyllic conditions produced the highest growth rates for any country in world history.

In 2010, we will see China shift more and more to a domestic consumption based growth model that will ensure economic growth and stability for years to come.

As this year comes to a close, I would like to take this opportunity to express my gratitude to those of you who have contributed, along with ARC China, to this phenomenal growth story. The events of 2009 have served to increase the confidence that we have in our investment thesis that was developed at the inception of our operations in China. We look forward to the next chapter in the China growth story in 2010 and continuing to invest in companies that will benefit the most from the increase in domestic consumption.

Adam Roseman,
Founder & CEO

This Week in China (cont'd)

VCs Look Towards China

With what looks to be the world's second largest market for initial public offerings and a burgeoning limited partner base, China is going to command an increasing amount of attention from some of the world's largest venture capital firms.

Both New Enterprise Associates and VantagePoint Venture Partners have plans to expand their presence in China. These plans potentially include raising a locally denominated investment fund. They join Sequoia Capital, which VentureWire previously reported has structured its next fund to focus more attention on the China market.

NEA, which has been active in China since 2005, will be devoting a bigger chunk of its investment dollars to China going forward.

Meanwhile, VantagePoint has spent the past three years building up its presence in China. The firm has seven representatives on staff in Beijing and intends to add another three to its roster before the end of the year.

Investors at several funds expected limited partner interest in China to pick up in the wake of the financial crisis, as fund managers look to allocate capital to high-growth economies.

With China predicting a growth rate of approximately 8% for next year,

according to government predictions, limited partners are unlikely to find a much higher-growth market anywhere in the world.

Increased attention from U.S. venture investors also coincides with an expected surge in capital flowing into private equity in and from China. Changes to the ways investments from financial services firms like banks and insurance companies are regulated mean that more capital should be moving into private equity and growth-capital funds in 2010.

Then there are the Chinese stock markets, which have been on fire since reopening in the middle of the year.

A recent report from the Ernst & Young predicts that the IPO market for China in 2010 could reach as high as RMB 380 billion (\$55.6 billion).

"China is one of the major economies which have been relatively less impacted by the global financial crisis, and therefore the corporate earnings, the most important parameter which determines how much a company can raise in an IPO, of Chinese companies planning for an IPO are less affected," said Joe Tsang, assurance leader for Ernst & Young's Northern China operations. "It also means that there is more liquidity in the market to subscribe for new issues. These two factors, coupled with more

foreign funds buying into the shares of Chinese companies, have driven IPO activities in the Chinese mainland and Hong Kong. This trend will continue in 2010."

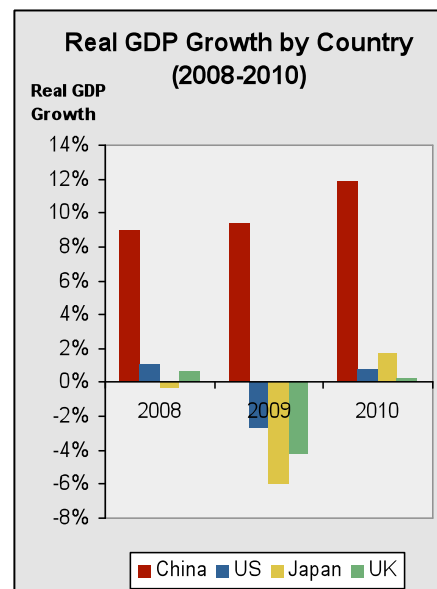
While the big boards are important, they're just a part of a bigger picture that includes China's new growth-equity exchange in Shenzhen, the ChiNext, said Sequoia Capital China's founding managing partner, Neil Shen.

"I think the launch of ChiNext is a part of the overall trend and there will be more portfolio companies listed in China, either the ChiNext, SME board or the main board in Shanghai," said Shen. "This is part of the big trend that there will be more and more VC / growth capital backed companies listed domestically."

Sequoia plans to raise a more than \$1 billion fund to invest in the U.S. and China with perhaps as much as \$900 million aimed at early- and growth-stage Chinese deals. The Menlo Park, Calif.-based firm previously pursued these strategies with separate funds.

For NEA, investments in China somewhat mirror the firm's activities in the U.S. A firm with a strong health care team in America, the Chinese team is leveraging that expertise to explore deals in the sector.

