

# JESA INVESTMENT & MANAGEMENT CO. LTD.

NEWSLETTER

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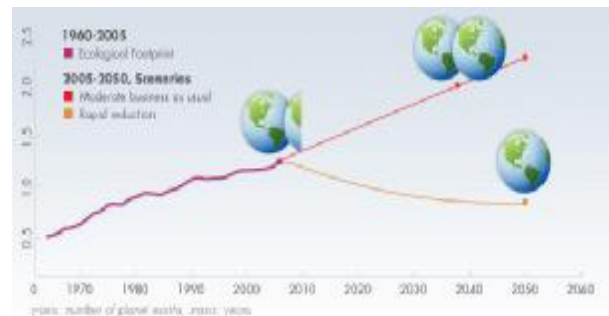
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**NEWS FROM JESA!**

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

Al convegno promosso a Shanghai da Banca Intesa Sanpaolo il giorno della festa della Repubblica Italiana, inerente a "Sostenibilità, efficienza energetica, sistemi urbani: una nuova sfida per lo sviluppo", si sono confrontati due modi di vedere, due pensieri oltre che due mondi e culture. Al convegno era presente anche il CEO di Intesa, Corrado Passera, confermando l'attenzione della banca ai temi etici e di sviluppo sostenibile, oltre che al sostegno delle imprese nel processo di internazionalizzazione. Nel corso del convegno sono emerse le opportunità create dai programmi di sviluppo cinesi a fronte di un'analisi puntuale sullo scambio commerciale tra Cina e Italia oltre che dalle problematiche create dalle esigenze energetiche del paese. E' emerso che sotto la spinta delle masse di contadini, alla ricerca di condizioni di vita migliori, l'urbanizzazione procede sempre più marcatamente. Stanno per essere create dal nulla decine di nuove città con più di un milione di abitanti che si aggiungeranno alle 656 già esistenti e, tra venti anni, le quindici città più grandi in Cina avranno più di 25 milioni di abitanti. Si è parlato quindi di opportunità per il settore delle costruzioni per le imprese italiane. A fronte di questo scenario, il Professor Xu Mingqi, Vice Direttore dell'Istituto di Ricerca sull'Economia Mondiale ha invece puntato il dito contro una concezione tutta occidentale, ottusa e cieca, di intendere lo

sviluppo. Ha anche fatto un *mea culpa* contestando la tendenza che esiste in Cina di riprodurre modelli occidentali non proprio sostenibili. Per esempio, il possesso di un'auto è ormai segno di prestigio in Cina, alla portata di molte famiglie, ma non sarà possibile espandere le strade all'infinito. Si costruiscono case e uffici senza seguire più la tradizione cinese, molto attenta al risparmio. Per esempio il semplice orientamento degli edifici rispetto al Sud, dettato dalla tradizione cinese, non è sempre rispettato e la costruzione di grattacieli senza finestre che si possano aprire, costringono all'uso dell'aria condizionata anche con temperature miti, e quindi con spreco di energia. Il Dott. Xu ha quindi ribadito la necessità di ripensare al nostro modo di vivere e di consumare per evitare la imminente catastrofe. Gli ha fatto eco il Dott. Mathis Wachernagel, Presidente del Global Footprint Network, il quale ha ricordato il fatto che abbiamo un solo pianeta a disposizione ma che già oggi stiamo utilizzando il 40% in più delle risorse che il pianeta può rigenerare ogni anno. Questo deve spingere a riflettere come sia urgente iniziare ad investire il processo di distruzione.



Fonte: <http://www.footprintnetwork.org>

Al convegno era presente il professor Stefano Boeri, docente di progettazione urbanistica del Politecnico di Milano, che tra i tanti progetti ha seguito la riqualificazione dell'area di La Maddalena in Sardegna, sede del G8 2009, ed ora è coinvolto anche con l'Expo di Milano 2015. Partendo dal tema del'Expo di Shanghai 2010 ("*Better city, better life*") si è inspiegabilmente definito l'evento di Shanghai, come "*l'ultima expo di stampo ottocentesco*", elevando quella di Milano ad un livello superiore. Chi vedrà l'esposizione di Shanghai resterà molto perplesso da questa affermazione dato che è proprio l'evento cinese a rappresentare un elemento di discontinuità rispetto al passato, affrontando un tema di assoluta attualità. È infatti recente la notizia che la popolazione urbana nel mondo abbia superato quella rurale, quindi il tema di come strutturare le nuove città e quelle esistenti è fondamentale per lo sviluppo di un paese, non solo per la Cina. Mi chiedo che cosa dovrebbe quindi fare Milano nel 2015 per contraddistinguersi e con quali risorse e tempi.

