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**S+C NEWSLETTER** Volume 1, Issue 6, May 22, 2006

**GREETINGS...**

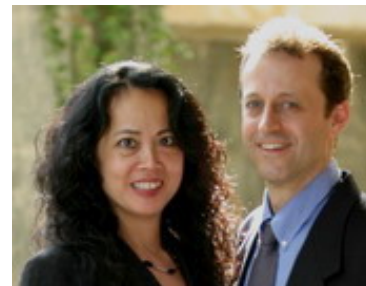
Greetings to all of our U.S. and Chinese contacts, friends, clients and associates. In April, we traveled to China and visited Shanghai, Hangzhou, Beijing, Wuhu and Hefei. For those not familiar with Hangzhou, it is a beautiful city on a lake that the Chinese consider "Heaven on Earth", and the city where Frances' father's family is from and where her father grew up. Try to get to Hangzhou before the Shanghai to Hangzhou bullet train is completed in year 2010, when all the foreigners will discover it! Also, please feel free to visit our recently improved Schechter + Chou company website at [www.splusc.com](http://www.splusc.com) for past newsletters and news. Here is our latest newsletter.

Sincerely,  
Aaron Schechter and Frances Chou

**HOT TOPICS...**

**Not a Done Deal... for Private-Equity Fund Carlyle Group.**

After two years of negotiations with various Chinese government agencies, and after private equity fund Carlyle Group had announced last November that they were set to close a deal to purchase a majority interest in the Chinese state-owned construction-equipment manufacturer Xuzhou Construction Machinery Group, Inc., for \$375 million, however, as of this date, Carlyle's deal has still not closed and is drawing scrutiny. This deal is just one example of the increased scrutiny and protectionist fears have emerged in China, as U.S. and other foreign entities have made inroads into the Chinese market, including buying up Chinese state-owned



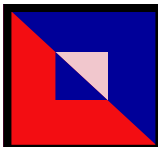
companies and assets in order to acquire their distribution channel in China, and after the purchase, the purchased Chinese brands simply disappear. Additionally, local Chinese players are seeking to protect their interests from the new foreign entrants into their markets. While no one expects a rollback of China's drive toward a market-driven economy, there is currently some Chinese government indecision on how to proceed. In this regard, China's State-Owned Assets Supervision and Administration Commission, which oversees the country's key state-owned companies, is working on guidelines to govern mergers and acquisitions of Chinese firms that are well-known brands or have significant market share in China. Currently, 49,000 U.S. businesses are operating in China with combined investment of \$51 billion. In general, look for smaller private-equity deals in China, under \$100 million, which will face fewer hurdles and less Chinese government scrutiny.

**Record Profits for U.S. Affiliated Companies in China...**

According to the Bureau of Economic Analysis, U.S. affiliated companies' profits in China reached a record \$3 billion in 2004. The Bureau also estimated profits for such U.S. affiliated companies in China of \$3.2 billion for Year 2005, compared to U.S. corporate profits of \$11.3 billion in Japan and \$7.6 billion in Mexico for Year 2005. Another survey by the American Chamber of Commerce in China estimates U.S. profit margins in China running at 8-15%.

**About that Trade Deficit...**

According to a recent article in The Economist magazine, China has accounted for only one-third of the increase in the U.S. total deficit over the past 5 years, and additionally, the widening U.S. deficit with China has been offset by a falling deficit with the rest of Asia. Also, the same Economist article pointed out that the widely reported figure of the Chinese currency being undervalued by 30-40% may be exaggerated, with several investment banks estimating the Chinese currency to be closer to 10-15% undervalued. The point of the article is that any Chinese currency revaluation is unlikely to have as significant an impact on reducing the U.S. account deficit as some experts and politicians believe. Of course, there are many differing opinions and views on this hot topic, and some people firmly believe in the opposite. It will be interesting to watch how these issues will further develop.



### **LEARN THE ROPES...**

On February 2, 2006, Aaron Schechter was event co-leader and moderator for the UC Berkeley Haas School of Business Los Angeles Alumni Chapter's "Catch the China Wave" event at the Jonathan Club in downtown Los Angeles. Over 200 attendees enjoyed the panel discussion on "Doing Business with China" and also provided a great networking opportunity.

On January 19, 2006, Frances Chou spoke regarding legal issues at the US Department of Commerce event hosted with Pierce College. Frances was the expert discussing legal issues for exporting to Asia.

