

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

**Xiamen Office**

8A, Hengtong Huayuan Building  
9 Jianye Road  
Xiamen 361012, P.R. China

**Danyang Office**

No.25 Dongfang Road, 4th Floor  
Danyang City 212300, P.R. China

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## This Week in China

### China Becoming the Clear World Leader in Clean Energies

China moved past competitors in Denmark, Germany, Spain and the United States last year to become the world's largest maker of wind turbines, and is poised to expand even further this year, according to a recent New York Times article. China has also emerged as the world's largest manufacturer of solar panels.

The long term implications are that the West may become reliant upon solar panels, wind turbines and other gear manufactured in China in much the same way as it became dependent on oil from the Middle East.

Multinational corporations are responding to the rapid growth by building the largest, most state-of-the-art factories in China. Vestas has built the world's biggest wind turbine manufacturing facility in Tianjin and transferred its most advanced technologies.

China intends for wind, solar and biomass energy to represent 8 percent of its electricity generation capacity by 2020 compared to less than 4

percent now.

As China seeks to dominate energy-equipment exports, it has the advantage of being the world's largest domestic market for power equipment, resulting in enormous efficiencies in production.

The government spends a great amount to upgrade its electricity grid, committing \$45 billion in 2009 alone. Regulators have set mandates for power generation companies to use more renewable energy, and substantial subsidies for consumers to install their own solar panels has increased usage significantly.

China's domestic demand for electricity is rising 15% per year and to meet demand in the coming decade, China will need to add nearly nine times as much electricity generation capacity as the US.

In the US, power companies frequently face a choice between buying renewable energy equipment or continuing to operate existing fossil-fuel-fired power plants. In China, power companies have to buy lots of new equipment regardless, and alternative energy is


increasingly priced competitively.

The Chinese government charges a renewable energy fee to all electricity users. The fee increases residential electricity bills by 0.25 percent to 0.4 percent. For industrial users of electricity, the fee doubled in November to roughly 0.8 percent of the electricity bill.

The fee revenue goes to companies that operate the electricity grid, to make up the cost difference between renewable energy and coal-fired power.

With prices tumbling, China's wind and solar industries are increasingly looking to sell equipment abroad. "Every country, including the United States and in Europe, wants a low cost of renewable energy. "Now China has reached that level [of competitive pricing]" said Ma Lingjuan, deputy managing director of China's renewable energy association.

Clean energy is one of the investment focuses at ARC China and we are pleased to participate in China's emergence as a leader in this important sector of the global economy.



Adam Roseman,  
Founder & CEO

# This Week in China (cont'd)

## IMF Tips China Growth This Year At 10%

The International Monetary Fund (IMF) the global economy is recovering faster than previously anticipated and will grow 3.9 percent this year and 4.3 percent next year. The IMF also forecast the Chinese

## China's Per Capita GDP Likely To Reach Medium Income Countries Level In 2010

China's per capita gross domestic product (GDP) or gross national income (GNI) is expected to reach \$3,400 by the end of 2010, reaching the level of medium-income countries.

## Chinese Firms To Conduct 85 Overseas IPOs In 2010

Chinese firms are expected to conduct 85 initial public offerings (IPOs) on overseas stock markets in 2010.

The main board of the Hong Kong Stock Exchange, the New York Stock Exchange, and the NASDAQ will continue to serve as the main arena for Chinese listings.

Some 40 Chinese firms are likely to seek IPOs on

## VC Firms Eye More RMB Investments

Venture capital companies are expected to increase their RMB-denominated investments in China this year, due to the launch of ChiNext for start-ups with good development prospects and a more conducive environment. In 2009, VC companies

economy to expand 10 percent this year and 9.7 percent next year, much better than previous forecasts.

But the recovery is at different speeds around the world, with emerging markets relatively vigorous and advanced economies remaining

China's economy will soon become the world's second largest, but its per capita GNI is still at the level of medium and low-income countries. However, as the country's economy has been developing at a very fast pace, its per capita GNI is improving quickly as well.

the main board of the Hong Kong Stock Exchange, most of which will be real estate, material, and machinery companies.

