

Adam Roseman, CEO
+1 (310) 402-5902
AR@arcchina.cn

Shanghai Office

Bund 23
The Bank of China Building, 14/F
23 Zhongshan East No.1 Road
Shanghai 200002, P.R. China

Chengdu Office

Suite 2603-11
Level 26, Building A, Times Plaza
No. 2 Zongfu Road
Chengdu 610016, P.R. China

Los Angeles Office

9440 Little Santa Monica Blvd.
Suite 401
Beverly Hills, CA 90210

New York Office

590 Madison Avenue
26th Floor
New York, NY 10022

**View Past Editions of
ARC CHINA WEEKLY**

<http://www.arcchina.cn/weekly-newsletters/>

Visit Us Online

<http://www.arcchina.cn/>

This Week in China

2010 Will Continue to Spotlight China's Far-Reaching Growth

As we turn the corner on a new year, thoughts often turn to the new endeavors and fresh opportunities that await us in the months ahead. We need not look much further than the enormously diversified market and still largely untapped potential for growth within mainland China.

More than 100 cities in China have a registered population of over 1 million people and 51 of those cities boast populations of over 5 million, including 6 cities with populations of over 10 million people. These are the Tier II and Tier III cities of China – cities that many throughout the world have never heard of but will serve as the growth engines of China and essentially the world in the coming year.

A major tailwind for these enormously important inland and western regions of China, which are largely untouched by foreign capital, is the Chinese government's continuation of consumer subsidy and government spending programs that have promoted economic growth greatly exceeding that in the

coastal areas of China that foreign investors have traditionally focused on.


CEO of JLM Pacific Epoch Matt Comyns pointed out last week that 13 provincial-level regions reported double-digit GDP growth in the past year, with Inner Mongolia leading the way, while Tier 1 regions such as Shanghai were mired in "only" single digit growth.

By December 2009, Nasdaq has had 32 new listings from China, including 9 IPOs. "One highlight of this year's new listings from China is the great geographic diversity," said Robert McCooey, senior vice president of New Listings and Capital Markets of the NASDAQ OMX Group. "We have companies from all different industries and provinces. We went from no listing in Henan province to 4 listings and now we have listings from 11 to 12 different provinces in China."

McCooey had traveled to China three times since May 2009 and planned more visits. "There are tens of thousands of enterprises in China with global aspirations, and Nasdaq is expecting more of them in the future," he added.

Also at the forefront of China's continued growth are the lesser known small and medium-sized enterprises (SMEs), which represent a crucial portion of the country's GDP as the government promotes innovative policies and funds focused on furthering China's grassroots industrial revolution. According to an article from China Daily, "statistics indicate that over 60 percent of GDP, half of collected taxes, and 70 percent of the import and export value are currently contributed by SMEs.

ARC China's focus and investment in domestic consumption-oriented SMEs in China's Tier II and Tier III cities puts us in a truly exciting position at the crest of China's rising economic tide. The unique talents of ARC China's on-the-ground team will allow us to mitigate the risks of stepping into the most attractive yet under-invested inland areas of China and fully benefit from the outsized returns to be realized in those regions in 2010.



Adam Roseman,
Founder & CEO
ARC China

This Week in China (cont'd)

Asia-Pacific M&A Value Manages To Rise In 2009

Announced M&A volume in the Asia Pacific region stands at \$612.1 billion so far this year, up 12% from 2008, according to preliminary figures from financial data provider Dealogic.

"Asia-Pacific has been the only global region to see a year-on-year upturn in volume, compared to declines of 43% and 22% in EMEA [Europe, Middle East and Africa] and the Americas, respectively," Dealogic said in a recent report, referring to the percentage change in US

Companies Go West For Development

"Since mid-September, all the trucks transporting our products have been fully-loaded, queuing in a long line outside our company," said Yang Jinfu, manager of a private food oil company.

Yang's company set up a factory at Qinzhou Port Bonded Zone in

Economic Growth Set To Continue Into New Year

The country's economic growth looks set to accelerate into the new year, with booming factory production driving figures of a December manufacturing survey to a 20-month high. The official purchasing managers' index (PMI), an indicator of economic activity, jumped to 56.6 in

dollar values. Some large deals, such as mining giants Rio Tinto and BHP Billiton's \$58 billion planned iron-ore joint venture announced in June, helped to drive the improvement from last year. Still, this year was by no means a good one for M&A, as evidenced by the total number of deals announced. By that metric, Asia-Pacific activity fell to 12,082 deals, down 13% from 2008's level. Counting only completed transactions, M&A was also down for the Asia Pacific markets, falling 32% although the declines were steeper in

southwestern Guangxi seven months ago.

