

JESA INVESTMENT & MANAGEMENT CO. LTD.

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In this issue:

- | **News from Jesa: China between the crisis and the 12th Five-Year Plan**
- | **Private Equity in China**
- | **Shanghai EXPO Site: Development after Demolition**

NEWS FROM JESA! China between the crisis and the 12th Five-Year Plan

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

It is not the first time that China questions itself about the stimulus exit strategy. The time line to define the right moment is tiny and almost invisible: a premature exit will burn the investment and the efforts done to boost the economy. The third-quarter data might be the drivers for the decision. Positive signals, such as the expansion of the manufacturing activities in September, add to evidence that Chinese growth remains robust and that its slowdown from extraordinary growth rates earlier this year will be mild. China's economy in fact grew at an annual pace of 10.3% in the second quarter of this year due to clam-down on property speculation and closures of highly-polluting plants, compared with 11.9% of the first quarter.

Data of the third quarter will soon be released and will affect the direction of the next actions to be taken by the Government.

This is also an important moment considering that in October during the Fifth Plenary Session of the 17th Central Committee of the Communist Party of China will be discussed the consultative draft of the

12th Five-Year Plan (2011-2015) that will most likely be promulgated and implemented starting from March 2011.

The whole process of making the Five-Year plan (started with the midterm review of the 11th Five-Year Plan), reflects the Central Government's strategic decisions as well as local governments' desire for economic growth and social development, and all different interests and expectations will converge to a form of consensus about China's future and proves the existence of democratic, institutionalized procedures for public decision-making.

Starting from 1981, the five-year plan have become a comprehensive roadmap for economic modernization and social development of the country.

China's growth is partially maintained thanks to the five –year plans. It is also worth saying that China is not the only country that experiences a fast growing thanks to the implementation of five-years plans. Among the top 20 countries which experienced fastest growth between 1980-2005, 13 had implemented five-year plans. Of the top 10, 8 of them can rely on five-year plans.

Another important figure to mention is that after the financial crisis, only three of the G20 countries – China, India and Indonesia, have seen economic growth. All of them have five-year plans in action. In the post crisis, the 12th Five-Year Plan of China will play a vital role for the country.

While China is growing and planning the future, many other European countries are still licking their own wounds, without real actions to boost the economy.

In particular Italy, stuck in discussing about old topics and incapable of support in a constructive way the Italian economic environment that strives to survive and has to content itself with irrelevant growth rates and astonishing number of unemployed. One woman out of two does not have a job, one young worker out of two is still unemployed. Numbers that make people worried about the future of its family in the country.

From our unique special observatory in China, we do believe our enterprises deserve specific and effective strategies and this means investment in culture, education, human resources, research and development (R&D) before head in the industrial environment.

Private Equity in China

China Private Equity environment has always been dominated in the past by international private equity firms (PE firms) which have raised billion of Dollars in the hope of turning profits in China. At the same time they have to face with a shifting in deal-making power from International to local firms, due also to the local government's preference for RMB-denominated funds and operated by local Chinese.

These factors, combined with greater knowledge of the market, ability of source deals and local connections, leave domestic proliferating PR firms in a better position to make profitable investments.

Dollar-based investors are increasingly facing with disadvantage in China PE industry: investing is more and more difficult, sometimes even impossible, and deals take longer to close than competing investors with access to RMB. The heavyweight of American PE firms might rely on largest institutional shareholders in China that may know better than any others how to open Chinese investors' wallets.

Most of China's investment opportunities are purely domestic and China is the place where money is right now. Large International PE firms are strongly oriented in investing in larger deals, investing at least 50 million USD and above. And this is the scale they seek in China too. Unfortunately few good deals of such scale are around: few companies have the level of annual profit to absorb such amount of capital for a minority stake; private companies that large have already had an IPO or are already in planning process; good State Owned Enterprises either are already public or they are so sick to be beyond any possible cure.

The existing and still available deals are chased by many PE firms reaching results and high P/E ratios. Based on a survey of Bain & Company among Chinese companies that received financing from International or Chinese PE firms between 2002 and 2006, the results prove that many PE-backed Chinese companies perform better than their publicly listed peers, on average with a 3% growth in annual revenues higher than the latter. Encouraging results are also demonstrated in term of profit growth and earnings.

One reason behind such results is that PE-backed companies benefit from transfer of management know-how. This higher profit growth is generally not achieved through lay offs of workforce or lower salaries, but by pursuing the right growth opportunities and through efficient management of costs, technology, personnel and investing in R&D.

Other two interesting effects of the PE industry in China are represented by two main shifting on the same direction of the Governmental policies: toward domestic consumption and toward inland provinces. With regard to the first aspect, the investment in consumer goods and retail industries grew by 77 percent from 2002, while the overall PE investment in China in the same period increased by 58%. Investments in consumer and retail business now rival those made in traditional industries. All this not surprisingly is having a positive impact on overall domestic consumptions and sales, as proved by the fact that retailer backed by PE investors experienced a sales growth of 47% compared with just 16% for publicly listed retailers. Consumer goods companies marked sales growth of 30% compare with 18% of publicly listed peers. Along the way, PE has also been

pushing investment into the inland provinces, another public-policy goal.