Source: Wall Street Journal



Source: Goldman Sachs; Euromonitor

With China predicting a growth rate of approximately 8% for next year, limited partners are unlikely to find a much higher-growth market anywhere in the world.

This Week in China (cont'd)

Shanghai To Overtake Hong Kong as King of Initial Public Offerings

The Shanghai Stock Exchange is expected to overtake Hong Kong as the world's largest center for initial public offerings (IPOs) in 2010 and is forecast to raise RMB 380 billion (\$55.6 billion), according to a report by Ernst & Young.

"With the economy and the capital markets becoming more stable, coupled with a strong IPO pipeline and market liquidity, we forecast that for the Shanghai Exchange alone, IPO value will increase more than two fold in 2010 than this year," said Philip Leung, regional managing partner of China Central, Ernst & Young.

China to Enhance SMEs Support in 2010

China will enhance supports to small and medium-sized enterprises (SMEs) next year with preferential tax policy and easier channels to raise funds.

Li Yizhong, Minister of Industry and Information Technology, told members of the National People's Congress (NPC) Standing Committee that the government has set up a special fund under the central budget to promote the development of SMEs and increased input into the fund each year.

The government earmarked RMB 10.89 billion

The Shanghai Exchange, raised \$14 billion in the first 11 months of this year, becoming the world's third largest center for IPOs after the Hong Kong Stock Exchange and the New York Stock Exchange.

Ernst & Young projected that the mainland's major bourse will raise a total of RMB 118 billion through IPOs this year, up 62 percent from 2008's RMB 73 billion.

The China Securities Regulatory Commission lifted a ban imposed on IPOs in June after freezing the fund-raising channel for over nine months due to the financial crisis.

The Shanghai bourse is expected to end 2009 with nine IPOs, up from five in

(\$1.59 billion) from the central budget to support SMEs development this year, more than doubled from RMB 4.99 billion in 2008, Li said.

At the end of September, China has 10.3 million registered enterprises, of which the SMEs accounted for more than 99 percent.

According to China's regulation, SMEs are enterprises whose annual business revenue is below RMB 300 million. But in the retail and accommodation industry, the maximum annual business revenue is RMB 150 million for an SME.

The SMEs, impacted by

2008, led by the world's second largest IPO by China State Construction Engineering Corp (RMB 50.1 billion), and topped by Brazil-based lender Banco Santander SA. The China home builder made its debut in Shanghai on July 29.

Construction and financial sector IPOs lead the Shanghai exchange by sector, and raised RMB 71 billion and RMB 22 billion respectively so far this year.

Yuan Yongmin, partner of assurance services at Ernst & Young, pointed out that going into 2010, financials and industrials will remain the hottest sectors by total funds raised in Shanghai.

Source: China Daily

the global financial crisis, were recovering thanks to the government's economic stimulus package. Their output during the January to September period this year equaled about 60 percent of the country's gross domestic product.

According to Li, small low-profit enterprises with an annual taxable income not exceeding RMB 30,000 could next year calculate their taxable income at 50 percent of the actual income and pay enterprise income tax at a rate of 20 percent.

Source: Zero2IPO

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This Week in China (cont'd)

Sovereign Wealth Fund May Get \$200Bn Cash Injection

Sovereign wealth fund China Investment Corp (CIC) may get a \$200 billion capital injection by the first quarter of next year after approvals from the relevant authorities.

It would also be the second time that the fund received additional funds after it got the same amount when it was set up in 2007.

Industry sources had been talking about CIC getting more funds for some time

China's New Cash Cow: Tech Firm Spin-offs

Chinese spin-offs have prospered on the back of successful IPOs such as Changyou's (CYOU.O), but pricing issues and corporate governance remain key concerns for investors.

Tencent Holdings (0700.HK), China's largest Internet firm, NetEase.com (NTES.O) China's third-largest online games operator and Chinese software developer Kingsoft (3888.HK) could be prime candidates to spin-off some business units.

"I see the trend continuing because, especially for gaming companies due to the intense competition on the ground, they need more resources to compete against one another," said Guo Chenggang, Shanghai-based analyst at research firm JLM Pacific Epoch.

Other Chinese firms to

now. The rumors gained ground after CIC started to pump money into foreign fund accounts in April this year. The fund undertook the exercise following an agreement reached in 2008, whereby it planned to allow 16 foreign funds to manage its offshore investments.

