



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

Magnitude of China's Economic Growth May Be Widely Underestimated

Nobel Prize winning economist Robert Fogel revealed recently that he believes the Chinese economy will reach \$123 trillion in 2040, close to three times the economic output of the entire globe just ten years ago. He predicts that in just 30 years, China will enjoy economic hegemony with a 40 percent share of the global GDP. The country's massive stake in global GDP will dwarf that of both the United States and the European Union, which are expected to have just 14 percent and 5 percent respectively.

In his findings published for the National Bureau of Economic Research, Fogel argues that many of the reports chronicling the ascent of China's economy "offer little but vague or threatening generalities, and they usually grossly underestimate the extent of the rise and how fast it's coming. Such accounts fail to fully credit the forces at work behind China's recent success or understand how those trends will shape the future." Fogel credits five

essential factors with spurring China's rise to the top.

He first points to China's state-funded investments in education, citing research findings showing that worker and overall company productivity increase relative to education.

The second factor Fogel discusses is the often overlooked role of the rural sector, responsible for about a third of economic growth today and showing dramatic increases in productivity. Census polls showed that about 700 million people, or roughly 55 percent of China's population, still lived in the countryside in 2009.

Third, he believes that Chinese statisticians are severely underestimating economic progress, most noticeably in the service sector. While improvements to the quality of output are abundant, small firms rarely report their numbers to the government and enhancements are often inadequately factored into national growth figures.

Fogel also recognizes the Chinese political system as a growth driver, stating that "most economic

reforms, including the most successful ones, have been locally driven and overseen...there's more criticism and debate in upper echelons of policy-making than many realize. Chinese economic planning has become much more responsive and open to new ideas than it was in the past."

Finally, he argues that China's "long-repressed consumerist tendencies" have made it the most capitalist country in the world right now. The slew of policies aimed at increasing domestic consumption attest to the government's confidence that the Chinese appetite for domestic goods and services will become a crucial component of economic growth.

China is without a doubt the most important growth market in the world today and the magnitude and speed at which it is reshaping the global economy is unprecedented. All investors should have at least some exposure to China to benefit from the inevitable rebalancing of the economic order in the coming years.

Adam Roseman,
Founder & CEO

This Week in China (cont'd)

IPOs May Raise Over RMB 320 Billion In 2010

Funds raised through China's IPOs (initial public offerings) will soar 73 percent to exceed RMB 320 billion (\$47 billion) this year, as companies anticipate that the IPO markets in Shanghai and Shenzhen will continue to pick up in the first half of 2010, Pricewaterhouse-Coopers (PwC) said in a report.

"Along with the further growth in domestic demand and GDP, many Chinese companies are ready and waiting to get

China To Further Promote Investment In 2010

The Chinese government will continue encouraging outbound investment while attracting foreign investment in 2010 for "stable and relatively fast" growth of the country's economy, a government official has said.

Outbound investment, or "go-global" strategy, should aim at making use of overseas resources, market and advanced technologies, so as to help facilitate development of China's domestic economy, Zhang Xiao-qiang, vice minister in charge of the National Development and Reform Commission, said in the speech posted on the commission's website.

In the first three quarters of 2009, China's overseas investment stood at \$32.87 billion, up 0.5 percent year-on-year, according to the Ministry

listed on the Shanghai and Shenzhen stock exchanges this year," said Frank Lyn, who leads the China Markets division for PwC.

"Financial services, infrastructure, industrial products, consumer goods and retail sectors will continue to be the key drivers of the China IPO market in 2010," he said.

According to the PwC report, the number of new listings might reach 145, including 15 listings in Shanghai and 130 on the Shenzhen SME Board and ChiNext.

of Commerce (MOFCOM).

The country would also continue to attract foreign investment, he said. "Social stability, huge market potential and low cost of productive resources are still advantages for foreign investment," he said. The country would see more advanced technologies and talents from foreign countries and foreign investment would better serve the structural reform of the country's economy.

Zhang said the government would stress national economic security while seeking to increase foreign investment. "We have to properly handle new challenges and situations when further opening sectors, including finance and telecommunications."