An estimated 20 Chinese firms will conduct IPOs on the New York Stock Exchange. Like the trend in 2009, they will mostly come from high-tech, education, medical, new energy, and consumer goods industries.

Other markets including the Singapore Exchange

invested \$1.37 billion or 50.7% of their total investments in 297 RMB-denominated projects, while the remaining funds were channeled into 169 foreign-currency projects.

Of the 99 firms that launched initial public offerings on the Chinese mainland last year, 47 got backing from VC and

sluggish and still dependent on government stimulus measures.

"For the moment, the recovery is very much based on policy decisions and policy actions," said IMF Chief Economist Olivier Blanchard.

Source: China Daily

During the 11th Five-Year Plan (2006-10) China's average annual GDP growth rate will reach 10.1 percent, 2.6 percentage points higher than the 7.5 percent level as planned.

Source: China Daily

(SPXCY) and the KOSDAQ, South Korea's NASDAQ equivalent, are expected to attract 25 Chinese IPOs, mostly by consumer goods and high-tech firms in southern China's Fujian and Guangdong provinces.

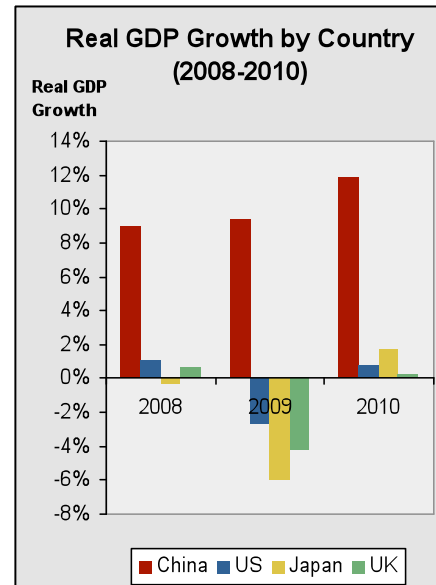
Zero2IPO predicted that around 180 firms would list on the domestic stock market this year and the listing pace in the first half would be faster than that in the second.

Source: Zero2IPO

private equity firms.

By the end of last year, 42 start-ups had launched IPOs on the Nasdaq-style ChiNext board, and 28 of these companies were backed by 44 VCs and PEs, which got an average return of 7.5 times based the IPO prices of these start-ups.

Source: Zero2IPO



Source: Goldman Sachs; Euromonitor

The IMF also forecast the Chinese economy to expand 10 percent this year and 9.7 percent next year, much better than previous forecasts.

## This Week in China (cont'd)

### Two Major Developments For Chinese Capital Markets

Venture capital and private equity investments are finally making their way into China.

China's GDP grew at an astonishing rate of 8.9% in the third quarter. However, it is the recent evolution rather than the expansion of the Chinese economy that has many investors and economists intrigued.

In an effort to promote this evolutionary spirit, the Chinese government has gone to great lengths to aid in the creation of a capital environment where small-to-medium sized enterprises (SMEs) can thrive. According to the government, SMEs drive innovation and create an enormous amount of jobs at a time when the country is looking to reduce its reliance on manufacturing and state-run enterprises.

Over the last few months, two monumental steps have been taken to help foster the development of this early-stage financing market within China: the government's allowance for offshore VC/PE firms to create yuan-denominated funds within China, and the creation of ChiNext, a NASDAQ-style exchange with an emphasis on early-stage growth companies. The combination of these two innovations will provide investors in China with a wealth of opportunities to find the next big growth stock. Starting in the third quarter of 2009,

foreign firms have finally been given approval to raise RMB-denominated funds within China. The initial response to this change has been enthusiastic, as many of the world's largest private funds have scrambled to launch RMB-based funds, including Blackstone Group, Carlyle Group, and Macquarie Group.

The allure of RMB-based funds is based on the notion that they could significantly shorten the approval process associated with new investments within China, as well as allow foreign funds to target wealthy Chinese investors and pensions as potential clients.