A conclusione del dibattito, Emma Marcegaglia, presidente di CONFINDUSTRIA, si è prodigata nel definire fondamentale l'intervento del Sistema Italia e delle istituzioni nel cogliere le opportunità offerte dallo sviluppo cinese per le imprese italiane ma, nonostante tutto, l'Italia esporta verso la Cina solo il 2% del proprio fatturato, e questo offre ampi spazi di crescita nell'immediato futuro. E' proprio qui che si è tornati a parlare un linguaggio "antico". Non ho purtroppo sentito una vera risposta alle affermazioni degli interlocutori cinesi che proponevano di ripensare il modello di sviluppo e di pensare agli investimenti in generale, ma solo una ripetizione di cose

dette ma mai realizzate. Concordiamo tutti che in Cina ci sono molte opportunità ma è anche vero che si devono ripensare i modi di creare sviluppo; per esempio, supportando le imprese italiane ad investire in ricerca e sviluppo di tecnologie alternative ed innovative, ma anche ad imparare dalle sfide e dalle soluzioni spesso molto funzionali adottate in Cina. Potremo quindi creare valore e nuove tecnologie utili anche a casa nostra. **Tutto il sistema produttivo e l'inventiva italiana sono chiamati ad osare**, ma senza una vera presenza diretta delle imprese in Cina, sarà ben difficile poter partecipare ai bandi e cogliere le opportunità che invece raccolgono altri. Le imprese italiane non sempre sono pronte e strutturate nell'approcciare la Cina e non bastano le mega missioni di sistema. Il convegno si è svolto in occasione della missione organizzata da ICE, Confindustria e ABI. Resto però perplesso per l'approccio scelto di portare in Cina, senza una vera selezione e criterio, centinaia d'impres e di imprenditori che molto spesso per la prima volta vi mettono piede. Si creano aspettative a volte non supportate dalla realtà. Mi chiedo cosa accadrà subito dopo, poiché necessariamente si dovrà pensare alla fase degli investimenti non solo in termini finanziari ma anche in risorse umane (che spesso non sono pronte e formate nelle aziende italiane) e nel preparare le società ad una visione di medio - lungo termine. Il "mordi e fuggi" e la tentazione di creare scorciatoie con partner cinesi sbagliati, sono errori molto comuni. Quindi ci si dovrebbe chiedere quali nuovi strumenti potranno aiutarci ad entrare in Cina e come fare per superare il problema oggettivo della difficoltà di trovare credito in Italia per svilupparsi all'estero. Capita spesso che aziende

che hanno tecnologie innovative e adatte al mercato cinese, non siano bancariamente affidabili seguendo i criteri di Basilea 2 e 3 e quando sono affidabili, le dimensioni dei loro investimenti in Cina non sono adatte ad un paese enorme e complesso come la Cina. E' questo il motivo per cui Jesa sta seguendo una nuova strada che porterà ad essere più coinvolti in attività di fund Private Equity. Chi non è pronto ad investire e a strutturarsi in Cina avrà quindi ben pochi vantaggi da missioni di sistema dato che l'approccio scelto (per esempio gli incontri B2B) può rappresentare un *boomerang* per le imprese che cercheranno poi di fare da soli. Per un maggior controllo, e quindi più possibilità di successo, è sempre più importante la diretta presenza dell'azienda in loco. Vi abbiamo dato solo qualche spunto di riflessione e siamo sempre disponibili per approfondire gli argomenti trattati in questa e nelle altre news letters.