On March 20, 2006, Frances Chou was the guest lecturer on export related legal issues at California State University, Northridge.

On March 24, 2006, Frances Chou was the lecturer on Legal Do's and Don'ts for California Center for International Trade in Riverside.

On July 20, 2006, Frances Chou will be the lecturer on Legal Do's and Don'ts for California Center for International Trade and Los Angeles Area Chamber of Commerce.

### **RECENT DEVELOPMENTS...**

#### **Our recent trip to China...**

Our April visit brought us to Shanghai, Hangzhou, Beijing, Wuhu and Hefei. We visited both US government and Chinese government trade related agencies, and were impressed with the level of cooperation between them. We also visited a Chinese government asset and equity exchange, government officials, an industrial park, several companies, factories, and business leaders, involved with cross-border business between the U.S. and China. Current and proposed projects include assisting both U.S. and Chinese companies in opening up new markets in the following areas: high-tech lighting products, data acquisition, building materials, cross-border movie co-production, publishing, medical and agricultural technology related products, furniture, investment and mergers and acquisitions.

### **LEGALLY SPEAKING...**

The following is provided by Y.F. Chou, Prof. Corp. For questions, please contact [info@yfchou.com](mailto:info@yfchou.com).

#### **What's New for Measures on Strategic Investment by Foreign Investors in Listed Chinese Companies?**

For the first time, the Ministry of Commerce ("MOFCOM"), the China Securities Regulatory Commission (the "CSRC"), the State Administration of Taxation ("SAT"), the State Administration for Industry and Commerce (the "SAIC") and the State Administration of Foreign Exchange ("SAFE") jointly issued the "Administrative measure on Strategic Investment in Listed Companies by Foreign Investors (the "Measures"), which provide a framework for any foreign investors to acquire "A" shares of PRC listed companies. Such shares are previously only available to Chinese individuals and entities and are denominated in Renminbi. These Measures became effective on January 31, 2006. The following is a brief summary of the Measures.

First of all, the only "A" shares that are made available for foreign investors under these Measures are those "A" shares issued by companies who have implemented reformed to convert non-tradable, state-owned shares into tradable shares in accordance with the Administrative Measures for the Reform of the Segmented Share Structure of Listed Companies. In general, the major requirements, among others, that a foreign strategic investor has to satisfy are as follows. Even though the investment may be made in installments, however, after completing the first investment, the foreign investor has to hold at least 10% of the total issued shares of the invested company, except if the invested company is subject to special regulations as being in a restricted industry, or if the investment has been approved by subject government agencies. Foreign investors also have to confirm with the general restrictions on foreign investment in the Chinese companies, such as restrictions on anti-monopoly. If any laws or regulations have specific restrictions or prohibitions concerning investment by foreign investors in specific industries, then the foreign investor has to be in compliance with such laws and regulations. The foreign investor shall not transfer the acquired "A" shares for a period of three years. The foreign investor has to be duly incorporated foreign legal entity or organization, with at least US\$100 million dollars in assets outside PRC, or at least managing US\$500 million dollars assets outside PRC, by this foreign investor or by its parent company. The foreign investor or its parent company has not received any "material punishment" from any regulatory authority in any jurisdiction in the past three years. If the investment is made by a foreign company through its wholly owned subsidiary incorporated outside PRC, then the parent company has to submit to MOFCOM a guaranty to irrevocably assume any and all responsibilities of such subsidiary investor as a joint obligor. Also, if the parent company plans to sell the subsidiary, then the parent company has to apply for an approval with MOFCOM prior to the sale. Also, such investment has to be approved by MOFCOM before such investment may take place. In addition, CSRC's approval is needed if such investment involves the purchase of newly issued shares. Also, a no-objection letter from CSRC is also needed if such investment will result in taking control of the Chinese listed company by the foreign investor. The Measure further state that any disputes relating to such investment will be subject to the jurisdiction of the PRC courts or arbitration within the PRC. Following the completion of the strategic investment, the foreign investor has to satisfy all application reporting and other obligations pursuant to the PRC securities laws and other related regulations issued by CSRC.

The Measures are the first regulations issued by the PRC to allow foreign investors to invest in the "A" shares. It will be interesting to see how the foreign investors will react to the issuance of the Measures.