

JESA INVESTMENT & MANAGEMENT CO. LTD.

NEWSLETTER

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NEWS FROM JESA! Italy and China: a difficult take-off!

By Saro Capozzoli, Founder and GM of JESA Investment & Management Co., Ltd

Alla fine del 2010 pensavo di provare a trarre le conclusioni su cosa è accaduto in Cina e su come l'Italia si è mossa nel contempo.

Nonostante il grande evento dell'Expo a Shanghai che ha visto il successo della presenza del nostro padiglione, il nostro Paese è ancora molto lontano dall'aver risultati concreti e stabili. Insistiamo su temi ormai desueti e scontati, come il "Made in Italy", la moda, le auto da corsa, il calcio, il nostro agroalimentare (formaggi, salumi, pasta), ma quest'ultimo settore rappresenta solo 110 ml di Euro di esportazioni verso la Cina, lo stesso valore esportato in Serbia o in Romania (Studio del Politecnico di Milano).

Da qui è comprensibile il margine di sviluppo che esiste in Cina, difficile però da realizzare senza una struttura distributiva propria che invece ha consentito a prodotti francesi e tedeschi di arrivare alle tavole cinesi attraverso catene come Carrefour, Metro, Tesco, etc.

Come è possibile che la Germania sia ripartita dopo crisi, e l'Italia sia ancora ferma? Ritengo che la risposta sia da cercare nel forte legame industriale con la Cina, sia produttivo (moltissime PMI tedesche sono ormai da più di 20 anni in Cina, senza contare gruppi come Siemens che è presente dagli anni '30) che commerciale. Questo ha permesso alle imprese tedesche di essere trainate da una locomotiva come quella cinese che non si è mai fermata.

Quello che distingue la Germania rispetto all'Italia sono anche gli investimenti interni, i miliardi di Euro investiti nella Germania dell' Est dopo la riunificazione, creando posti di lavoro e aziende con enormi potenzialità, cosa che invece non si riesce a fare nel nostro Sud, paralizzato dalla malavita e dalla malapolitica che fanno allontanare gli investimenti; persino i cinesi che cercavano approdi per le loro navi, hanno preferito i porti in Grecia più dotati di infrastrutture e connessi con l'Europa.

In 26 anni il PIL Cinese è decuplicato e nel 2027 è previsto il sorpasso sugli Stati Uniti (Goldman Sachs), ma già il Paese di Mezzo ha strappato altri record, come nello sviluppo delle grandi Città (15 città avranno nei prossimi 10 anni più di 25 milioni di abitanti). Ciò apre nuove strade alle aziende Italiane che vogliono trovare nuove

opportunità.

Da qui, vogliamo sperare che il 2011 sia un anno di forte sviluppo in Cina anche per le nostre imprese che alla fine avrà sicuramente ricadute importanti anche in Italia.

I cinesi hanno varato le nuove politiche di apertura verso i mercati esteri, che produrranno un aumento delle importazioni, e dei consumi (e questo anche in funzione di miglioramento della propria immagine all'estero). Allo stesso tempo ci saranno più investimenti cinesi all'estero ma sempre nei settori cari alla Cina (minerario, petrolchimico, materie prime, etc), e più investimenti nell'innovazione (la Cina deposita ormai più brevetti della Germania, e l'intera Asia ha superato l'Occidente nello sviluppo di innovazione).

Deve essere quindi forte la consapevolezza che se non si investe in innovazione anche in Italia, se non si investe in sviluppo e formazione, e specialmente se non si investe nelle proprie aziende per portarle a sviluppare i mercati asiatici, il rischio non sia solo quello di perdere il treno, ma è di non riuscire neanche ad arrivare in stazione.

ENGLISH VERSION

At the end of 2010 I try to draw conclusions about what happened in China and how Italy coped with it.

Even though the Shanghai Expo was successful for the Italian Pavillion, Italy is still far from reaching stable and concrete results. We are still stressing outdated topics, such as “made in Italy”, fashion, cars, soccer, food processing (cheese, cold cut, pasta), but the export amount of the latter industry represents only 110 million Euro, the same value we export in Romania or Serbia (Data from Politecnico Milan).