Natural resources, technology and consumer-centric sectors are the ones that can gain the most from CIC's participation.

"There's a strong belief that China would continue to increase its investment

spin off units this year include CDC Corp (CHINA.O), which listed its business software unit CDC Software (CDCS.O); Sina Corp's (SINA.O) joint venture listing of China Real Estate Information (CRIC.O); and Shanda Interactive Entertainment's (SNDA.O) \$1 billion spinoff of its online games unit, Shanda Games (GAME.O).

"The risk is the price. The multiples are higher," said Francis Gaskins, president of IPOdesktop.com.

The spin-off strategy also risks diluting shareholders of the parent company, and in the case of some firms such as Shanda, the spin-off of the firm's crown jewel, left the market perplexed.

Shanda Games, which contributes more than 90 percent to Shanda Interactive's revenue, was priced at the top of its indicative range and fell 14 percent on its debut.

in these sectors. The main challenge for CIC is how to invest at a right price in an uncertain market," said Michael McCormack, executive director at Z-Ben Advisors in Shanghai.

CIC currently has about \$50-\$60 billion of unused funds.

The big question in financial circles is the time frame for CIC to complete its second round of offshore investments after it gets the additional funds.

Source: China Daily

The stock now trades at 18 percent below its IPO price.

CDC Software trades 25 percent below its IPO price, while China Real Estate Information is down 17 percent below its IPO price.

Tencent, which is valued at \$35 billion, has diversified beyond its popular instant messaging service to become China's largest online game operator, making the unit a contender for a spin-off. Tencent's game unit earned RMB 1.53 billion (\$224 million) in the third quarter alone, accounting for 45 percent of the company's total revenue.

NetEase could spin off its advertising business which made up about 10 percent of its third-quarter revenue, while Kingsoft may spin off its corporate software unit.

Source: Zero2IPO



This Week in China (cont'd)

China Considers Compulsory Green Energy Purchases

China's top legislature discussed a legal amendment to require electricity grid companies to buy all the power produced by renewable energy generators.

The draft amendment to the Renewable Energy Law was submitted to the Standing Committee of the National People's Congress for its second reading.

According to the draft, the State Council energy department, in conjunction with the state power regulatory agency and the State Council finance departments, should "determine the proportion of renewable energy power generation to the overall generating capacity for a certain period."

A national plan on renewable energy development issued in 2007 set a target to increase renewable resources to supply 15 percent of its total energy consumption by 2020, in a bid to reduce greenhouse gas emissions and promote sustainable economic growth.

Power enterprises refusing to buy power produced by renewable energy generators will be fined up to an amount double that of the economic loss of the renewable energy company, the draft said.

However, some lawmakers said the development of renewable energy in China faced

many problems such as difficulties in connecting with the grid, over-production of wind power and solar cell material, and a lack of innovative key technologies. They suggested revision of the law should focus on prevention of blind development of renewable energy.

Of various types of renewable energy in China, lawmakers said, hydropower's quality and technology was the best. They suggested further standardizing hydropower development.

Other lawmakers said the country should support the development of biomass energy using crop straw so as to improve ecological environment and farmers' income.

Industry insiders were cited in an NPC report as saying that if grid operators completed the minimum purchase quota for renewable energy, they would have no incentive to buy more renewable energy power, "which is not in line with the principle of promoting renewable energy development."

Wang suggested the use of "smart grids" as a solution to the blind development of wind power. The smart grid includes an intelligent monitoring system that can integrate alternative sources of electricity, such as solar and wind.

The law, which took effect in January 2006, was aimed at promoting the

use of renewable energy, increasing energy supply, safeguarding energy security and protecting the environment.

It covered pricing management and supervision measures.

Signaling an official effort to shore up clean energy development and fight climate change, the law required the government set up a special fund to support renewable energy scientific research, finance rural clean energy projects, build independent power systems in remote areas and islands, and build information networks to exploit renewable energy.

The fund will be managed by finance, energy and pricing sectors of the State Council.

The draft amendment stated that the government should make national development plans for renewable energy, involving grid construction, services and supporting measures.