China's foreign direct investment shrank 14.26 percent from the same period last year to \$63.77

In 2009, the combined total of IPO funds raised on the Shanghai and Shenzhen stock exchanges was RMB 185.6 billion, an increase of 79 percent from 2008, according to the report.

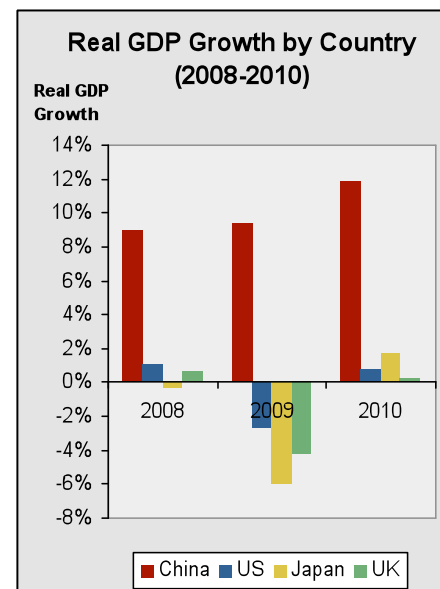
The total number of IPOs on the two stock exchanges was 97, including nine in Shanghai and 88 in Shenzhen – a 26 percent increase from the previous year, even though there were no IPOs in Shanghai and Shenzhen in the first half of 2009.

Source: ChinaDaily

billion in the first nine months as foreign companies cut spending amid the global economic downturn, according to the MOFCOM. In the speech, Zhang also said China's currency was facing renewed pressure to appreciate because of the quantitative easing monetary policy in developed countries, a weakening dollar, and recovery of China's economy.

The pressure would likely spur massive inflow of speculative money, making liquidity management more difficult. Premier Wen Jiabao also said in an interview with Xinhua that the yuan faced appreciation pressure. "China will not yield to foreign pressure for the appreciation of its currency yuan in any form. A stable Chinese currency is good for the international community."

Source: ChinaDaily



-Source: Goldman Sachs; Euromonitor

Funds raised through China's IPOs (initial public offerings) will soar 73 percent to exceed RMB 320 billion (\$47 billion) this year, as companies anticipate that the IPO markets in Shanghai and Shenzhen will continue to pick up in the first half of 2010.

This Week in China (cont'd)

China Guides Bill Yields Higher, Seeking To Curb Record Lending

China's central bank sold three-month bills at a higher interest rate for the first time in 19 weeks after saying its focus for 2010 is controlling the record expansion in lending and curbing price increases.

Stocks fell across Asia and oil declined on concern growth will slow in China, the engine of the world economy's recovery from its worst recession since World War II. The People's Bank of China offered RMB 60 billion (\$8.8 billion) of bills at a yield of 1.3684 percent, four basis points higher than at last week's sale, according to a statement.

Premier Wen Jiabao said that last year's doubling in new loans had caused property prices to rise "too quickly," while surging commodity costs were increasing inflationary pressure. Guiding market rates higher may be a prelude to raising reserve requirements or benchmark interest rates, said Shi Lei, a Beijing-based analyst at Bank of China Ltd., the nation's third-largest lender.

The MSCI Asia Pacific Index of regional stocks fell 0.5 percent and oil for February delivery slid 0.7 percent after 10 days of gains. Copper for three-month delivery dropped 0.7 percent. The Shanghai Composite Index fell 1.9 percent, led by Bank of China Ltd. and Industrial & Commercial Bank of

China Ltd.

"We expect some tightening of monetary policy in Asia in the first half," said Norman Villamin, investment analysis for Asia Pacific at Citigroup Private Bank. "Markets will struggle to go higher."

Australia's central bank raised borrowing costs by a quarter percentage point on Dec. 1 to 3.75 percent after similar moves in November and October. The Bank of Korea, which meets tomorrow, will probably raise its benchmark rate one percentage point to 3 percent by end-2010, according to a Bloomberg survey of economists. By contrast, the Federal Reserve target rate is close to zero and policy makers last month discussed increasing asset purchases should the economy weaken.