The Chinese government's decision to allow foreign companies to set up RMB-based VC/PE funds in mainland China will go a long way toward expanding the funding channels for SMEs. Combined with a legitimate exit channel for risky and innovative SMEs, this will even further add to the development of China's early-stage capital market.

On October 23, 2009, after 10 years of planning and preparation, China's growth enterprise board, called ChiNext, was opened in Shenzhen to act as the NASDAQ of China.

ChiNext was created with lofty expectations in mind, namely to help fund innovation and risk-taking at the corporate level throughout China. As

mentioned earlier, the Chinese government is attempting to shift its economy away from heavy manufacturing towards novel, higher-value industries through the promotion of SMEs and ChiNext, which combined with early-stage financing from VC/PE funds, can help make this a reality.

Of the first batch of 28 companies that will began trading on ChiNext, 23 received venture capital and/or private equity funds at some point in their development. Of the 28, six are new energy and materials companies, six are in the pharmaceuticals and medical equipment business, and the rest are in the information technology, advanced manufacturing, and modern services industries.

The launches of ChiNext and RMB-denominated VC/PE funds have helped laid the groundwork for early-stage financing channels within China. Thanks to government intervention, high-risk and innovative Chinese SMEs are better equipped than ever to develop into profitable ventures. Still, it would be wise for potential investors to avoid jumping on the bandwagon too soon. Of course, a majority of the initial listings on the ChiNext could prove to be wildly successful.

Source: Zero2IPO

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## This Week in China (cont'd)

### Mortgage Loans Harder To Get After Govt Policy

Commercial banks in Beijing are tightening their first apartment loan policy and adopting a stricter qualification check on clients who want to buy a second apartment.

An employee of a China Construction Bank branch said since November 2009, clients applying for mortgage loans can only enjoy a 10 percent discount if their down payment is 20 percent. Only when they pay 40 percent of the down payment can they get a 30 percent discount.

And customers at the Bank of China can only get discounts of as much as 15 percent instead of

### XAIC Extends Contract With Boeing

Xi'an Aircraft International Corporation (XAIC) delivered the 1,500th vertical fin for Boeing's best-selling B737 aircraft and signed an extended contract to supply another 1,500 units to the US aircraft manufacturer.

The new order is the largest subcontracting agreement in terms of volume the Chinese aviation manufacturing industry has ever received.

"The extension of the contract showed that XAIC is capable of producing large-size aircraft components in large volume for leading international aviation manufacturers. It is a

the standard 30 percent.

However, an employee from the China Merchants Bank in Beijing said they were still offering unchanged loans to their customers, but the rate is expected to drop by 5 percent in February.

A customer manager from a China Construction Bank outlet said they have now imposed a stricter qualification check, with the approval time lengthened to as long as several months.

Loans for real estate developers and individual customers increased greatly in 2009 to match demand. Personal housing loans also grew by almost 70 percent compared to 2008.

milestone in XAIC's efforts to become a strategic partner for Boeing and Airbus," said Meng Xiangkai, president of XAIC.

Vertical fins are typically found on the aft end of the fuselage and are intended to reduce aerodynamic sideslip. Boeing manufactures 31 B737 planes per month. Nearly two-thirds of the B737 worldwide fleet are equipped with vertical fins produced by XAIC.

Boeing's archrival Airbus is also expanding industrial cooperation in China. The total annual value of Airbus' procurement in China reached over \$100 million in 2008 and is expected to touch \$200 million this year and \$450 million in

"This tighter policy is the result of an adjustment on loan regulations from the central government," said Guo Tianyong, director of the China Banking Research Center of the Central University of Finance and Economics.

He noted that the regulation is being implemented by some banks to put the brakes on the increasing loan rate.

"Since there is no clear-cut policy among banks and the house price is still fluctuating, I choose to wait until the policy and price are stable," said Ma Yue, a market assistant from the China National Pharmaceutical Industry Corporation.