The draft also said grid companies should sign agreements with certified renewable energy power generation enterprises, and buy all the power up to the standard. The renewable energy power generation enterprises were obliged to assist the grid companies to ensure network security.

Source: China Daily

Consumer / Retail

Mercedes-Benz: China sales to surpass UK, then US

Due to robust sales in the world's most populous country, Mercedes-Benz expects China to unseat the United Kingdom (UK) as the company's third-largest passenger car market in the world in 2010.

Mercedes-Benz expects to sell around 100,000 cars on the Chinese mainland next year. Klaus Maier, president and CEO of Mercedes-Benz China Ltd, said recently that the company's mainland sales would reach 65,000 cars this year, up 65 percent from 2008.

Mercedes-Benz's sales on the mainland surged 68 percent in the first 11

months to 59,200 units, including 12,500 units of the S-Class, 6,400 new-generation E-Class cars, 14,500 locally produced C-Class vehicles and 14,000 SUVs. Strong S-Class sales have made China the world's biggest market for the model.

Mercedes-Benz plans to launch 16 all-new car models in the next two years globally, most of which will be introduced into the Chinese market to meet growing demand.

Analysts said the extended-wheelbase E-Class will help Mercedes-Benz boost sales in China considerably as Chinese buyers prefer roomier sedans. Rivals Audi, BMW and even Volvo have already launched long-wheelbase

Drug Major Sees Better China Sales

Drug maker Merck Sharp & Dohme (MSD) expects the pace of sales in China to accelerate due to government initiatives to improve public healthcare, said Michel Vounatsos, president of MSD China.

The size of MSD's China business will grow by 20 percent in the near future. "The signs are positive for pharmaceutical companies in China," said Vounatsos. "The problem is how to participate in the remarkable reforms."

In late November, one of its best selling products named Zocor, a cholesterol-lowering medication, was included in

the government's Essential Drug List, making Whitehouse Station, New Jersey-based MSD - known as Merck & Co Inc in the USA - the first multinational pharmaceutical company to be nominated.

The Essential Drug List is a central part of the government's healthcare reform program, which covers 300-plus categories of drugs designed to provide medicines to patients with affordable pricing.

"The price of Zocor will be reduced by more than 50 percent and so will our profit," the executive said.

Amongst cholesterol-lowering medicines avail-

models in China.

Mercedes-Benz is also expected to launch its E-Class Cabriolet convertible, which made its global debut last week in Dubai of United Arab Emirates, as an import in China next year.

Mercedes-Benz plans to increase the number of its authorized dealerships in the Chinese mainland to more than 200 in a few years from 141 at present to facilitate its sales growth.

The company aims to boost its global sales to 1.5 million cars a year by 2015, up from 1.25 million units last year.

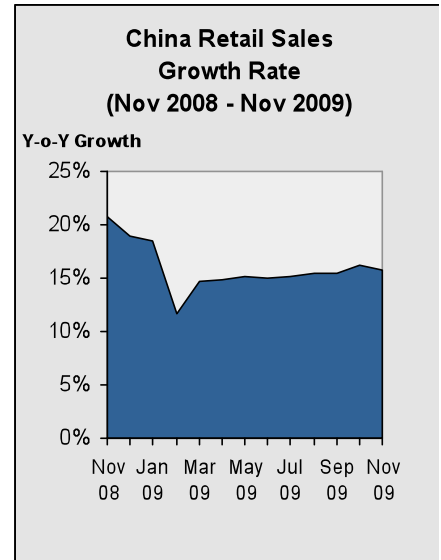
Source: China Daily

able in the nation's hospitals, Zocor ranks second by market share. Industry watchers say the drug maker's elevation to the government list puts it on the fast track to brand building.

China initiated healthcare reforms early this year, promising an RMB 850 billion (\$124.5 billion) investment in the sector over three years.

According to IMS Health, an industry consulting firm, China's pharmaceutical market is expected to rise from the world's sixth largest to the third in 2011.

