

JESA INVESTMENT & MANAGEMENT CO. LTD.

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NEWS FROM JESA! The upcoming Tiger

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The end of the Chinese New Year is imminent and China is going to celebrate not only the coming of the Tiger year but also the well done efforts made by the Ox, which behaved for the whole 2009 as a respectable bull.

The patient work of the ox has helped China to overcome the difficulties of the economic crisis and to reach a position, according to the observers, close to the full recovery. This doesn't mean that it's time to rest and stop the work: the force and the courage of the Tiger will be a good omen for the stabilization and consolidation of the economy.

It is far from our intention to mix up Astrology and Economy in hazardous metaphor but the data released by the Chinese Government are underlining the positive results of this year, defined at the same time, as the most difficult one in the new century.

Despite the crisis that hit badly Chinese exports, the economy has been able to rout any pessimistic forecast and surpass the 8% GDP growth target set at the beginning of the year. During 2009 the forecasts of main market analysts from IMF and major investment banking were expecting China to grow at about 6%. At the end of the third quarter of the year the same analysts positively readjusted their own forecasts on the basis

of the promising responses of the economy to the Government efforts and stimulus.

China is likely to be the second world largest economy even if it is still a developing country and its rooms for growth are still huge. Those who hazard that Chinese economy is likely to be soon a bubble will be probably denied by the facts. It is worth that many believe that China could give a "creative interpretation" to the number but it is unlikely to expect "Dubai-style" bubble thanks to the fast growing and improving production base and huge internal market.

ITALIAN VERSION

La fine dell'anno lunare cinese e' prossima e la Cina si appresta a celebrare non solo l'inizio dell'anno della Tigre, ma anche i risultati del duro lavoro del Bue, che ha dimostrato per tutto il 2009 le abilita' di un toro.

Il suo paziente lavoro ha infatti aiutato la Cina a superare le difficolta' della crisi finanziaria e a raggiungere una posizione che secondo molti analisti, dimostra gia' segnali di completa ripresa. Questo non significa che e' tempo di riposarsi: la forza e il coraggio della Tigre saranno d'auspicio alla stabilizzazione e al consolidamento dell'economia.

Ovviamente non e' nostra intenzione mescolare astrologia ed economia, ma i dati annunciati dal Governo Cinese sottolineano chiaramente i buoni risultati dell'anno, definito pero' allo stesso tempo, il piu' difficile del nuovo secolo.

Nonostante la crisi che ha duramente colpito le esportazioni, e' stato possibile sbaragliare le previsioni pessimistiche e superare il target dell'8% di crescita del PIL, previsto all'inizio dell'anno. Durante l'anno passato, le previsioni di molti analisti, dal FMI alle maggiori banche d'investimento, attendevano una crescita del 6% circa. Intorno alla fine del terzo trimestre, gli stessi analisti hanno positivamente aggiustato le proprie previsioni sulla base delle risposte positive dell'economia allo stimolo varato dal Governo.

La Cina sara' probabilmente molto presto la seconda economia del mondo nonostante sia ancora una nazione in via di sviluppo e i propri spazi di crescita siano ancora enormi. Coloro che azzardano che l'economia cinese sia una bolla saranno probabilmente smentiti dai fatti. E' vero che molti ritengono che la Cina possa dare una "interpretazione creativa" ai numeri ma e' improbabile attendere una bolla "stile Dubai", grazie alla continua crescita e miglioramento della base produttiva e all'enorme potenziale del mercato interno cinesi.

China unveiled 2009 economic data

In the Middle of January China has unveiled the results of its economy in 2009. The data released have definitely swept away the doubt whether China would achieve the 8% growth target set at the beginning of the year.

The target has been reached and surpassed. China's GDP grew by 8.7% in 2009. The GDP growth in the first quarter of the year was revised to 6.2%, the second quarter data remained unchanged, 7.9%, the third quarter was revised to 9.1% and the last quarter accelerated to 10.7% year on year.

According to Ma Jiantang, director of the National Bureau of Statistics (NBS), 2009 has been the most difficult year in China's new century economy. The massive economic stimulus package and the Government efforts helped in dealing with such situation and the economy ended the year accelerating and began to recover as a whole. The spokesman believes that the recovery has been mainly driven by the proactive fiscal policy, the moderately loose monetary policy and 4-trillion yuan stimulus package adopted in November 2008 that included investments, tax cuts, consumer subsidies and the revitalization of 10 major industries, including steel, car making, textile and machinery.

Some other numbers and figures can give the idea of results achieved by China during 2009.

China is likely to leapfrog Japan to become the World second largest economy.