"At first, we came here to look for sales markets. However, such a huge market potential in the western region inspired us to set up a factory here," Yang added.

Yang's company was headquartered in southeastern China's Fujian province where the

December from 55.2 in the previous month.

China Federation of Logistics and Purchasing said on Friday. Zhang Liqun, a researcher with the Development Research Center of the State Council, the country's Cabinet, said the rising index suggested that the Chinese economy has further consolidated its recovery, and shows that Chinese manufacturers

other areas. The EMEA region saw a drop of 45%, and the America posted a decline of 34%.

For China, M&A volume stands at \$156.9 billion year-to-date -- marking the second highest level on record. The total marked an 8% rise and accounted for over 50% of Asia's M&A volume, excluding Japan.

Still, volume was down 6% from the all-time record level seen in 2008, the report said.

Source: Zero2IPO

export-oriented economy has been heavily stricken by shrinking foreign orders amid the global financial crisis.

China's vast western region, however, has taken the chance to actively attract investment and explore new domestic markets by speeding up its own infrastructure construction.

Source: ChinaDaily

have gathered momentum heading into 2010.

China's economy shot back to nearly double-digit growth in 2009 after nearly standing still at the end of 2008, giving a lift to Asia and countries such as Australia, which have been able to feed its voracious appetite for commodities.

Source: ChinaDaily



-Source: Goldman Sachs; Euromonitor

For China, M&A volume stands at \$156.9 billion year-to-date -- marking the second highest level on record. The total marked an 8% rise and accounted for over 50% of Asia's M&A volume, excluding Japan.

This Week in China (cont'd)

Chinese Manufacturing Grows By Most Since April 2004

China's manufacturing expanded by the largest amount in 5 years in December, supporting estimates that growth has accelerated to more than 10 percent in the world's 3rd largest economy.

A purchasing managers' index rose to a seasonally adjusted 56.1, HSBC Holdings Plc and Market Economics said. The measure is based on a survey of more than 400 manufacturing companies. Today's release may deepen concern that inflation pressures are building and parts of the Chinese economy could overheat this year. Liu Mingkang, China's top banking regulator, said that while asset bubbles are a threat, banks have "more than" enough

Bankers Yet To Jump On The Green Bandwagon

As a pioneering entrepreneur in China's environmental protection industry, Wen Yibo is no doubt upbeat about the prospects for his company. But a major hurdle now facing the 44-year-old is how to raise capital for business expansion.

In a statement issued on Dec 23 by the nation's top financial authorities, the government is urging domestic financial institutions to adjust their lending structure in order

capital and should extend loans to consumers and smaller businesses to sustain growth.

"There are early signs that the economy may be entering an overheating stage," he added, citing rising raw-material costs and company inventories at high levels. India's manufacturing also grew at a faster pace last month, a survey released today by HSBC and Market showed, and the U.S. is likely to report an acceleration, economists' forecasts showed ahead of the release of the Institute for Supply Management's factory index, due today.

China's economy may have expanded 10.4 percent in the fourth quarter of 2009, according to the median estimate of economists, and Sun forecasts 10.5 percent

to support key national and emerging low-carbon Industries, while at the same time helping to restrain over-capacity in other sectors. While commercial lenders have expressed an interest in exploring the largely untapped low-carbon sector, they remain wary over the inherent risks involved, including a lack of expertise lending to the sector.

But analysts say a fundamental change in the way banks lend is not likely to take place in the coming year, and mainstream lending will

growth this year.

Consumer prices climbed 0.6 percent in November from a year earlier, snapping a nine-month run of deflation. Retail sales in 1,000 stores rose 17.5 percent in the first three days of 2010 from a year earlier, the Ministry of Commerce said.

China's leaders pledged last month to maintain stimulus and keep a "moderate loose" monetary policy to cement a recovery, after the economy grew at the fastest pace in a year in the third quarter, expanding 8.9 percent. Industrial companies' profits rose 7.8 percent in the first 11 months of last year to a record RMB 2.59 trillion (\$379 billion), the statistics bureau said last month.

Source: Bloomberg

continue to flow to government-backed projects and State-owned enterprises.

But when it comes to loan candidates, banks have to make decisions based on their own commercial interests, Chen said.

The nation's historic lending spree this year has drawn widespread concern that Chinese banks could face financial challenges if massive bad loans emerged, eroding bank balance sheets in the coming years.

Source: China Daily

China's manufacturing expanded by the largest amount in 5 years in December, supporting estimates that growth has accelerated to more than 10 percent in the world's 3rd largest economy.