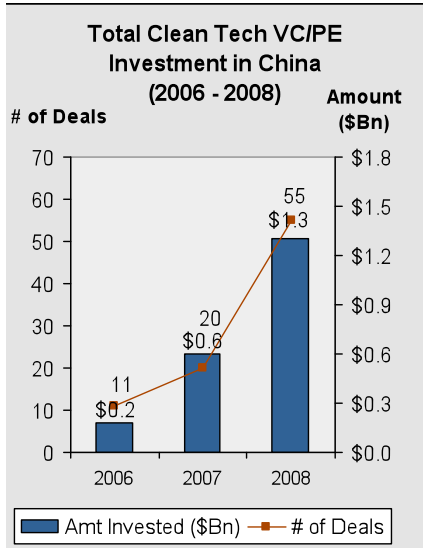
Source: China Daily



Source: Bloomberg

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Alternative Energy



Source: Zero2IPO

In 2005, China decided to increase its nuclear capacity to 40 GW, making up 4 percent of the country's total power capacity. But with the rapid development of the sector, the target is reportedly raised to 70 GW.

Four Nuclear Plants To Start By 2014

China Guangdong Nuclear Power Group (CGNPG), one of the country's two major nuclear power plant operators, plans to start operation of four plants between 2013 and 2014.

The four nuclear power projects are Taishan and Yangjiang nuclear power plants in Guangdong province, Fangchenggang plant in Guangxi Zhuang autonomous region, and Ningde project in Fujian province. The first phase will include eight reactors being put into service.

The Taishan project is China's first nuclear power plant that uses European Pressurized Reactor (EPR) technology. The first phase of the Taishan project includes two reactors, with construction expected to be completed

Grid Operator Planning To Build Mega Power Carrier

State Grid Corp of China (SGCC), a major power grid operator, plans next year to construct an ultra-high voltage carrier that will transmit electricity generated by wind and thermal power plants in Inner Mongolia to Jiangsu province.

Work on the 1,300-km transmission line is awaiting the government's nod, according to Shu Yinbiao, deputy general manager of SGCC.

Electricity generated by many wind farms in Inner Mongolia cannot be connected to the power

by the end of 2013. The project will generate 26 billion kWh of electricity annually.

Fangchenggang, Ningde and Yangjiang plants use second-generation technology.

China has chosen two third-generation nuclear power technologies to build six nuclear reactors in the country. Apart from the Taishan project, the country has chosen the AP1000 technology of US-based Westinghouse to build four reactors in Zhejiang and Shandong provinces.

Compared with conventional nuclear power plants, which use first- or second-generation technology, nuclear plants with third-generation technology are much safer and have a longer lifespan.

Construction of three of the grid at present due to a lack of power transmission capability, causing large wastage of energy. Advanced technology, in the form of a smart grid, is sorely needed.

Power transmission lines using the UHV technology can carry up to 1,000 kV. Compared with conventional lines they can transmit electricity over longer distances, and more efficiently.

China's large energy production bases are mostly located in the northern and southwestern areas due to abundant coal deposits and water sources. Yet, it is the better developed eastern regions that consume more

four AP1000 reactors has begun, according to the project builder, the State Nuclear Power Technology Corp.

Nuclear power in China has undergone accelerated development, in line with the country's goal of using cleaner energy sources.

In 2005, China decided to increase its nuclear capacity to 40 GW, making up 4 percent of the country's total power capacity.

But with the rapid development of the sector, the target is reportedly raised to 70 GW.

At present, China has 11 nuclear reactors in operation. Nuclear power accounts for less than 2 percent of the country's total power capacity.

Source: China Daily

power each year.

UHV projects can help other industries such as power equipment manufacturing.

SGCC said earlier it planned to invest RMB 100 billion (\$14.64 billion) into building UHV projects over the next three to four years.

China's first UHV power transmission line linking Changzhi in Shanxi province to Jingmen in Hubei province began operating in January this year. The line had transmitted nearly 8 billion kWh by Dec 15.

Source: China Daily

Recent Transactions

NEA Joins Hands with BioVeda to Restructure Nextchem

NEA China's Managing Director Jiang Xiaodong revealed that the company has completed the restructuring of Nexchem Pharmaceutical Co., Ltd. (Nextchem), which is the third medical enterprise to secure investment from NEA in China.

Nextchem reopened for business on Dec. 8 after a suspension of more than a year. Apart from NEA, BioVeda Capital, a top-end fund specially targeting bio/medicine investment

Sequoia Capital Invests in Luxury Good Dealer Sparkle Roll; Holds 14.9% Stake

Sequoia Capital China recently made an investment in luxury good dealer Sparkle Roll Group Limited (HKMB: 0970.HK), casting a confidence vote for the rapidly growing domestic luxury goods market. Sequoia Capital has hence become the second largest shareholder of Sparkle Roll with a stake of 14.9%.