China, which grew 8.7% last year, is soon expected to unseat its neighbour from the position it has held for more than 40 years. Actually it may have already overtaken Japan in 2009 and, if not, is likely to do so this year. China reported nominal - unadjusted for inflation - gross domestic product (GDP) for 2009 of 33.5 trillion yuan, or \$4.9 trillion. Japan posted nominal GDP of about 505.1 trillion yen, or \$5.5 trillion, in 2008 and its economy is expected to have shrunk by roughly 6% last year, reducing the figure to about \$5.2 trillion. While China has already released its data about 2009, Japan will release them on February 15th.

China overtook the United States to become the world's biggest car and van market in 2009.

The China Association of Automobile Manufacturers said 13.6 million vehicles were sold within the country last year. That compares with just over 10 million vehicles in the US, which was previously the world's largest market. Among the total sales volume of car in China, 65% is represented by passenger cars, whose production and sales volume led the growing of the market, thanks to the Government incentives toward the small cars. While the global economic downturn has had a major impact on the U.S. automotive sector, China's rapidly growing auto industry has been a bright spot—especially for foreign firms with a presence in China. In 2008, China produced nearly eight times as many motor vehicles as it did in the mid-1990s.

With annual production of 9.5 million vehicles in 2008, it surpassed the United States for the first time, as the second largest national vehicle producer, trailing only Japan in total vehicle output.

While export declined through most of 2009, they are now picking up

Everybody knows that Chinese exports have been hardly hit, reflecting the slump in import demand in its main markets, the United States and E.U. Indeed, exports plummeted in late 2008, and remained weak through most of 2009. Totally China exports were down by 20% to 25% in early 2009 and only picked up in the last months of the year. Year on year growth of 17.7% in December took Chinese exports back to around the level seen just before the collapse in trade. The overall loss in export revenues in 2009 was of approximately 16%, although the drop in net sales was only one-third of this, as imports fell by around 11%.

China seems to be the first country really on its way to full recovery and no analyst doubts China can deliver growth, but there is less certainty about its capacity to deliver stability in financial and property markets. Many of them believes that most of the liquidity pushed into the economy (4 trillion fiscal package, bank credit up by about 30% in 2009) leaked into speculation in stock and property market

Some of them came to a quick comparison between the current Chinese economy and the Japanese one in 1980s, and they are

predicting a soon-to-pop up "bubble economy", characterized by excessive lending, overinvestment and overvalued share and house price.

The authorities have indeed started to take steps against excess liquidity: reserve requirement ratio has been increased to 16%, rather than 15.5% of deposits at the People's Bank of China, country's central bank and the banks have been asked to limit lending.

There are many similarities between today's China and Japan in 1980s, but also several differences: Japanese property boom was fuelled by credit, while one quarter of Chinese homebuyers pay cash and the average mortgage covers only 50% of the value of the property. Unlike Japan in 1980s, China is a country in early stage of development. Concerning the overcapacity, most of the investments did not go into manufacturing but into infrastructures, which China really needs. Thus it is unlikely that, even if shares and house prices do collapse, this results in a long period of stagnation as in Japan.

What's next, after the crisis?

As the head of International Monetary Fund commented, the most important risk facing the global economy is deciding how and when to reverse the hundreds of billions policies and deal with resulting debt burden. Finding the right time to implement exit policies is really difficult: if it is too late, resources are wasted, if it is too early, the economy is likely to go back into

recession.

The same rule should be applied by the Chinese Government and the main challenge it is going to face in the near future is the realignment of the economy, aiming to cool down any possible bubble.

Investment Vane: the Central Economic Work Conference

Every year the Central Economic Work Conference (the Conference) attracts many analysts and financial investors from all over the world. For an economy whose GNP is more than 30 trillion RMB (about 3 trillion Euro), the Conference held at the end of each year, not only sets the tone for imminent economic policies, but also has a practical influence towards stock and equity investments.

In 2009 the Conference was held in Beijing and the guidelines to solve the problems that may delay the way out from the crisis of China's economy discussed: a proactive fiscal policy and appropriately loose monetary policy to keep the continuity and stability of the macroeconomic polices, with particular attention to the quality and efficiency of economic growth. Among the topics of discussion were included the transformation and development of the economic structure, the improvement of people's livelihood, and the coordination among domestic and international affairs.

In particular, this Conference intends to keep a rapid and

stable economic development by improving controls at macro level; to intensify structural adjustments; to promote domestic demand by strengthening the "Three Rural" development base; to strengthen the economic momentum and vitality by continue reforms; to stabilize the international payment balance by promoting stable export growth.