China's one-year interest-rate swap, the cost of receiving a floating rate for 12 months, rose 10.5 basis points to 2.24 percent. A basis point is 0.01 percentage point. "There's no doubt that lending has been excessive and that explains why policy makers are starting to be more cautious about lending this year," said Qu Hongbin, chief China economist for HSBC Holdings Plc.

Qu estimates new loans will be limited to RMB 7 trillion in 2010. Banks extended an unprecedented RMB 9.21 trillion of loans in the first 11

months of 2009, compared with RMB 4.15 trillion a year earlier.

The People's Bank said it would curb volatility in lending and monitor the property market, while reaffirming a "moderately loose" monetary policy. The statement contrasted with the start of 2009, when the central bank targeted "appropriate" increases in lending and said monetary policy would play "a more active role in promoting economic growth."

Consumer prices climbed 0.6 percent in November from a year earlier, snapping a nine-month run of declines. The central bank is on alert for inflation after economic growth accelerated to 8.9 percent in the third quarter of 2009, the fastest in a year.

Housing Minister Jiang Weixin said that the nation will limit credit for some home purchases to reduce property-market speculation. Prices across 70 cities rose at the fastest pace in 16 months in November, gaining 5.7 percent from a year earlier, led by Shenzhen, Wenzhou and Jinhua.

The central bank didn't state a 2010 target for growth in M2, the broad measure of money supply, after overshooting a 17 percent goal last year. The actual rate was more than 25 percent for most of 2009, rising to a record 29.7 percent in November.

China's central bank sold three-month bills at a higher interest rate for the first time in 19 weeks after saying its focus for 2010 is controlling the record expansion in lending and curbing price increases.

This Week in China (cont'd)

Private Investment Encouraged In Publishing

China will encourage private enterprises to play a bigger role in the publishing business, according to guidelines to be released by the Industry watchdog.

Private enterprises will be allowed to publish books on science and technology, finance and economy, supplementary materials to textbooks, music and arts, and children's books, says a document to be issued by the General Administration of Press and Publication (GAPP).

They can be involved in the publication of these books by supplying content, with project

cooperation or being a unit of state-run publishers, the document says. The document will be officially released, said Jiang Jianguo, deputy director of the GAPP, at a media briefing last week.

The guidelines also support private players in exploring the overseas publishing market.

Previous guidelines issued last year asked the market-oriented news organizations and publishers to turn into full-fledged commercial players in one to two years.

They also pledged policy support to media giants which publish newspapers and magazines overseas, and acknowledged the status of private

publishers for the first time.

The objective of nurturing six or seven press and publishing giants with annual revenues of more than RMB 10 billion (\$1.5 billion) in three to five years is reiterated in the to-be-released document.

As of 2009, the country had 958 publishers of books and electronic products and boasts 9,549 magazines and 1,943 newspapers. The output of the press and publishing industry is expected to hit RMB 1 trillion in 2009, the document said.

Source: Zero2IPO

China To Open Three Consumer Financing Companies

China's banking regulator approved the establishment of the country's first three consumer financing companies, which are scheduled to be started in Shanghai, Beijing and Chengdu, according to the financial services authority in Shanghai.

The Bank of China, Bank of Beijing, and Bank of Chengdu are the promoters of the three pilot consumer financing companies, which are expected to offer personal loans to finance purchases of durables without taking deposits, said sources from the financial service authority of Pudong New Area,

Shanghai.

China Banking Regulatory Commission issued in May 2009, a draft rule on the establishment of consumer financing firms, in an attempt to further spur the country's domestic consumption.

Source: ChinaDaily

China To Launch Securities Index Reflecting Cross-Straits Markets

The China Securities Index Co (CSI) is to launch the CSI Cross-Straits 500 Index on January 18th to reflect the performance of equity markets on the Chinese

mainland, Hong Kong and Taiwan.