*Source: China Daily*

2015.

XAIC also produces wings for Airbus A320 airplanes. The A320 wing is the largest and most complicated aircraft component a Chinese company has ever made. China is Airbus' only wing manufacturer outside Europe.

XAIC is a major supplier to China's homegrown regional jet ARJ21 and large commercial passenger aircraft C919 by manufacturing fuselage and wings.

AVIC is using XAIC as a platform to consolidate its commercial aircraft manufacturing businesses by injecting assets worth 8 billion yuan into the Shenzhen-listed company.

*Source: China Daily*

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*The total annual value of Airbus procurement in China reached over \$100 million in 2008 and is expected to touch \$200 million this year and \$450 million in 2015.*

## This Week in China (cont'd)

### CIC Planning More Resource Investments

China's \$300 billion sovereign wealth fund is considering new investments in resource-related companies after bets on commodities producers from the US to Kazakhstan paid off in 2009.

China Investment Corp (CIC) increased spending on energy and mineral assets last year to profit as the global economy recovers. The Beijing-based fund avoided the worst of the credit crunch in its first full year in 2008 and may have had a return of more than 10 percent in 2009, said London-based Jan Randolph, director of sovereign risk, analysis and forecasting at IHS Global Insight. "They have timed the upside well both in market terms, but also to fit in with the longer-term diversification strategy," Randolph said.

CIC has had "early" talks for direct investments in Brazil, the world's second-biggest iron-ore exporter, and Mexico, the No 2 silver producer, Chairman Lou Jiwei said. Lou pumped about \$10 billion into commodity-related companies in the second half of 2009, according to data compiled by Bloomberg.

With China's reserves at \$2.4 trillion and swelling by an average of \$37.8 billion a month last year, CIC has asked the government for another \$200 billion, the Economic Observer reported.

In July, CIC bought 17.2 percent of Teck Resources Ltd, Canada's largest base-metals producer, for \$1.5 billion. It acquired an 11 percent stake in a unit of Kazakhstan's state-run energy company in late September, two weeks before purchasing 45 percent of Nobel Oil Group of Russia.

In November, it announced investments in US power producer AES Corp and GCL-Poly Energy Holdings Ltd, China's biggest polysilicon producer.

AES closed at \$13.31 in New York trading on December 31st, giving CIC a paper profit of 7 percent, while GCL-Poly shares had risen 30 percent from the fund's HK\$1.79 purchase price.

CIC's early investments also recovered some losses last year, with shares of Blackstone Group LP doubling and Morgan Stanley's stock surging 85 percent.

Those returns may encourage CIC to be "more aggressive", according to Zhang Zhiming, director of asset allocation research at HSBC Holdings Plc in Hong Kong.

"Most investors do momentum investing and CIC is no exception," he said. "They are sticking to a double-diversification principle. First, buy a bit of everything and be geographically spread out. And timing-wise, to be

also spread out to avoid major ups and downs."

China Investment Corp will likely expand the scope of its investments this year into "all categories", including US and European markets that it largely shunned in 2009 during the crisis, Zhang said. The fund may invest in a US infrastructure project, Lou said. It may put money in US high-speed railways, the Shanghai Securities News reported.

CIC was created in September 2007, funded by a \$200 billion chunk of the nation's foreign reserves. The \$2.4 trillion in reserves - equivalent to the annual output of India and Australia combined - have increased about 60 percent since CIC was founded, driven by current account surpluses and foreign direct investments.

A CIC press official said she was unaware of the request for \$200 billion in extra funds reported by the Economic Observer. The company's top executives weren't available for interviews for this story.

"CIC will soon become one of the top three sovereign wealth funds in the world with this extra capital, and one of the most aggressive in 2010 to 2015," said IHS's Randolph.

Source: China Daily

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*The Beijing-based fund avoided the worst of the credit crunch in its first full year in 2008 and may have had a return of more than 10 percent in 2009, said London-based Jan Randolph, director of sovereign risk, analysis and forecasting at IHS Global Insight.*

# Consumer / Retail

## Coach To Open First Mainland Flagship Store In Shanghai

The American luxury accessories designer and maker Coach has announced plans to open its first Chinese mainland flagship store in Shanghai in April 2010.