The conference is considered the key of the economic policy of the coming year, and it will affect the economy for years; thus the interpretation of the major contents will be very useful guide for future investments.

In order to properly compare the financial policies of different countries, it is necessary first to take into account the differences among the economic indicators. For instance in China, the main elements included in the calculation of the CPI index are food (34%), entertainment and education (14%), and housing (13%), while in United States, housing (42.1%), transportation (16.9%), food and beverages (15.41%). The weight of the housing prices varies a lot among different countries. Though China respects the international practices that do not directly incorporate real estate prices in the calculation of the index, the stability of buyer and tenant ratio is very different. In this scenario, the house rental-sale ratio does not move away too much so that the housing price is actually regarded as a "virtual rent". Such ratio in big Chinese cities exceeds 1:400, while the international average level is 1:200 to 1:300. Therefore, the Chinese CPI does not reflect any inflation on asset price nor decreasing of the real

purchasing power.

The Conference has withal a structural influence on the stock market of China Mainland. Analyzing for instance the Shanghai Composite Index, the Conference it is not directly linked to the market trends, instead many opportunities are created in several industries that generate returns in excess.

Table 1: Shanghai Composite Index (%)

Year	Month before	Conference	Month later
1997	-4.7	1.7	7.0
1998	-3.2	0.4	-4.5
1999	-13.3	0.9	-3.0
2000	4.2	1.0	0.1
2001	1.7	1.6	-5.4
2002	-7.7	-1.5	0.1
2003	2.2	-1.0	8.2
2004	2.4	0.3	6.4
2005	2.8	-1.1	5.7
2006	15.8	-0.2	22.5
2007	-15.7	3.5	6.3
2008	15.5	3.0	-8.4
2009	6.7	0.45	-2 (Dec 30)

Analyzing the stock index performances one month before and one month after the Conference, no apparent up-down effects are reported. That means there is no significant correlation between the Conference and the stock market trend. Considering the performance during the Conference period, there is no obvious rule at all. But if the analysis is focused from the industrial perspective, the structural adjustments

have big impacts on related industries. Taking for instance the performance of household appliances industry and automotive industry in 2009, and the effects of the national launch of the "Home appliances going to the countryside", " Replacement of household electrical appliance program", "Air-conditioning subsidies for energy-saving " and a series of policies: till mid-November, the household appliances industry rose of about 139%, far higher than the increase of the Shanghai Composite Index in the same period (81%). Among 29 listed companies in this sector, 6 of them have experienced a growth higher than 200%, and 20 of them higher that 100%. Likewise, the performance of automotive industry, driven by the policies aimed to the growth of consumption, grew of about 220%, becoming one of the leading sectors.

The industries analyzed during the previous conferences have reported a significant correlation between the proposals of structural adjustments in industries and market operative guidelines. For instance, the agricultural industry has reported significant excess returns thanks to the implementation of economic policies announced during the Conference. A similar situation can be reported for the "low-carbon" economy, represented by energy-saving and environmental protection, which was also one of the key topics of the last Conference.

Table 2: Excess returns in sectors compared with Shanghai Composite Index in the same time (%)

Average industry growth (t)	Month before	Conference	Month later
Agriculture (12)	3.2	0.0	7.4
Ireon and stell (5)	8.4	-0.6	3.8
Building Materials (5)	6.8	0.8	4.6
Export (2)	-0.1	-0.1	0.6
Real Estate (2)	-1.7	2.4	-0.5
Medicine (3)	0.9	0.4	9.3
Environmental (3)	5.0	-1.6	4.2
Energy saving (3)	3.6	-1.3	10.6

The Conference had a very clear guidance towards investments in equity sector. China's economic growth in 2010 will not be focused only on the quantity, but also and mainly on the quality and structural adjustments. The term "structural adjustments" refers to the reduction of the overcapacity and the focalization on new industries such as renewable energy, new materials, bio-breeding, bio-medicine, and ocean space exploitation. Meanwhile, China will steadily promote urbanization, loosen restrictions on residence registration and improve the social security system, which will support domestic demand and investments in medical, retail, tourism.

Therefore, a correct and detailed interpretation of the Central Economic Work Conference, not only creates investment opportunities in China's capital market, but becomes one of the key weapons to succeed in investments in the Country.

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NOTICE

Chinese Public Holidays in 2010

Here below the list of the public holidays in 2010.

- Chinese New Year: from February 13th to 19th;
- Qingming Festival: from April 3rd to 5th;
- Labour Day: From May 1st to 3rd;
- Dragon Boat Festival: From June 14th to 16th;
- Mid-Autumn Festival: from September 22nd to 24th;
- National days: from October 1st to 7th.

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