This explains the margins of development that are available in China, hard to fulfill without a proper distribution net that allowed French and German products to tickle the palate of Chinese consumers through retail chains such as Carrefour, Metro, Tesco, etc.

How is it possible that Germany has started his way to recovery and Italy is still at a stop? I believe that the answer should be found in the strong industrial link with China both on the production point of view (many German SMEs have been present in China for more than 20

years and big corporations such as Siemens since the 1930s) and a commercial point of view. This allowed, is allowing and will allow the German Companies to be towed by an unstoppable locomotive that is the Chinese economy.

Germany and Italy also differ on the value of the internal investment: on one side, billion of Euros were invested in east part of the country after the reunification, creating jobs and companies with high potentials; on the other side it has been impossible to do the same in the South of Italy, paralyzed by underworld and hand-off policy that push away the foreign investments from all the country; Chinese which were looking for Mediterranean ports chose Greek’s ones due to a better infrastructure network and facilities and better connected to Europe.

In 26 years the Chinese GDP increased tenfold and in 2027 it is expected China to overcome United States (Goldman Sachs) but other records have been already set by China; such as the development of the big cities (25 Chinese cities in next 10 years will have more than 25 million inhabitants).

This opens new routes for Italian Companies that want to exploit new opportunities.

I wish that 2011 can be a year of strong development in China for many Italian companies being sure that this will finally have positive impact in Italy too.

Chinese issued new policies toward foreign markets, that will also have a positive impact on the import, to increase the internal consumption. At the same time the Chinese investment abroad will grow in key Chinese industries (mining, petrochemical, raw materials, etc), and investment in innovation will keep rising (China files for more patents than Germany and the whole Asia overcame the Western Countries in the development of innovations).

It is thus important for Italy to be aware that without the investment in R&D, training, and especially without investment in development of Asian markets, our companies run the risk not only to lose the train, but worst of all, to be unable to ever reach the station.

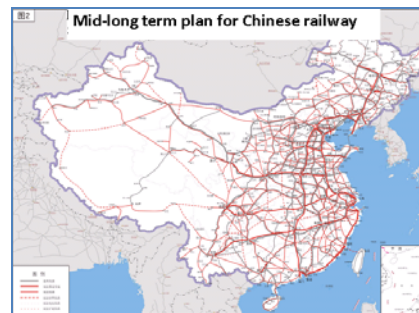
Railroad development: new route to Europe

The infrastructure development in China was a key target of the 11th Five Year Plan (2006 – 2011). Around 40% of the Chinese population lives in cities and this figure is expected to grow very quickly reaching 55% by 2020. This makes the connection between the cities in the coastal area and the West part of the country crucial for the development of the economy.

China's railroad network is the third-largest in the World behind US and Russia and it carries 25% of the world's railway traffic and it is the heart of Chinese transportation system for passenger and cargos. In 2009, railway mileage was about 86.000 km, 22,8% longer than in 2000. This figure should rise to 110,000 kilometres in 2012 and 180,000 kilometres in 2020, if all goes to plan. Another important achievement of the Chinese policy toward the development of the infrastructure has been the construction of the high speed train with its 4.000 km of high speed track in operation in China (with speeds of over 200 kph). But this is projected to grow to 13,000 kilometres in 2012. According to the Ministry of Railways, high-speed railways will connect all of China's provincial

capitals and cities with more than 500,000 citizens by 2020, serving more than 90 per cent of the population.

The increase in mileage will contribute to the separation between rails for passengers and cargos transport, which in turn enhance the transportation capacity for both purposes. This in fact will support the freight movement, particularly for coal and iron, which account for 50% of rail freight transfers and will ease the pressure caused by the population explosion in cities.



In this contest two new figures arise: **11,179 km International Channel** and **13 days**. What do they stand for?

It has been announced the kick-off of the trial operations of the 11.179 km new

Europe-Chongqing (Chongqing – Xinjiang – Europe) International Railway, a modern reproduction of the famous "Silk Road".

Run path origins from Chongqing, Lanzhou, Urumqi, westward through North Xinjiang Railway, through Kazakhstan, Russia, Belarus, Poland, to Germany. In December it is expected the trial operation of few trains a week heading to Duisburg. The entire running time from Chongqing to Duisburg will be about 13 days, compared with 39 days through sea.