Located at the junction of Shanghai's Huaihaizhong road and Songshan road, this new flagship store is designed by Coach's

construction and design team. It covers an area of 650 square meters, the two-floor store has two new features: a women's accessories area and a men's boutique series area.

To celebrate the opening of this flagship store, Coach specially designed a series of limited edition handbags, which are only available in this new store.

In addition, the company

has organized a charity activity named "Star Totes" to coordinate with the opening of this store. Coach has invited celebrities from all over the world to do artistic creations on Coach's handbags. These handbags will be auctioned on the Internet and the income will be donated to the Jackie Chan Charitable Foundation.

Source: China Retail News

## Mainland Advertising Grew 13.5% in 2009

Advertising in the mainland grew 13.5% in 2009, reaching \$74 billion, reported the South China Morning Post. The most profitable industries were cosmetics and toiletries, with L'Oreal topping the list with an advertising

## Li & Fung Jumps On \$2 Billion Walmart Sales Deal

Li & Fung Ltd. surged the most in eight months in Hong Kong trading after signing a deal with Wal-Mart Stores Inc. that strengthens its position as the world's largest supplier of toys, clothes and furniture to retailers.

Li & Fung jumped 10 percent, the most since May 27, to close at HK\$35.60, making it the top gainer on the Hang Seng Index, which slid 1.15 percent.

The arrangement may generate an additional \$2 billion of sales in the first year, helping Li & Fung meet its \$20 billion

expenditure of \$42 million. The greatest growth in ad spending occurred in the beverage industry, which experienced a 52% annual growth. The milk-tainting scandal forced companies like Mangniu and Yili to increase ad spending by 77% and 99% respectively. Television dominated the revenue target for 2010. The company's stock, whose 53 percent gain over the past six months makes it the second-best performer on Hong Kong's benchmark index, was raised to "buy" at Deutsche Bank AG.

Wal-mart will have the option to acquire WSG Pte, the buying agency involved in the arrangement, after Jan. 1, 2010, from Li & Fung.

WSG Pte will have the capacity to supply \$2 billion of goods in its first financial year. The company expects Wal-mart to buy that much in the first 12 months.

The arrangement comes within eight days of both

market, representing a 78% share as an advertising medium even as the State Administration of Film, Radio, and Television limited commercials to only 12 minutes per hour.

Source: China Economic Review

Victor and William Fung, the billionaire brothers who are the outsourcer's biggest shareholders, saying global demand for consumer goods will be slow to return to the level that existed before the financial crisis. Victor Fung is company chairman, while William Fung is managing director.

"The Walmart deal will be able to offer sales and earnings growth drivers in the next two to three years," said Hong Kong-based Deutsche analyst Anne Ling. "We are also more positive on cost-saving exercises as the new account will absorb some of the existing staff."

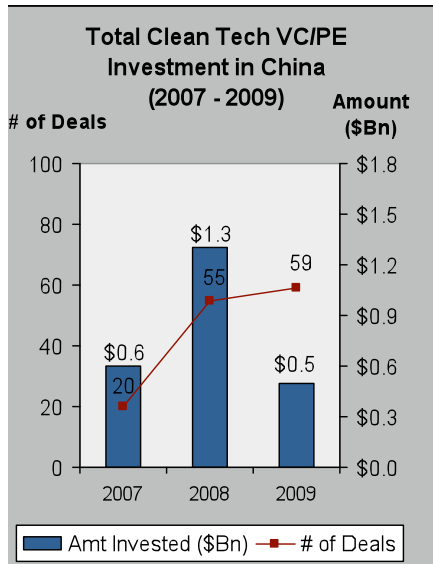
Source: China Economic Review



Source: Bloomberg

Advertising in the mainland grew 13.5% in 2009, reaching \$74 billion.