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**ENGLISH SUMMARY:**

On June 2<sup>nd</sup> Intesa Sanpaolo Bank held a conference in Shanghai about "Sustainability, Energy efficiency, Urban System: new challenge for the development", and two different worlds and cultures shared their different points of view. During the conference the opportunities created by the Chinese development have been explained based on the current commercial relation between China and Italy. The urbanization path will lead to 15 cities with more than 25 million inhabitants within 20 year. Mr Xu Mingqi, Director of the Institute of Research on World Economy has pointed the finger at the western development path and blamed architects and

developers to apply those models that may not be sustainable in China. Mr Mathis Wachernagel, President of the Global Footprint Network echoed Professor Xu, reminding that we are currently consuming more than what our Planet is able to create in one year. During the conference the World Expo 2010 in Shanghai has been defined "the last Nineteenth-century style World Expo" but I wonder how Milan 2015 would be more up-to-date than this, since Shanghai is dealing with a living matter such as a better development of the cities whose population has now outnumbered the rural one.

Mrs Emma Marcegaglia, President of CONFINDUSTRIA, lavished words about the importance of the Italian System and the institution in taking the opportunities of this huge market. And here starts again the "old fashioned" point of view, without a direct answer to the Chinese dissertations. We all agree that China has lots of opportunities but it is necessary to rethink the way we are investing in the country. The entire Italian System and the creativity of Italian are required to be daring, and without a direct presence in the market it is difficult to exploit market opportunities. In the same period in China was held a big commercial mission organized by ABI, ICE and CONFINDUSTRIA that took several companies to China, with B2B meeting and conferences about how to make business in China. I doubt the efficacy of such missions that take to China entrepreneur without any clue about this country, and lack of long term strategy, human and financial resources essential to succeed. This is the reason why Jesa is developing a new approach that aims to increase Private Equity fund activities and it is available to deepen the needs of Investors.

## The launch of The Margin Trading and Short Selling Pilot Program in China

"The margin trading and short selling pilot program has been running smoothly with a steadily increasing trading volume since its official launch", said Mr. Nie Qingping, the office director of the Margin Trading and Short Selling Management Panel of the China Securities Regulatory Commission, at the China Fund Summit 2009 on April 9th 2010 in Beijing. According to China's current capital market reform, the margin trading and short selling pilot program is initially limited to six brokerages - CITIC Securities, Guotai Junan Securities, Haitong Securities, Guosen Securities, Everbright Securities and GF Securities. A second list of five additional brokers is going through the process of evaluation in the meantime, with approval to be expected within the next months. The securities regulator has chosen 90 companies - listed in Mainland China - as target stocks for the program, covering the top 50 Shanghai-listed firms and the top 40 Shenzhen-listed firms by market value.

Data from the stock exchange shows that the total amount of money borrowed for margin trading and short selling has experienced a period of steady increase since the official start of the program on 31<sup>st</sup> March 2010; taking into consideration the Shanghai Stock Exchange for instance, 5,886 million RMB were borrowed on March 31<sup>st</sup>, 22,077 million on April 9<sup>th</sup> and 50,664 million on April 23<sup>rd</sup>. However, an average day's trading volume for margin trading and short selling is less than the

volume of a big market player. Still, - as Tycoons pointed out - the light trading volume in early stages of the program cannot refute the enormous business potential for margin trading and short selling. The current situation is also consistent with the Supervisor's intent to prevent risks in order to ensure a stable progress whenever a new product or business enters the market. In addition, the transaction performance up till now indicates that the security lending business makes up only a very small and symbolic fraction of the program. Compared to margin trading, security lending has greater market significance, since it is able to improve Chinese market efficiency. To this end, professionals suggest that regulatory arrangements and technical details be improved in order to promote investments in the security lending business under suitable conditions. The official launch of stock futures is expected to stimulate margin trading and short selling. Rational answer with limited trading volume at the early start. Practices from international markets show that the transaction volume of margin trading and short selling generally accounts for 15% to 20% of the whole market volume. Regarding Mainland China's market, however, this ratio is less than 1% at present.