This represents a major opportunity for the development of the logistics in China and the role of Chongqing as international hub.

Currently, Chongqing is working to build Asia's largest notebook computer production base, but it is already an important area for heavy industry. The new line will allow:

- to increase the flow of goods by railroad from Chongqing instead of air transportation, saving thus money;
- to decrease the timing of sea transportation;
- to increase security, bypassing the Gulf of Aden and avoiding pirates harassment;
- to ease custom clearances procedures.

In addition, enterprises in Chongqing and other cities can use the new line to reach East, South and Indian Ocean routes thanks to the improvement in the connections by rails via Kunming (Yunnan PRC) to the ports of Chittagong (Bangladesh) and Sittwe (Myanmar).



This environment of fervent development can also attract investors, contractors, operators and equipment suppliers seeking for opportunities. Ambitious targets for the upcoming decades result in the kicking –off of new projects, which are boosting the demand for construction material, heavy equipment and related technologies. Foreign invested enterprises might have the possibility to secure work as subcontractors of provincial investment vehicles and State Owned Enterprises that will be most likely the main contractors of the whole project.

Taking part to such development is a challenge that is worth being taken and European companies with their excellences might be part of it.

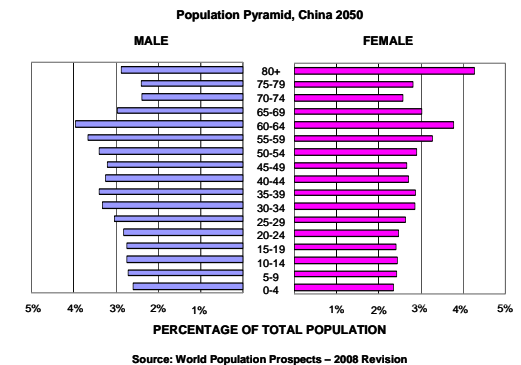
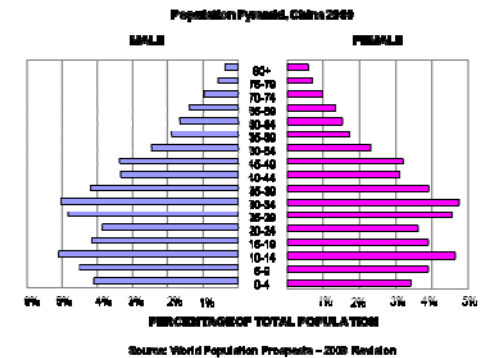
Aging population, census and consequences on family planning policy and health care system

On November 1st 2010, the decennial Chinese population census started. The work involved six million census workers and aims to count people where they reside. Thus the census is including in the counting migrant workers and foreigners, but it will also shed new light on a number of demographic shifts, including rapid fall in young population and sharp growth of elderly people. The results of the census will be released in the first half of 2011 but surely it is possible since now to gather some data regarding the aging population of China and the rising of their needs that are some of the main concerns of the Country.

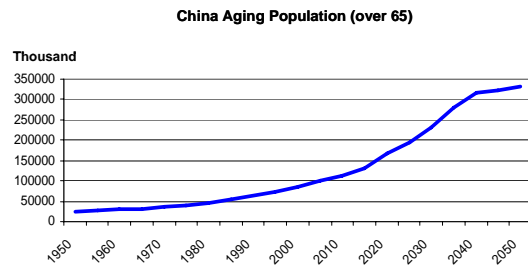
China is getting old. The ‘one-child-policy’ was introduced because China was worried to have too many children to support; today however the Country is facing the opposite problem, having

few children to support a rapidly aging population.

China population is aging at the fastest rates ever recorded, along with the rising of problems such as chronic diseases and disability. And coping with such problems is a major issue for the health care system.



The elderly population, here identified as senior people over 65, will rapidly increase reaching almost 25% of the total population within 2050.



Source: World Population Prospects – 2008 Revision

Meeting the health and long term care needs of this growing elderly population will result in soaring health care costs, while experiencing a shrinking in the working population which helps paying the bill.