In this industry environment PE firms need both to hone a different set of skills and looking for different targets and deals.

PE firms will thus need to sharpen due diligence capabilities, to concentrate and chose solid companies instead of scattering their energies by chasing to many opportunities. At the same time they need to invest time to wait patiently for a profitable and worthy exit. On the other side concentrate on different targets than local companies might help to find more opportunities.

On this path since many years Jesa is pursuing the target to create a PE fund which will support Italian companies in green-field investments in China.

Starting from the analysis of the gaps of the Chinese market, the aim is to build high value projects in China that will be in line with market peculiarities and needs. This may create value both for Italian mature companies that may have difficulties in investing abroad by their own but that have the products, technologies and

services that the Chinese market is eager to develop.

At the same time, this will create value for the investors and other stakeholders (local governments, workforce, other clients and suppliers).

The pipeline is unique and with the view to enter in China with the right dimensions and resources.

Further details about the fund will be released in the upcoming weeks.

Shanghai EXPO Site: Development after Demolition

The last month of the biggest, largest and most visited Expo of the history started and the closure date is approaching fast.

Standing on Expo Boulevard overlooking the magnificent display of international architecture in the Expo Garden, many visitors will not believe the marvellous pavilions will soon be razed to the ground. Actually, few people will remember the themes or exhibitions of previous

World Expos but most know of Crystal Palace and the Eiffel Tower. With the largest number of participants and the biggest site in Expo history, what will the 2010 Shanghai World Expo leave behind?

On the verge of Shanghai's central region, one bank of the Huangpu River, the selected site shares the advantage of a desirable waterfront real estate, which makes it possible for the Expo to take full advantage of the convenient transportation facilities as well as surrounding hotels and restaurants.

According to the rules of the Bureau of International Expositions (BIE), the governing body of the World Expos, almost all the pavilions are slated for demolition after the event to make way for the redevelopment of the Expo site. Wu Zhiqiang, chief planner of the Expo Garden, said the Expo organizer designed the post-Expo plan for the site even before thinking of the master plan for the duration of the fair, and the permanent buildings are just 'borrowed' to be Expo venues. With the ending of the fair and the demolition of the enclosure fences and the temporary structures within, a new "international cultural exchange center" will arise from the 5.28-square-kilometer Expo site.

The 20,000-sqm China Pavilion and the 129,000-sqm Theme Pavilion will be turned into exhibition venues. Some highlight exhibits will be reserved inside the pavilion to remind people of the historical event.

The Expo Center, the headquarters of the event, will be transformed into an international conference center with banquet halls and media centers. The plenary meeting of Shanghai People's Congress and the Shanghai Committee of Chinese People's Political Consultative Conference will be held in the center next January.

The Expo Boulevard, the main access to the site, will be transformed into a modern commercial corridor as well as a tourism attraction.

The Expo Village, which accommodates officials from participating countries and organizations, will be a hotel center with a five-star hotel, 20 or so apartment buildings and three budget hotels with a total of 7,000 beds.

The three main green areas - Expo Park, Houtan Park and Bailianjing Park - covering an area as large as 50 football fields in Pudong New Area

along the Huangpu River, will form a riverside green corridor.

About 10 percent of the historic buildings, including the former Jiangnan Shipyard workshops, will be preserved and turned into innovation parks. All the outdoor areas will be reduced in size and continue to be city squares.

Government officials, however, have so far remained tight-lipped on the issues of the redevelopment of the rest of the Expo land. Huang Jianzhi, deputy director of the Bureau of Shanghai World Expo Coordination, said the redevelopment plan is still under deliberation and that authorities want, first and foremost, to make sure the Expo operation is a great success, before getting down to the details of redevelopment.

Post-event land use of previous World Expos

2005 Aichi Expo: All construction on the Expo themed "Nature Wisdom" area was dismantled and the Japanese Expo organizer turned the land back into forest and grassland as if no event had ever been held there.

2001 Hannover Expo: All the pavilions have been retained for renting to exhibitors. The area has made Hannover an "international exhibition city" that attracts 26,000 exhibitors every year. 1967 Montreal Expo: The Expo site was transformed into an amusement park, including a Formula One race track. The pavilions were retained to be museums and casinos. 1962 Seattle Expo: The Seattle Center, a significant multi-functional complex with cultural and sports venues in the northwest United States, was built to be modelled on the former Expo site. 1958 Brussels Expo: The Expo site was former royal hunting lands and the King ordered all structures to be dismantled except the iconic Atomic Tower, which was restored in 2003 and now attracts about 300,000 visitors a year.

And Milan 2015? We all know that it cannot be compared to Shanghai for many aspects (dimensions, numbers and investments) but we do hope that some positive lessons with regard to planning and determination may be useful for the organization committee and might be treasured and applied properly to boost the interest and support Chinese visitors demonstrate for the Italian Pavilion, one of the most visited and appreciated in Shanghai.

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