This is due to several factors. First, investors are not familiar with the new business and most of them prefer studying the market instead of being involved at this point. Second, the expectation of the upcoming stock index futures makes market observers more prudent. Uncertainty in the macro policies baffles investors' judgment about market forecasts, which

restricts leverage demand for margin trading and short selling. Third, according to the principle of risk control, in the current phase very strict limits were set in order to guarantee scopes and investment targets, which in turn influence investors' sentiment. Therefore, this pilot phase is the right progress as regarded by Supervisors. Even though the overall volume is small, there are signs showing that the business is being gradually accepted by the market. The accounts for the margin trading and short selling business have increased from 73 in the first day to 520 on April 9<sup>th</sup>. Analysts indicate that in such situations the trading volume is expected to have a rapid increase when there is a significant unilateral market. In addition, with the direct stimulation from the upcoming stock index futures, margin trading & short selling is coming in handy for the agencies to influence the futures market through the spot market. To date agencies' clients are mainly commodity futures players but this situation will probably change during the next years. Securities lending needs reform to break through the "bottleneck". However, the securities lending business has to face many policies and technical obstacles. The biggest problem in the current program is the small volume of security lending compared to margin trading (the latest data on the Shanghai Stock Exchange showed that the ratio between the two businesses is 5,000:1). Other problems are stock restrictions in security lending and high risks caused by expensive transaction fees. Security brokers have to offer security lending services by means of their own stocks and only 90 companies listed in Mainland China are selected as target stocks for the program. In fact, most brokers cannot even

cover the list so far. The biggest controversy stems from brokers having to lend out their stocks to clients through short selling, this leading to the beat down of the price of their own stocks. If the quantity is large enough, this will seriously affect the market value of their stock pool. This activity is unreasonable and is against the brokers' interests.

However supervisors are aware of the issue: the China Securities Regulatory Commission Offices said that in the future, fund managers will choose the securities for short selling. In mature markets such as Europe and the US, security brokers only act as intermediaries in security lending and target stocks are mostly owned by long-term stock holders. There are two ways to tackle policy obstacles: one is to switch the trusteeship system from the clearing broker to the security broker in order to expand the source of short selling. Unfortunately, considering the current management level and bad history, this is nearly impossible to realize. Another way is to set up a third party that will integrate the functions of assessment, assurance and intermediary. This company will become the middleman among capital, security categories and demanders of the margin trading and short selling service. It will undertake customers' credit risk assessment and provide assurance service. In recent years, fund products have been very similar and performance depends mainly on market situation. The interest of fund investors to invest in long-term investments has decreased. However, with the launch of margin trading, short selling and stock index futures, there will be new hedging tools available: investment returns on

long-term products will be relatively stable and fund investors will be more focused on operational abilities, rather than market index opportunities. Of course, the launch of margin trading, short selling and stock index futures cannot change the long-run direction of the market and the introduction of short-term hedging mechanisms cannot make complete changes to its operational features.

Anyway, the supervising institution actively introducing these two innovative businesses aims to enhance the development of China's capital market, and has an obvious intention of building a better and stronger A-share market. Therefore we believe that these two innovative businesses will have positive effects and will become milestones of China's stock market development process.

## Investment floods where the wind blows

### Excessive investments in Wind Power industry in China

#### 1. A booming industry

In spite of the global financial crisis, the wind sector showed impressive growth rates in the year 2009, refuting the predictions of various organizations. All wind turbines installed by the end of 2009 worldwide are generating 340 TWh per

annum, equivalent to the total electricity demand of Italy, and 2 % of global electricity consumption. Based on the accelerated growth rates, the World Wind Energy Association (WWEA) upgrades its expectations for the future growth of global wind capacity: by the end of the year 2020, at least 1,900,000 Megawatt (MW) can be expected to be installed globally. China holds on to its role as the locomotive of the international wind industry and added 13,800 MW in 2009– the biggest market for new turbines. Since 2007, wind power was booming on the mainland. China's installed capacity of wind power generators easily exceeded 5 Gigawatts (GW) by the end of 2007, three years ahead of the government's 2010 target, and was forecast to reach as much as 50 GW by 2020.

Table: Ranking list among countries of wind power capacities.

