

SCHECHTER + CHOU, INC.

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GREETINGS...

Greetings to our friends, clients, contacts and associates in the U.S. and China! We traveled to China in October/November and visited Shanghai, Shenzhen and Beijing. Please enjoy our latest newsletter. Happy holidays!

Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS...

Novartis' Announcement on New R&D Facility in Shanghai.

In November, Novartis, a Swiss company and world's fourth-largest pharmaceutical company, announced plans to invest US\$100 million in a new research facility in Shanghai. Novartis is the second major pharmaceutical company to invest in R&D in China this year. Most cutting-edge pharmaceutical R&D is done in Western Europe, U.S., Israel and Japan, which have highly educated populations and strong intellectual property laws. Novartis's US\$100 million investment is only a small slice of their almost US\$4 billion R&D budget.



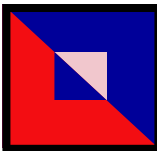
Still, Novartis is investing for several reasons. They are betting that China is evolving into more than just a low cost hub for commodity manufacturing. They believe that the talent and pool of researchers in China is high enough, and also lower cost enough, so that their Shanghai facility can eventually grow into one of its 3 big research hubs, along with those located in Cambridge, Massachusetts, and Basel, Switzerland. In regards to intellectual property protection, Novartis feels that conditions are now improving and tolerable. They believe that while producers of fake drugs are not tracked down in China, at least they are dealt with when exposed by others. Additionally, the company believes that intellectual property protection will be sufficient enough by the time their research laboratory produces its products within 5 years. Novartis' R&D center in Shanghai will be developing products for which there is strong demand in China, as well as in Asia, specifically for contagious diseases that are preventable or will only lead to benign illness outside China but can lead to deadly cancers within China due to currently unknown environmental or genetic factors. Novartis has seen its annual sales growth in China drop from 25% to 10%, due to a crackdown on corruption throughout China, resulting in Western companies no longer being allowed to meet with purchasing directors in hospitals, which are major distribution points for pharmaceutical drugs. Having a research center located in China could help to enhance their reputation for advanced research into diseases and help their brand.

Initial Signs of Improvement in Intellectual Property Rights Protection in China.

Recent surveys this year by the American Chamber of Commerce and the U.S.–China Business Council stated that approximately one-third of each group's members reported an improvement in enforcement of trademarks, patents and copyrights in China. Pharmaceutical giants Novartis and Astra-Zeneca, which depend on selling patented products, both indicated that improving protection on intellectual property rights supported their decision to invest US\$100 million apiece in their research and development efforts in China. In another example, Microsoft executives stated that they have seen a significant pickup in sales since a new rule went into effect requiring that all new computers sold in China come with legitimate operating-system software already installed. Many of the changes began in early 2005 when a high level Chinese government task force, headed by Vice Premier Wu Yi, produced an "action plan" towards government changes in legislation and practice. On the other hand, more hawkish critics point to the many thousands of producers of illicit goods located across China, such as DVD's, and the poor enforcement and light penalties on counterfeiting cases, which allows many violators to continue in business even after repeated crackdowns.

Update on Carlyle/Xugong Deal.

As an update, from previous Schechter + Chou newsletter articles, which can be viewed on our website at <http://www.splusc.com/newsletter.htm>, U.S. private-equity fund Carlyle Group is in the process of downsizing its offer to buy 50% of Xugong Group Construction Machinery Co., instead of 85%, in order to facilitate regulatory approval of the deal. Xugong is China's largest construction-machinery producer. In October 2005, Carlyle had agreed to pay US\$375 million for 85% of the state owned Chinese enterprise, but since that time, sales of large stakes in state-owned companies to foreign buyers have become controversial, and as a result, the approval for this deal has been held up. Currently, the new offer made by Carlyle is pending upon the approvals by the relevant Chinese government agencies.



LEARN THE ROPES...