This Week in China (cont'd)

Liu Says China Banks Have Enough Capital, Urges Consumer Loans

China's banking regulation chief said lenders have "more than" enough capital and urged them to extend credit to consumers and smaller companies even amid the risk of asset bubbles.

Liu Mingkang, the chairman of the China Banking Regulatory Commission, also told banks to support rural development, health care, energy saving and pollution reduction in an opinion piece in Bloomberg News. He cautioned that "structural bubbles threaten to emerge" in the world's third largest economy.

A record RMB 9.21 trillion (\$1.3 trillion) of new loans in the first 11 months of 2009 drove China's recovery -- at the risk of increasing non-performing loans and creating bubbles in stock and property markets. At the same time, the government is pressing banks to steer money toward small businesses that are short of funds.

"Strong buffers," including capital, liquidity and provisioning requirements, have limited risks to the banking system from the lending surge, Liu said.

The regulator didn't say whether China will cap new loans in 2010, after Premier Wen Jiabao indicated on December 27

that last year's level was excessive.

China's policy makers are trying to secure an economic rebound while avoiding the stock and housing bubbles that plagued the U.S. this decade. Liu's warning on bubbles echoes cautions from Fan Gang, an academic adviser to the central bank, and Zhu Min, the deputy governor who was previously a vice president at Bank of China Ltd.

Property prices climbed at the fastest pace in 16 months in November, rising 5.7 percent from a year earlier, led by the eastern city of Shenzhen. The benchmark Shanghai Composite Index climbed 80 percent last year.

Liu acknowledged today that bank loans had been channeled into stock and property speculation last year, saying that "we stepped in to stop that." The regulator tightened rules on loans for homes and autos, fixed-asset investment and working capital to limit speculative flows.

"Despite the worry that the aggressive lending may strain the banks' capital, both individual banks and the industry as a whole are now more than adequately capitalized," the regulator said. "One thing we have learned from the past is that we need to build strong buffers into the banking

system that cover capital, liquidity and provisioning."

Fitch Ratings said on December 17th that Chinese banks' capital strength is probably more "strained" than it appears as lenders use more off-balance sheet transactions to make room for loan growth.

In 2010, lending should "boost consumer spending, support rural development and qualified small and medium-sized enterprises, improve health care and the social insurance system, and facilitate pollution reduction and energy saving," Liu said.

The Chinese economy may have expanded more than 8 percent last year, topping the government's target, according to economists and officials including Liu. That growth was largely fueled by government stimulus spending, and the challenges for 2010 include weakness in key export markets, the possible asset bubbles and the need to boost domestic consumption, he said.

"Although consumer spending has picked up some of the economic slack, China's under-developed social welfare system continues to restrain domestic demand from becoming a major part of China's growth story," Liu said.

Source: Bloomberg

A record RMB 9.21 trillion (\$1.3 trillion) of new loans in the first 11 months of 2009 drove China's recovery.



Consumer / Retail

Suning To Acquire Citicall Retail Management Next

Suning Appliance Co Ltd, one of the leading electrical appliance retailers in China, announced that it has signed a contract to purchase Hong Kong-based Citicall Retail Management Ltd for HK\$35 million. According to the contract, the Shenzhen-listed enterprise will wholly control Citicall Retail Management by March. The Shenzhen-listed

China Resources Vanguard Plans 360 New Outlets In 2010

China Resources Vanguard, the hyper-market subsidiary of China Resources (Holdings) Company, has opened the final outlet in its expansion plan for Guangzhou in 2009 and is looking to open around 360 new outlets in 2010.

Trade Volume At China's Largest Small Commodities Market Hits New High

The trade volume at the Yiwu market in east China's Zhejiang province, the country's largest distribution center for small commodities, set a new re-cord high in 2009 despite the global financial down-turn, local authorities said Friday. The market reported a trade volume of 41.2 billion yuan (\$6.1 billion) in the past year, indicating an annual growth of 7.8 percent, a spokesman with the Yiwu bureau of

enterprise intends to have 50 chain stores in Hong Kong within three years, including 20 existing stores, and aims to have a share of more than 25% in the home appliance market in Hong Kong. Jiang Yong, a senior officer of Suning, said that the company will open between four and five flagship stores in Hong Kong's CBD to provide more products to local customers and that each store will have a floor area of around 2,000 square