Position 2009	Country, Region	2009 capacity end 2009 [MW]	Added capacity 2009 [MW]	GWAP1 2010 [TWh]	Position 2009	2009 capacity end 2009 [MW]	2009 capacity end 2009 [MW]	2010 capacity end 2010 [MW]
1	USA	35,150.0	1,020.0	39.0	1	24,210.0	11,620.0	17,840.0
2	China	26,170.0	12,200.0	118.0	4	12,210.0	6,910.0	24,410.0
3	Germany	25,777.0	1,360.0	7.9	3	23,607.0	22,247.0	26,627.0
4	Spain	5,140.0	2,400.0	14.7	5	16,660.0	15,140.0	17,650.0
5	India	3,525.0	1,288.0	14.0	6	3,687.0	7,800.0	6,270.0
6	Italy	4,662.0	1,110.0	39.1	8	1,410.0	2,170.0	2,120.0
7	Holland	4,520.0	1,110.0	32.8	7	6,740.0	2,100.0	7,040.0
8	United Kingdom	4,500.0	807.0	30.1	6	3,420.0	2,500.0	4,720.0
9	France	3,545.0	670.0	28.5	10	3,612.0	2,100.0	7,160.0
10	Denmark	3,457.0	350.0	18.0	9	1,100.0	2,450.0	3,150.0

## 2. Development dilemma

However, industry analysts fear that an investment frenzy being driven by political factors - rather than economic returns - might undermine the green energy cause. The rushing development is pushing the sector towards a dilemma as follows.

- Overcapacity in wind power equipment

The increased investment in wind power equipment has led industry analysts to warn against overcapacity and a looming shakeout. In 2007, China had an estimated 25 turbine makers with 40 to 50 planning to open factories shortly. By 2009, over 80 wind turbine manufacturers were in operation in China.

While China's installed wind capacity has risen very rapidly over the past few years, much of that capacity apparently is not being utilized. In 2008, reportedly up to one third of all of China's installed wind capacity remained unconnected to the country's electric grid (the Grid). Moreover, China's net electricity generation from wind in 2008 represented no more than 40% of the country's installed wind generating capacity. This capacity utilization rate was down from 58% in 2005, and is significantly lower than the corresponding capacity utilization rates in other major wind markets.



- Bottleneck in connection to the grid

As reported, the electricity generated from wind power in the Grid represents only 1.5% of total power consumption in China, while the figures are 25% in Denmark, 21% in Spain, and 47% in Schleswig-Holstein of Germany. Stability and cost are two major factors concerning the connection of the wind power into the grid. The lagging performance of the Grid does not affect the passion of investors but puts them in a controversial position.

- Lack of key technology in China

Industrial insiders say that China's wind power industry suffers from inadequate research and planning. Fewer than 10 of China's current wind power equipment producers have the

capability to conduct large-scale research and development to improve the technology, said Han Junliang, president of Sinovel Wind Group Company. At present, wind power equipment manufacturers adopt the introduction of foreign mature technologies and gradually improve the localization degree through digestion and absorption. However, the localization of sectors like key bears & gears and electric control is proceeding at a slow speed.

## 3. Breaking policies

Shi Pengfei, Secretary General of the China Wind Energy Association, warned that "most investments were politically motivated and had a high risk of backfiring." In a document approved by the State Council on September 26th 2009, the National Development and Reform Commission (NDRC) warned of serious excess capacity in a wide variety of sectors including wind power. In October 2009, the Chinese government reportedly decided not to approve new projects in the wind power industry, citing overcapacity, and financial institutions were "prohibited from lending to projects that have not been approved." On March 26th 2010, the draft version of Industrial Access Standards for Wind Power Equipment Manufacturing Industry (the Standards) has been released for public discussion to guide the healthy development of this sector.

Shi Lishan, Deputy Director of the New Energy Department in the National Energy Administration, said that China would “strictly control” capacity growth in the wind power industry in the hope of creating 3-5 enterprises through mergers that can “rise into the top ten in the global wind power industry.”

#### 4. Market impacts

- Entry standards bring industry integration opportunities

As mentioned in the draft version of the Standards, the wind turbine manufacturers have to be equipped with necessary manufacturing conditions and machinery with a unit capacity of more than 2.5 MW and annual production ability of more than 1000 MW. According to this, only about 10 current players in China could meet the requirements.

At present the high number of wind turbine manufacturers led to an inevitable low-price competition, which over time will certainly affect the enthusiasm of enterprises that make investment in R&D and technological upgrade. This phenomenon has already appeared in the last five franchise bidding projects. The establishment of entry barriers as mentioned above will keep the vicious competition on price within limits and optimize the market environment.