Mark your calendar

The UC Berkeley, Haas School of Business, Los Angeles Alumni Chapter will present their second "Catch the China Wave" event on February 22, 2007, at the Jonathan Club in downtown Los Angeles. Aaron Schechter will again be the co-leader and the moderator for this excellent event. The first "Catch the China Wave" event was held on February 2, 2006. That event attracted over 200 attendees and was held in association with the Wharton Club of Southern California, the Stanford Business School Los Angeles Alumni Chapter, Hong Kong Association of Southern California, Asia Society, Asia Pacific-USA Chamber of Commerce and North American Representative Office of Shenzhen, PRC. More details will be provided in the next issue of our newsletter.

Recent Appearances

On September 7, 2006, Frances Chou was a panelist at the PacRim Conference hosted by Asia Business League.

On October 9, 2006, Frances Chou was the guest lecturer on export related legal issues at California State University, Northridge.

On October 12, 2006, Frances Chou was the lecturer on Legal Do's and Don'ts for Riverside Center for International Trade Development.

RECENT DEVELOPMENTS...

Our recent trip to China...

We had many fruitful meeting in Shanghai, Shenzhen and Beijing. We met with Chinese companies, government officials, and entrepreneurs. Current and proposed cross-border projects include U.S. investment in Chinese companies and real estate projects in China, import/export, assisting Chinese companies to enter the U.S. market and assisting U.S. companies entering into the Chinese market. We look forward to working on these exciting projects.

LEGALLY SPEAKING...

The following is provided by Y.F. Chou, Prof. Corp. For questions, please contact info@yfchou.com.

Recent Developments in Real Estate Regulations in China

In the past few months, various central government agencies in China issued new regulations on real estate and land use in China. The main purpose of issuing these regulations is to stabilize the real estate market in China and to protect land resources. The follows is a couple of such new regulations. On August 31, 2006, following the *Decision Concerning Intensifying Reform and Strengthening Land Administration* issued earlier, the State Council issued the *Circular Concerning Certain Issues Regarding Strengthening Land Adjustment and Control*. This Circular provides that with regard to approval of conversion of farmland into construction land or land requisitions, the State Council will only consider this matter on an annual basis based on annual reports and applications submitted by the provincial government and will not consider such matter on a case by case basis throughout the year as it was doing before. Also, the grant of a land use right for industrial purpose will be made pursuant to a bidding process, and the price shall not be lower than a publicly published standard. Farmland, whether it is under a lease or not, can no longer be used for other purposes without completion of all required procedures. On September 1, 2006, the State Administration of Foreign Exchange ("SAFE") and the Ministry of Construction jointly issued the *Circular Concerning Certain Issues Regarding Regulation of Foreign Exchange Management in the Real Estate Market*. This Circular was issued pursuant to the *Opinion on Regulating the Entry into and the Administration of Foreign Investment in the Real Estate Market*, the so-called "Opinion 171". This Circular provides that a foreign-invested real estate enterprise in China ("FIREE") shall not apply for loans in or outside China, and that SAFE shall not approve or register a foreign debt of any FIREE or confirm settlement of any foreign exchange proceeds, unless (1) the FIREE's registered capital has been paid up, (2) the FIREE has obtained the land use certificate, and (3) the FIREE has paid in at least 35% of the total amount of investment for the development project. If the foreign investor/investors acquires a domestic real estate enterprise or a Chinese party's interest in an FIREE but fails to pay the purchase price in full, then SAFE should not process the related foreign exchange application. An agreement between the parties of an FIREE, the by-laws or any other related documents concerning the FIREE cannot contain any form of a fixed return guaranty for any party, as the SAFE will not process any foreign exchange registration or amendment thereof for the FIREE should there be such a guaranty. Also, with certain exceptions provided for people from Hong Kong, Macau and Taiwan, only foreign entity's branch or representative office in China or a foreigner who has been working or studying in China for more than one year may purchase "commodity premises" (residential real estate property) for its own use and to be occupied by such entity or individual. Foreign exchange remitted into China for such purpose has to be converted into Renminbi and directly wired to the real estate developer's Renminbi account. If the purchase does not close or if the payor later on sells the commodity premises, then the money remitted into China or the sales proceeds may be used to purchase foreign currency and be remitted out of China.