Jiuding Capital Enters Fashion Market with RMB 50 million Investment in Wiseman

Jiuding Capital announced to enter the fashion market with an investment totaling RMB 50 million in Wiseman Fashion Co., Ltd. (Wiseman Fashion), a fashion women's apparel company.

Wiseman Fashion is an apparel company focusing

also participated in the restructuring work.

According to publicly available materials, Nextchem was founded in December 2002 and has set up manufacturing plants in both Linjiang Industrial Zone and Tongxi Industrial Zone in Wucheng New District of Jinhua City, Zhejiang Province. The Company boasts total asset value of RMB 500 million. The Company has established production of relatively large scale of its main products, the erythromycin series including azithromycin, clarithromycin and roxithromycin. It

Sparkle Roll diversified its business to the distribution of luxury goods and has since obtained dealerships of ultra-luxury cars including Rolls-Royce, Bentley, Lamborghini and Bugatti. It is also the exclusive dealer of deluxe Swiss branded watches such as Richard Mille, DeWitt, Parmigiani and top-tier branded jewelry such as Boucheron in China.

Recommended by Sequoia Capital, Sparkle Roll

on production of fashion women's apparel and knitwear. It has an annual production capacity of six million sweaters and has opened more than 400 chain apparel enterprises, with annual sales volume of RMB 400 million.

Chairman Xie Qiuhe said Wiseman Fashion is actively gearing up for an IPO and has plans to be listed on the SME Board or ChiNext late next year.

is also a leading manufacturer of carbapenem products such as meropenem, carbapenem, biapenem.

Speaking of the future plan of the Nextchem, Board Chairman Yang Zhi said the Company will inject new funds to bring in new technologies and products in a bid to achieve an annual output value of RMB 1 billion in three years and get listed on the capital market in five years with a yearly output value of RMB 2.5 billion.

Source: Zero2IPO

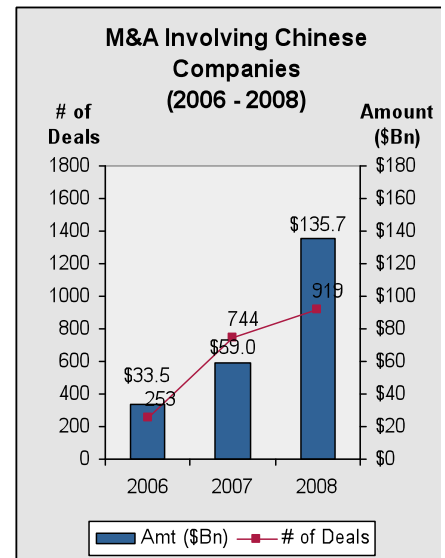
announced to form a cohesive partnership with globally renowned fine wine brand Duclot to be a dealer of its fine wines including Petrus in China.

Duclot, the old French winemaker, not only has the world's most expensive and deluxe wine brand Petrus, but also accounts for 20% of the global sales volumes of the top 100 Bordeaux wine breweries.

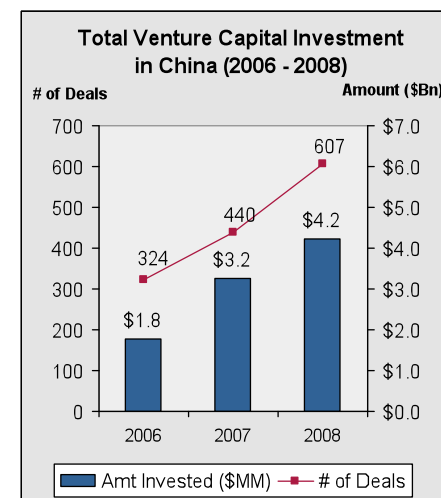
Source: Zero2IPO

Jiuding Capital Chairman Huang Xiaojie said, "We are confident in enterprises specializing in consumption upgrading products. Women in the age group of 25-35 have strong purchasing ability. With more capital pumped into national-brand apparel enterprises, it is highly likely that strong brands will arise among domestic women's apparel.

Source: Zero2IPO



Source: Capital IQ



Source: Zero2IPO