A total of 500 stocks are chosen as samples of the CSI Cross-Straits 500 Index, including the 300 stocks covered by the Hushen 300 Index, 100 stocks of CSI Hong Kong 100 Index and 100 stocks selected on the Taiwan

Stock Exchange, CSI said in a statement on its website.

The sample stocks would be changed every six months, it said.

Source: ChinaDaily

The objective of nurturing six or seven press and publishing giants with annual revenues of more than RMB 10 billion (\$1.5 billion) in three to five years is reiterated in the to-be-released document.



This Week in China (cont'd)

Goldman's China Partner Said To Plan Mainland Retail Brokerage

Beijing Gao Hua Securities Co., Goldman Sachs Group Inc.'s partner in China, plans to start brokerage services for individual investors as early as this year.

Gao Hua, created in 2004 with funding from Goldman Sachs, is adding outlets in Guangzhou, Shenzhen, Nanjing and Chongqing that will serve retail customers, said sources, declining to be identified as the plan is confidential. Gao Hua and New York-based Goldman Sachs operate a local investment banking venture. Goldman Sachs, which controls Gao Hua through the loan, is branching out in China as its local underwriting venture trails UBS Securities Co. Almost 18 million individual investors opened brokerage and mutual fund accounts in China in the first 11 months of 2009 as more of the country's RMB 25.3 trillion (\$3.7 trillion) of household savings flow into the stock market. Beijing-based Gao Hua also plans to start an asset management busi-

China Overtakes Germany As Biggest Exporter

China overtook Germany as the world's top exporter after December exports jumped 17.7 percent for their first increase in 14 months, data showed, in another sign of China's rise as a global economic

ness this year after receiving a license from regulators in 2009, the people said.

China's CSI 300 Index rallied 97 percent last year and the Hang Seng China Enterprises Index, tracking so-called H shares of Chinese companies listed in Hong Kong, rose 62 percent. Investors should be positioned for a rally in China stocks in the first quarter, driven by favorable policies and liquidity, Goldman Sachs said in a research note this week.

UBS AG got regulatory approval to form a brokerage and investment banking venture with Beijing Securities Co. in December 2006. The Zurich-based bank owns 20 percent of the venture, called UBS Securities.

Like Gao Hua, UBS Securities offers brokerage services for institutions in China. Goldman Sachs Gao Hua Securities Co., the U.S. firm's venture with Gao Hua, only has a license to underwrite stock and bond sales. Goldman Sachs owns 33 percent of the venture.

UBS Securities ranked ninth in advising on share

force. Exports for the last month of 2009 were \$130.7 billion, data from the General Administration of Customs showed. That raised total 2009 exports to \$1.2 trillion, ahead of the 816 billion euros (\$1.17 trillion) for Germany forecast by its foreign trade organization,

sales in mainland China last year, working on RMB 6.3 billion of deals, according to Bloomberg data. Goldman Gao Hua was No. 11 with RMB 5.6 billion. UBS Securities also led Goldman Gao Hua in underwriting in the previous two years, Bloomberg data show.

CLSA Asia-Pacific Markets, the regional broking arm of Credit Agricole SA, received approval in June 2008 to trade RMB-denominated shares for institutional investors after operating in the country for five years.

Deutsche Bank AG and Credit Suisse Group AG, which last year won licenses to underwrite share and bond sales, don't have permits to trade shares on the mainland. Bank of America Corp., JPMorgan Chase & Co. and Citigroup Inc. have yet to find venture partners in China. Outside China, Goldman Sachs has predominantly shunned brokerage for individuals, focusing instead on serving institutional investors and trading with its own money.

Source: Business Week

BGA. China's new status is largely symbolic but reflects the ability of its resilient, low-cost manufacturers to keep selling abroad despite a slump in global consumer demand due to the financial crisis.

Source: Associated Press

Almost 18 million individual investors opened brokerage and mutual fund accounts in China in the first 11 months of 2009 as more of the country's RMB 25.3 trillion (\$3.7 trillion) of household savings flow into the stock market.