This situation will be exacerbated by the lacking of young people inside the family taking care of the elderly relatives. In fact the result of the one-child policy is a population bulge known as “4-2-1 phenomenon” in which one child will be supporting two parents and four grandparents. The tradition of old-care provided by children and relatives is thus no longer feasible and currently only 10% of elderly in needs receive care at public nursing homes, but the majority

cannot afford expensive services from private agencies.

In this complex situation are involved several regulatory bodies that are evaluating how to cope efficiently with such situation.

China is already struggling to meet the health needs of its people. Many of these difficulties arose during China’s economic transition from a centrally planned economic system into a market-oriented system. While the market system initially increased living standards, the rapid decentralization of public health and medical care systems in the 1980s has resulted in the neglect of public health services.

Both rural and urban Chinese residents used to have almost universal insurance coverage, but after the economic reforms in the 1980s, a city-based social health insurance scheme replaced insurance provided by cooperatives and employers. Vast numbers of rural and urban workers were no longer insured; even today, low-income and rural households have the least protection.

Insurance coverage varies across income classes in urban and rural areas. In urban areas, about

80 percent of people have health insurance, while in rural areas just 32 percent of people have it.

To overcome this problem, in March 2009 has been released the guidelines for the establishment and development of the social insurance and health care system, aiming to create an efficient health care system in which the social insurance plays an important role. Mainly the regulation aims to spread the insurance coverage to the totality of the population and reducing the difference between rural and urban coverage. The Chinese government has pledged about 1.5 percent of its total gross domestic product to health care over the next few years, and to provide basic health insurance to rural communities. The New Cooperative Medical Scheme (NCMS) covered 86 percent of rural residents. China has also pledged to build a primary care system that would provide greater care in community centers and in homes with the upgrading of the current local medical facilities and the development of new and advanced diagnostic centers all around the country.

On the other side the Family Planning Bureau is evaluating the impact of relaxing the “one-child

policy" allowing more families to have a second child. This is indeed facing the willingness of families to take part to such program. In fact according to a survey conducted in the area of Shanghai, eventually one of the pilot cities for such plan, the 70% of the interviewed parents said they would be unwilling to have a second child even if the one-child policy was relaxed because of the high costs involved.

According to the available data, the monthly cost of raising a child had reached 1,700 Yuan (US\$255) on average. That accounted for about 44 percent of a family's disposable income.

This developing environment attracts the attention from abroad and the interest of Chinese Government and companies in new technologies and new applications to improve the services, starting from diagnostics devices, telemedicine, and all kinds of devices and technologies for disabled and elderly population.

End of Chinese Accounting Year: upcoming deadlines

On Dec 31st, the 2010 accounting year will be closed. The beginning of the New Year brings with itself the compulsory deadlines of the

Chinese Government concerning declarations, auditing and inspections.

TAX DECLARATION AND LIQUIDATION

Within the end of April, the companies have to declare and liquidate the Enterprise Income Tax.

Physical persons with an annual income above 120,000 RMB have to liquidate the Individual Income Tax within the end of March. Every kind of Foreign Invested Enterprises (FIE), here included the Representative Offices (ROs), is required to accomplish such declarations and liquidations.

ANNUAL AUDIT

Within the end of April, the companies have to appoint a Chinese Certified Public Accountant Firm to accomplish the audit of financial statements. The CPA Company has to issue two formal reports: Annual Audit Report and Annual Foreign Currency Report. These two documents will then be used during the Annual Joint Inspection.

All kinds of FIEs are required to accomplish such an audit. ROs in China are required to submit the

annual report to the registration authorities, defining current status of foreign parent company, explanation of the activities carried out by the RO and providing an audited annual statement of payments and receipts.

ANNUAL JOINT INSPECTION

All kinds of FIEs in China (here the ROs are not included) have to pass the annual joint inspection, which involves seven different Public Bureaus:

- Bureau of Foreign Trade and Economic Cooperation (BOFTEC)
- State Administration for Industry and Commerce (SAIC);
- Economic Committee;
- Financial Bureau;
- State Administration of Taxation;
- State Administration of Foreign Exchange (SAFE);
- China Custom.

The companies who receive the Business License must accomplish this Annual Joint Inspection between March, 1st and June 30th. Newly-set up companies may be exempted if they are established during December.

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