# Alternative Energy



Source: Zero2IPO

*China, with the world's second largest power capacity after the United States, will add 85 million kilowatts of new capacity in 2010 to bring the total to around 950 million kilowatts.*

## China Wind Power Accelerates Clean Energy Project In Heilongjiang

China Wind Power International Co Ltd, which was listed on the Toronto Venture Exchange, said in an update on its project pipeline in Du Mon County, Heilongjiang Province, including its Sino-Danish project, has been identified by the Heilongjiang Province Development and Reform Commission as one of the key development areas in the

## China Everbright Invests in 54 MW Straw-to-Energy Project

The company launches its first biomass development project in China's Anhui Province, with the Phase I expected to cost RMB 331M.

Hong Kong-based China Everbright International said it has signed an investment cooperative framework agreement with

## China To Increase Power Capacity By 85 Million KW In 2010

China, with the world's second largest power capacity after the United States, will add 85 million kilowatts of new capacity in 2010 to bring the total to around 950 million

## Sembcorp To Invest \$9 Million In Wastewater Treatment

Sembcorp, a company based and owned in Singapore, will invest \$9 million for an 80% stake in a joint venture company to provide wastewater treat-

province.

China Wind Power has filed the final application for its Sino-Danish project, which is expected to have an installed capacity of about 200 MW when completed.

"Heilongjiang government set up a magnificent goal for wind power development and has put huge efforts to promptly carry out its Master Plan." said Mr. Jun Liu, Chief Executive Officer of China Wind.

the Dangshan Municipal Government in Suzhou City, located in eastern China's Anhui Province, to invest in environment related projects in Dangshan County.

The first project includes China Everbright investing in constructing a straw-to-energy project, being built in two phases. Phase I, at a cost of RMB 331 million (\$48.5 million), is expected

kilowatts.

Of the newly increased capacity, 55 million kilowatts will be coal-fired, 15 million kilowatts for hydropower, 13 million kilowatts for wind power and 1.08 million kilowatts for nuclear power, the China Electricity Council

ment services to industrial customers in the Qinzhou Economic Development Zone in China's Guangxi Province.

The remaining 20% stake in the company will be held by a Chinese firm wholly-owned by the

The provincial government has also granted a subsidy totaling RMB 1 million to the company to support and encourage the development of its wind energy projects. In addition, the company has also been awarded an RMB 1.62 million subsidy from the Du Mon County Government for its achievement in improving its wind far control and monitoring systems.

Source: ChinaMining.org

to include two furnaces and two 18 megawatts generators. It's expected to consume 280,000 tons of straw annually, starting commercial operation in 2012. At the same time, the company is also planning to start Phase II development of another straw furnace and 18 MW electricity generator.

Source: ChinaMining.Org

(CEC) said in a report.

Power consumption increase is estimated to quicken to 9 percent in 2010 from 6 percent in 2009 to 3.97 trillion kwh driven by continuous economic recovery.

Source: China Daily

Development Zone's Administrative Committee. The facility is expected to commence operations in the second quarter of 2011 and will serve industrial and municipal customers in the development zone.

Source: China Economic Review

# Recent Transactions

## 360Buy Raises Above \$150M in Round 3 Financing

360Buy, a B2C E-commerce company, confirmed that it has secured the C1 VC investment of \$75M led by Tiger Global Management LLC, and the investment has so far been in place. The company also revealed that it will receive the C2 round financing before the end of this year, and raise a total funding of above \$150M. This is the largest VC investment in China's

## China Hydroelectric Raises \$96M in IPO

China Hydroelectric Corp. said it priced its initial public offering of 6 million units at \$16 per unit, within the expected range.

In December, the company originally planned to offer 3.1 million

## China's Yitai Coal Plans \$1 Billion HK IPO

Chinese coal miner Inner Mongolia Yitai Coal Co (900948.SS) aims to raise about \$1 billion from a Hong Kong initial public offering in the second to third quarter of 2010.