Consumer / Retail

Ford To Outpace China Market In 2010

Ford Motor Co posted a 44 percent jump in its 2009 China vehicle sales, and aims to outpace growth in the world's largest auto market this year, banking on continued state policy incentives to drive demand. Ford, which broke ground for a \$490 million new China plant in September, sold 440,619 vehicles in the country in 2009. Comparing with 306,306 units in 2008, it marked an acceleration in annual growth from 32% in the first nine months of 2009, the company said in

Exclusive Online Branding Of Footwear, Clothing To Expand

Shopping on the web recently, shoe aficionado Cai Xiaohua was elated to discover a footwear brand, available only online, that was both cheap and similar in style to her favorite brands.

Fortunately for Cai, she and many other online shoppers will be seeing more of the same in the future as Chinese clothing and shoe companies seek

Beijing's Biggest Diamond Shop Launched

Beijing's largest diamond marketplace "Make Lumer Shopping Plaza" opened for business during the New Year's Day holiday. With a floor space of 10,000 square meters and located in Solana, M&L plaza, they offer diamond categories that could be

a statement. Ford is the latest auto firm to report strong sales growth in the country, where automobile demand rebounded strongly last year thanks to Beijing's aggressive cuts in sales taxes on small cars and subsidies for buyers in rural areas.

Larger rival GM, sold 1.83 million vehicles in China last year, up 67%. Sales of Toyota Motor rose 21% to 709,000 units during the period.

Ford, the only Detroit automaker that has steered clear of emergency federal fund-

ing and bankruptcy, is a relatively latecomer to China, where GM and Volkswagen AG lead.

However, it is speeding up expansion in China with a 150,000 unit new car plant in the western city of Chongqing, scheduled to start operations in 2012.

Ford had in October named the parent of Geely Automobile Holdings the preferred bidder for its premier Volvo car unit and aimed to complete the deal in the first quarter.

Source: *ChinaDaily*

to peddle unique products exclusively on the Internet. Brand-name companies, including China's biggest sporting goods producer Li-Ning and the men's garment maker Septwolves are planning to launch Internet-only products in 2010 and 2011 respectively to cash in on China's booming e-market. Online shopping volume in China is estimated to have reached RMB 247.4

Source: *ChinaDaily*

Source: *ChinaDaily*

Source: *ChinaDaily*

Source: *ChinaDaily*

Source: *ChinaDaily*

Source: *ChinaDaily*

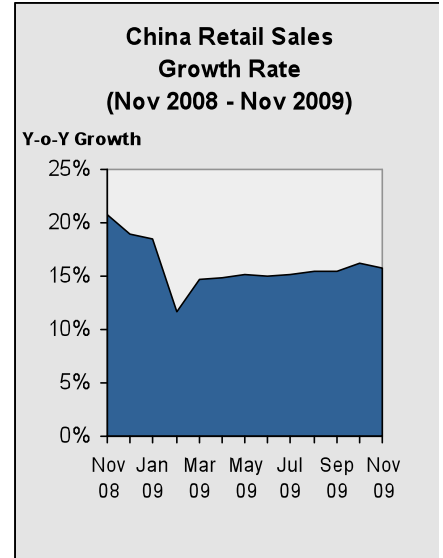
Source: *ChinaDaily*

Source: *ChinaDaily*

Source: *ChinaDaily*

Source: *ChinaDaily*

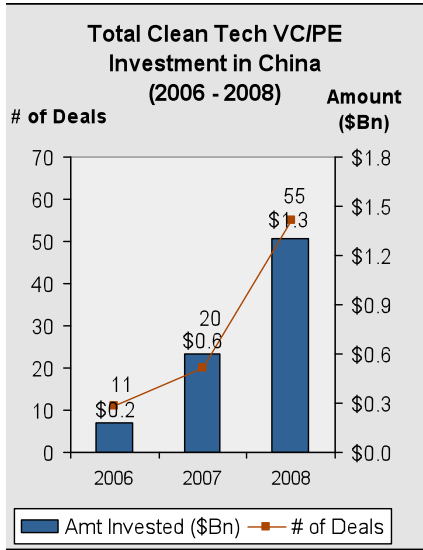
Source: *ChinaDaily*



Source: Bloomberg

Industry statistics show China, which saw a 15 percent growth of diamond consumption last year, is the only country that experienced an increase in diamond consumption in the global financial crisis.