Table: Major Products and production ability of Top 10 manufacturers in China

	Company	Type (MW)	Annual Production ability (MW)
1	Sinovel	1.5/3	3000
2	Goldwind	0.75/1.5/2.5	2200
3	XEMC	1.5/2	2100
4	DEC	1.5/2.5	2000
5	Guodian United Power	1.5/3	1000
6	CSIC	0.85/2	1000
7	Mingyang	1.5/3	1000
8	Suzlon	1.25/1/5	900
9	Vestas	0.85/2.0	800
10	Huayi Electric	0.78/1.5	800

Source: Changjiang Securities

- Improvement of the industrial chain will favor manufacturers with integration ability towards upstream sectors

First, to facilitate the transportation of big parts, wind turbine manufacturers are recommended to be located in regions with convenient transportation, together with the consideration of supporting part producers’ location. This is due to the high proportion of transportation costs right now (more than 10% of the total cost). Therefore, enterprises located close to wind farms and convenient transportation networks have higher and safer margins in the competition.

Second, the production capacity surplus regarding the current market is present in the wind turbine sector, but not in bearing and electric control system sectors. Suppliers with an upstream integration ability are more in line with the requirement of a complete industrial chain. Tianma and Goldwind are two representatives because of their strengths in bearings and electric control systems respectively.

Table: The market performance of key listed companies

Stock code	Name	Close price (RMB;May 11th 2010)	EPS		PE	
			2008	2009 F	2008	2009 F
<b>Turbine</b>						
002202	Goldwind	21.47	0.91	0.93	33.4	32.68
600875	DEC	45.90	0.20	1.97	21.2	21.50
600290	Huayi	14.57	0.31	0.50	55.4	33.72
600416	XEMC	24.04	0.25	0.51	84	41.22
<b>Spare parts</b>						
02122	Tianma	10.21	1.9	1.29	14.5	21.4
02147	Fangyuan	13.70	0.5	0.50	23.8	22.9
02204	Huarui	21.00	0.6	0.90	44.4	29.7
02080	Zhongcai	37.52	0.6	1.02	47	29
02009	Tianqi	12.86	0.2	0.44	41.9	22.8
02164	Donly	17.47	0.5	0.61	33	24.9

- The self-possessed capital proportion requirement will ease investments from overheating on the wind power projects. Due to the long aging of accounts receivable in the sector, manufacturers have to pay large amounts of cash in advance, which creates high debt ratios for some suppliers. The Standards defines the proportion of self-possessed capital to be no less than 30% that will ease the overheating of investment in the sector through tight credit policy and the proportion requirement.

Table: Asset-liability ratios of major wind power listed companies in the China A share market

Company	Asset-liability ratio (%)	Company	Asset-liability ratio (%)
Goldwind (002202)	62.86	GreatWall (600192)	55.87
DEC (600875)	94.89	Zhongcai (600970)	58.79
XEMC (600416)	72.42	Times New Material (600458)	67.06
Huayi (600290)	54.75	Tianma (002122)	31.12
Yinxing (000862)	85.47	Tianqi (002009)	68.84
Changzheng (600112)	35.64	Xinmao (000836)	49.44

Source: Wind, Changjiang Securities

## Expo Shanghai: some numbers

Shanghai World Expo 2010 has been defined the biggest ever in the history. The theme "Better City Better Life" expresses the interest that the International community has for urban strategies and possible development. Here below follow some numbers about this EXPO:

- Covered area: 5,28 square km;
- 200 participating countries;
- 50 International organization;
- 70 million of visitors are expected during the 6-month exhibition
- 72.000 volunteers are working in the Expo area, other 100.000 in the service centres across the city;
- Up to June 10<sup>th</sup>, 12 million people have visited the Expo area.

The Italian pavilion is among the most visited, awarded as the best pavilion by the Expo Committee. It covers 3.600 sqm that sum up the Italian proposal to the "City of Man", where the urban area will combine needs for renewal with the history and sustainable growth.



## Notice for Italian Tax Payers

*Invitation to donate part of the taxes for an association that takes care of medical treatments for immigrants without medical rights in Italy and for the start up of an hospital in Rwanda*

Jesa sostiene la causa dei Medici Volontari Italiani ed invita anche voi a donare il 5 per mille.



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