## Sling Giant Goes Public on A-share Market With RMB1.2Billion Raised

On January 26, Juli Sling formally started trading on the Shenzhen Stock Exchange, and was successfully listed on the A-share market. The sling maker is the first private enterprise in Baoding, Hebei Province that has succeeded in making an

Internet market since the outbreak of the global financial crisis.

Earlier, 360Buy secured \$10M and \$21M through the earlier rounds of financing in August 2007 and January 2009 respectively. To date, 360Buy has raised a total funding of more than \$180M. Liu Qiangdong, Chairman and CEO of 360Buy, disclosed that the company will use half of the \$150M fund to enhance the service in warehousing, distribution,

units, but raised the offering size multiple times. The company expected the offering to price in a range between \$15 and \$17 per ADS. The company raised gross proceeds of \$96 million. Each unit consists of one American Depository Share priced at \$14.80 Yitai Coal, which has B shares listed in the Shanghai market, is involved in the production, transportation and sale of coal.

Yitai plans to submit the application to the China Securities Regulatory

IPO. The sling maker has offered 50 million shares at RMB24 each, raising a total of RMB1.2 billion. The proceeds will mainly be used to fund the project with an annual capacity of 66,000 tons of steel wire ropes and 24,000 tons of steel wire rope slings.

As the sling manufacturer with the largest size, the richest product lines and

after-sales service and other areas.

When obtaining the \$21M fund in early 2009, 360Buy spent 70% of the money on the development of logistics system and built its own express delivery company with RMB20M. In addition, it has expanded the areas of its warehousing centers in Beijing, Shanghai and Guangzhou to 90,000 square meters.

Source: Zero2IPO

and one redeemable warrant priced at \$1.20. Each ADS represents three ordinary shares and each warrant entitles the holder to purchase three ordinary shares for an exercise price of \$15.

Source: Zero2IPO

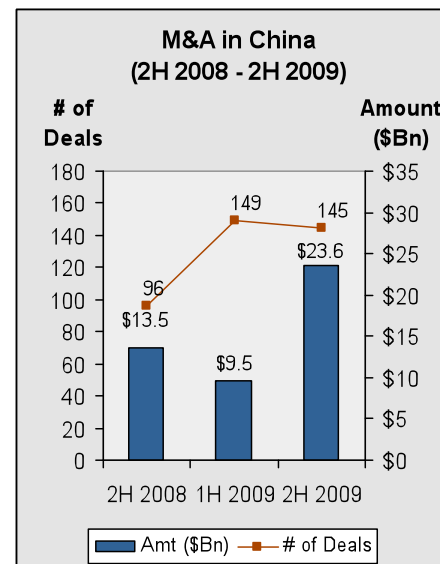
China Hydroelectric has Commission (CSRC) by the end of February or March for its Hong Kong listing plan.

BOC International and CICC are handling Yitai's Hong Kong IPO.

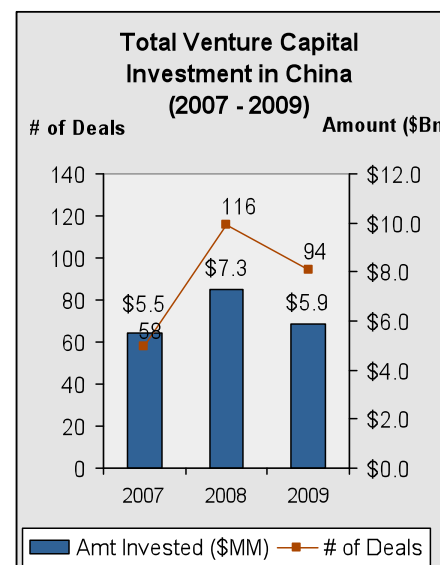
Source: Zero2IPO

the most professional manufacturing capability in China's sling sector, Juli Sling owns ten product categories, taking up a share of more than 50% in the medium- and hi-end sling market, and possesses a strong pricing ability in the said market.

Source: Zero2IPO



Source: Zero2IPO



Source: Zero2IPO