Alternative Energy



Source: Zero2IPO

Wind power capacity in China nearly doubled in 2009 to 16.13 million kilowatts.

China Chengdu Announces Goals And Plans For Clean Energy

Chengdu, the capital of Sichuan Province, plans to increase its investment in five clean-energy industries in the next three years and hopes to reap RMB 55 billion in sales revenue from the proposed projects in 2012, said Leng Zhiyong, deputy director of the Chengdu Municipal Economic Committee.

In 2012, the city's clean-energy projects, which will receive investment ex-

China's Power Generation Capacity Up 10%

China's power generation capacity rose 10.23 percent to 874 million kilowatts by the end of 2009, only second to the US, according to figures released last week.

Thermal electricity accounted for 74.6 percent of the total, or 652 million kilowatts, down 1.45 percentage points year-on-year, as the nation strived to reduce dependence on polluting energy sources, according to the China Electricity Council. Hydro-power capacity was 197

Solar Power to Heat Up Airline Meals

Solar power will be used to heat the inflight meals of up to 30,000 passengers as part of the Beijing municipal government's RMB 200 million green energy plan. The solar system is one of the clean energy pilot projects being promoted by the Beijing municipal government. The Beijing municipal

ceeding RMB 20 billion in total, are expected to record core business revenues of RMB 30 billion in the photovoltaic field, RMB 4 billion in the nuclear field, RMB 8 billion in the wind power field, RMB 5 billion in the clean-energy auto field and RMB 8 billion in the field of solid-state lighting. According to the plan, the clean-energy industrial center of Chengdu will be located in Shuangliu County, and Xinjin County will be principally engaged in the development of poly-

million kilowatts, or 22.51 percent of the total, up 0.74 percentage points. Wind power capacity in China nearly doubled in 2009 to 16.13 million kilowatts. Nuclear power capacity was 9.08 million kilowatts, with 23.05 million kilowatts of capacity under construction by the end of last year. Some RMB 755.84 billion (\$111.15 billion) was invested on the improvement of power generation and transmission facilities in 2009, up 20 percent year-on-year. Investment in wind and nuclear power projects rose while that for

commission of development and reform (BMCDR) said it planned to build a 70-megawatt solar electricity generating system by 2012, with a total industry output value of more than RMB 20 billion.

"The consumption of new energy and renewable energy in Beijing is set to reach the 5 percent target by 2012, compared with the whole energy

crystalline silicon. Longquanyi District is expected to produce clean-energy vehicles. Chengdu Hi-Tech Industrial Development Zone and Pixian will jointly develop solid-state lighting products. In addition, the city is in the initial exploration stages of developing electrical autos and hopes to build charging centers, repair factories and service stores, sources reported.

Source: Energy China Forum

thermal power expansion fell. To fulfill its target of emission cuts, the authorities closed small coal-fueled power plants with a generating capacity of 26.17 million kilowatts in 2009. The government has pledged to increase the capacity of new energy to 15 percent of the total by 2020.

Despite the rising capacity, power supply still fell short of demand notably when the icy weather that hit most parts of the nation this winter strained power grids.

Source: ChinaDaily

consumption," said Wang Yingjian, deputy director of Beijing municipal energy and economic regulation office. Other clean energy projects include the sunny campus program, under which solar lamps, solar billboards and solar scientific classrooms will be built in half of Beijing's schools by 2012.

Source: China Daily

Recent Transactions

China Medicine Corporation Enters Into \$69.6 Million Financing Agreement With OEP

China Medicine Corporation (OTC Bulletin Board: CHME) ("China Medicine" or "the Company"), primarily a leading distributor and a developer of Western pharmaceuticals, traditional Chinese medicines ("TCM"), and other nutraceuticals announced that it has entered into a Stock Subscription Agreement for an equity private placement (the "Subscription Agreement") with One Equity Partners ("OEP"), the global private equity investment arm of JPMorgan Chase & Co.