A representative from CR Vanguard told local media that the company had opened about 100 outlets in the fourth quarter of 2009. Following the opening of its first high-end supermarket Ole in Guangzhou's Taikoo Hui, Vanguard's second Ole supermarket in the city is now the subject of negotiations. In addition, the company is planning

industry and commerce said. By the end of 2009, the market had registered 137,000 stalls, almost 9,000 more than the previous year, the spokesman said. Meanwhile, 2,614 foreign businesses had opened offices in Yiwu, representing a yearly increase of 22.7 percent, he said. The export-oriented market had been hit hard by the global financial crisis since the second half of 2008, with the big slump of trade figures, he said. "To help the businesses go through the difficulties,

citicall, which reaped around HK\$1.3 billion in sales revenue in 2008, principally sells computers, communications products and camera and video products. In June Suning paid \$8.4 million for a 27.36% stake in Laox, becoming the biggest shareholder in the Japanese electronics retailer.

Source: China Knowledge

to open a fresh-food supermarket in Guangzhou.

According to Vanguard, 2010 will be a year of rapid growth for the company and it plans to open 60 new hypermarkets and 300 standard supermarkets during the year.

Source: ChinaRetailNews

the government had unveiled a string of policies, such as offering favorable loans," he said. The market began to show recovery signs in March 2009, when more than 27,000 foreign business people visited Yiwu, growing by 138 percent compared with February, he said.

"In November alone, more than 40,000 foreign business people visited the market, rising by 20 percent year-on-year," he said.

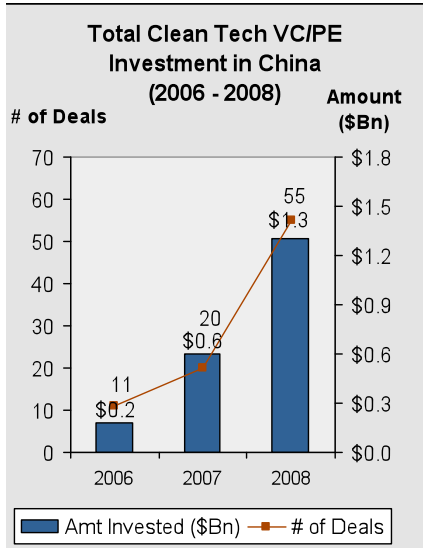
Source: Xinhua



Source: Bloomberg

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.

Alternative Energy



Source: Zero2IPO

n the United States, electricity networks still do not integrate clean energy into their power delivery mechanisms while in China those who do not integrate will face major fines. Thus, the burden of increasing China's green power usage will be upon the grid administrators.

In The New Cold War On Energy, China Wins

During the Cold War (1945-1991), China was the only major country that stood at the intersection of the two superpower camps, a target of influence and enmity for both the United States and the Soviet Union. Today, China is creating a path to sustainable energy that could conceivably make it the most powerful nation in the world. Threats to a country's energy security include the political instability of several energy producing countries, the manipulation of energy supplies, the competition over energy sources, attacks on supply infrastructure, as well as accidents and natural disasters. The limited supplies, uneven distribution, and rising costs of fossil fuels, such as oil and gas, create an immediate need to change to more

Grids Pushed To Tap Clean Power

The country's top legislature adopted an amendment to the renewable energy law that requires electricity grid companies to buy all the power produced by renewable energy generators. The amendment says the State Council energy department and the State power regulatory agency should supervise the purchases. The amendment, approved by lawmakers after it was heard the second time at a 5 day meeting of the National People's Congress (NPC) Standing

sustainable energy sources.

China is aware of the political instability created by the lack of a stabilized and sustainable source of energy. Therefore, they recently modified their 2006 Renewable Energy Law to require that every bit of renewable energy capacity generated in the country's hinterlands be connected to commercial grid networks by major utilities. However, this move entices western financiers to invest in China alternative energy programs instead of those in the U.S.

At the Copenhagen Climate Conference, Chinese negotiators showed up with major carbon intensity reduction targets in hand: they intend to cut carbon output per unit of GDP by 40%-45% before 2020, based on 2005 levels. Officials are also maintain-

ing their raw target of that 15% of their entire energy production would come from clean energy over the next decade. That is up from 9% today.

Committee, aims to support the country's fledgling renewable energy sector. It says 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". 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 com-

pany, it says. Renewable energy includes non-fossil fuels like wind and solar power, hydro power, and geothermal energy. Two-thirds of China's energy supply is fueled by coal and the country has become one of the largest greenhouse gas emitters. 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.

Currently, in both China and the United States, regional utilities tend to operate too independently for a large-scale national clean energy roll-out to be implemented smoothly. However, China's central government asserts its control catalyzing market changes through the development of sustainable energy capabilities.