China Medicine is OEP's first investment in Greater China and reflects the firm's commitment to back aspirational management teams to accelerate the growth of their businesses. Subject to certain closing conditions, OEP has agreed to purchase 4,000,000 of the Company's common shares at \$3.00 per share and 1,920,000 of the Company's redeemable convertible preferred shares at \$30 per share, for an aggregate purchase price of \$69.6 million. Each redeemable convertible preferred share is initially convertible into ten common shares. At closing, the Company will

receive \$12 million in proceeds while the remaining \$57.6 million in proceeds will be placed in escrow until released to fund additional capital expenditures and acquisition projects.

China Medicine expects to use the net proceeds of the financing for capital expenditures relating to its recent acquisition of LifeTech Pharmaceuticals Co. Ltd. ("LifeTech"), for working capital purposes, and for future expansion and/or acquisition projects subject to approval from OEP and the Company's board of directors.

Source: Zero2IPO

Century 21 China Plans \$150 Million NYSE IPO

Property agent Century 21 China Real Estate, partly owned by Goldman Sachs, aims to raise \$150 million in an IPO on the NYSE this month, sources familiar with the deal told Reuters.

mainland China property market, planned to start a road show next week, aiming to list by the end of January, said the sources, who declined to be identified as they were not authorized to speak to the media.

Chinese banks in 2009 flowed into the property sector, according to official data.

The company said it aimed to open 60 regional operations across China with more than 4,000 franchisees and 30,000 brokers, without giving a timeframe.

Source: Zero2IPO

Cathaya Injects \$25M For Medical Services

Private equity fund Cathaya Funds, financed by renowned French industrialist Jacques de Chateauevieux, announced that it will inject \$25 million into Asia Pacific Medical Group (APMG) to develop world class medical services in China.

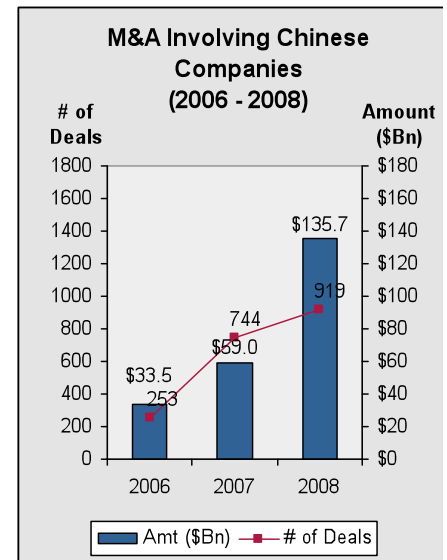
the funds will be used to develop premium medical care facilities throughout China.

According to Priscilla Lu, managing partner and founder of Cathaya Funds, the company's decision to invest was attributed to APMG pioneering in China's leading-edge medical care industry and its overall market approach.

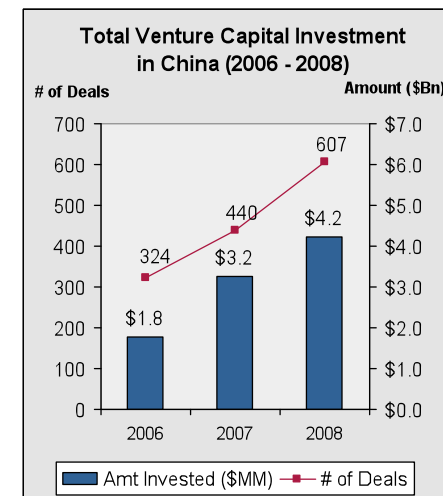
Joint ventures have been set up with China's top medical organizations including Beijing Tiantan Hospital and Shanghai Huashan Hospital to expand APMG's operational effectiveness and market influence, said Michael Choy, founder and chairman of APMG.

Source: Zero2IPO

Michael Choy, founder and chairman of APMG, said



Source: Capital IQ



Source: Zero2IPO