Source: Examiner.com

Source: China Daily/Xinhua

Recent Transactions

StanChart PE Arm Invests In China Solar Firm Sangle

Shandong Provincial Academy of Science, backed by the local government, would remain a major shareholder in Sangle, headquartered in the northern Chinese province of Shandong, the British bank said. The statement did not elaborate on the stake size Standard Chartered Private Equity Ltd (SCPE) would receive for its investment. "China's solar

water sector will grow fast in the next few years because of favorable regulatory policies and, more importantly, driven by the low penetration of water heaters in China's rural areas," said Wei Zhu, managing director for SCPE in Greater China. Standard Chartered's (StanChart) investment in Sangle is the first deal led by Zhu since he joined the firm in October. Zhu's father is a former postal and telecommunications minister and held other senior political positions

after retirement in China, sources told Reuters. Sangle makes and distributes solar water heaters for household use in China and has secured strong sales coverage in Shandong and neighboring provinces in the past three years. The company, which runs more than 10,000 distributors across the nation, the largest network in this sector in China, plans to gradually further expand its sales network nationwide..

Source: Reuters

Zijin Mining Buying \$200 Million Of Glencore Convertible Bonds

Zijin Mining Group Co, China's largest gold producer, will buy \$200 million of convertible bonds issued by Glencore International AG to gain investment opportunities with the world's biggest commodity trader. The investment, along with Zijin's purchase of Indophil Resources NL, under-

scores the Chinese company's plan to increase overseas investment before asset prices soar.

Zijin's shares in Hong Kong have gained 59 percent this year, beating a 48 percent increase in the benchmark Hang Seng Index.

Zijin agreed this month to pay A\$545 million (\$480 million) for Melbourne-based Indophil Resources to gain a stake in

Southeast Asia's largest untapped copper and gold deposit. The company, which has spent \$300 million in the past five years on eight overseas projects, is planning to increase investment because the timing is "still good", Vice-Chairman Lan Fusheng said. Shareholders previously approved a RMB 7.5 billion (\$1 billion) debt sale .

Source: ChinaDaily

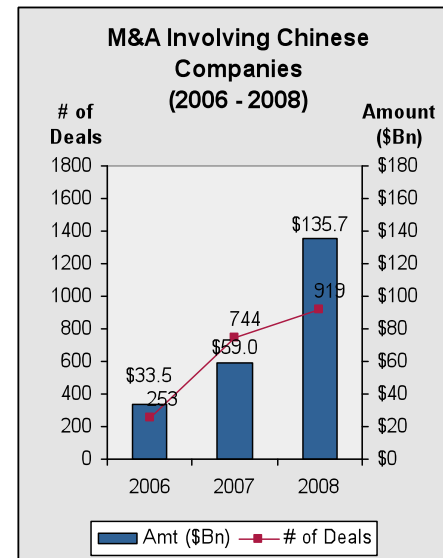
Chinese To Buy Corriente For Copper Interest

China is set to gain access to sizable copper deposits in Ecuador following an agreed C\$679 million (US\$652 million) cash bid for Vancouver-based Corriente Resources. The move by China Railway Construction and Tongling Nonferrous Metals is the latest in a string of Chinese acquisitions of

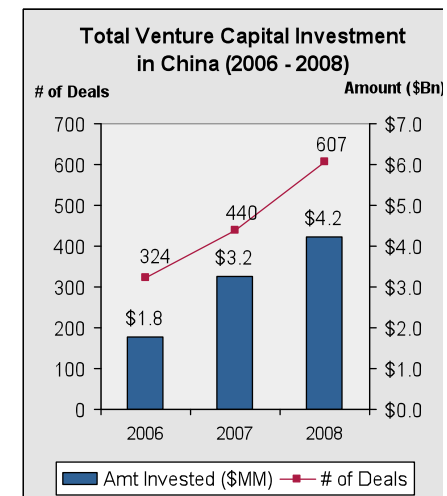
Canadian resource companies and part of a drive to expand access to metals, oil and other commodities in various parts of the world. China Railway, the biggest railway builder in China, and Tongling, a large copper miner and processor, said their bid for Corriente was in line with their long-term strategies. China Railway said it had "added development of mineral

resources as one of its principal operations". Corriente has been seeking deep-pocketed outsiders to develop copper deposits to which it holds rights in four areas in south-east Ecuador. The deposits are estimated to contain 11.5 million tons of the metal, valued at about \$50 billion at current prices, and smaller quantities of gold, silver and molybdenum.

Source: Financial Times



Source: Capital IQ



Source: Zero2IPO