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S+C NEWSLETTER Volume 1, Issue 12, January 7, 2008

GREETINGS…

Greetings and a very Happy New Year to our associates, clients and friends in the US, China, and Asia. We hope everyone in the US enjoyed the holiday spirit and wish everyone the best in 2008! Attached please find our latest Schechter + Chou company newsletter.
Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS…

CIC strikes again…

In December, China Investment Corp. (CIC), the nation's sovereign wealth fund, made another bold move, striking a US$5 billion deal for a 9.9% stake in US investment bank Morgan Stanley, which had been hit by poor performing mortgage-related investments. CIC will get a guaranteed rate of return of 9% on its investment until year 2010 when its position converts into shares. CIC had made the headlines back in May 2007, after striking a US$3 billion deal for a slightly below 10% interest in US private-equity firm Blackstone Group (for more information please see September 2007 S+C Newsletter at http://www.splusc.com/newsletter.htm). The Morgan Stanley deal will likely avoid US government scrutiny since it is for a minority interest of less than 10% and CIC will have no representation on Morgan Stanley's board. For CIC, and its initial US$200 billion fund, it announced that approximately one-third (US$67 billion) will be invested overseas. Another one-third (US$67 billion) will be used to recapitalize two domestic banks, Agricultural Bank of China and China Development Bank. The remaining US$67 billion has already been used to buy the assets of Central Huijin Investment Co., an agency that controls the government's stakes in China's biggest banks. The take-away trend here is that in 2007, for the first time, Chinese companies and government have invested more overseas than foreign buyers have invested in China. In 2007, Chinese buyers invested US$29.2 billion acquiring foreign companies, while foreign investors have bought US$21.5 billion of Chinese companies, according to Thomson Financial. The top five outbound investments from China averaged US$3.1 billion, while the top inbound investments by foreigners averaged US$202 million.

China stock markets roared in 2007…

While some stock markets around the world struggled and sputtered, China's Shanghai and Shenzhen stock markets showed heady gains. The Shanghai Composite Index ended up 97% for the year. In 2007, approximately $90 billion USD in IPO's was raised in China, almost as much as in the New York and London stock markets combined. Additionally, the Hong Kong exchange soared 39%, with almost all of the gains coming after the late April announcement by Beijing that mainland Chinese investors would for the first time be allowed to buy stocks outside of mainland China in a pilot program and invest into the Hong Kong exchange as well as expectations of a possible closer relationship between the Shanghai and Hong Kong stock markets. China's Shanghai exchange hit its peak for the year in mid-October, and the market has increased by 4.5 times since mid-year 2005. The market has slowed recently, and many considered it to currently be in a correction. At first glance, 2008 looks to be exceptionally strong with over 60 Chinese firms in a range of industries preparing to go public including large Chinese mobile and oil firms. However, on a cautionary note, a recent Economist article noted that 8 of the 15 largest IPO's on China's stock markets in 2007 are currently selling at below their first-day closing price. And the gargantuan PetroChina IPO, which more than doubled in value on its November 5th debut on the Shanghai exchange, soon thereafter lost almost one-third of its value before rallying recently. These factors may cause deals to be more closely scrutinized in the future. (For further discussions on China's stock market, please refer to August 2006, February 2007 and September 2007 S+C Newsletters at http://www.splusc.com/newsletter.htm).

Internet tidbits…

This past November, Chinese internet giant Alibaba Group of China made a big splash raising US$1.5 billion for alibaba.com, its online business-to-business commerce unit, in its debut on the Hong Kong exchange. The IPO was the world's largest IPO offering for an Internet business since Google's IPO in 2004. ●●● In November, Barry Diller, Chairman and CEO of US$9 billion media conglomerate IAC/InterActiveCorp, announced his plan to push into China with a US$100 investment in a new internet business in China, and will also bring his search engine Ask.com to China within two years. The new investment in China would be a media and advertising Web site, and not a transaction-based business. Previously, Diller's company had invested approximately $200 million in China, including an online travel company. ●●● China has the second largest Internet user base in the world with 162 million

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HOT TOPICS—Continues…

users as of June 2007. ●●● This past December, Chinese search leader Baidu.com became the first Chinese company to join the Nasdaq 100 Index. Baidu sports a US$13B+ valuation. It was recently reported that Baidu held a commanding lead with 74% of search queries in China compared to 18% for its closest rival, Google. ●●● In December, Hong Kong billionaire Li Ka-shing had acquired a 0.4% interest in online social networking site Facebook for US$60 million. This investment follows a recent US$240 million investment in Facebook by Microsoft. Mr. Li's Hutchinson Whampoa is a part owner of Hong Kong based Tom Group, ltd., whose Tom Online Shanghai-based web portal and Internet service provider is geared toward China, and also has partnerships with eBay in China as well as with priceline.com in Asian markets. ●●● MySpace, which launched its China site under a different corporate entity, by licensing its technology and brand to a local Chinese company, MySpace.cn, has a relatively small presence in China, but is growing, and had increased its unique monthly visitors from 4.2 million in September to 7.5 million in October, according to comScore.

REGISTER NOW...

Schechter + Chou is proud to participate in the organization of the Second Annual Dinner Gala for American-Chinese CEO Society. The Gala will be held on Saturday, January 19, 2008, with reception at 5:30 p.m. and dinner at 7:00 p.m., at the Pacific Palms Conference Resort, located at One Industry Hills Parkway, City of Industry, California 91744. The keynote speaker will be Dr. William H. Overholt, Director of the Center for Asian Pacific Policy at RAND. In addition, a delegation with government officials and industry leaders from Jilin, China, will also attend the Gala. The Gala tickets will be $65 per person. If you are interested in being a sponsor for the Gala or attending the Gala, please call 626-432-7000. Hope to see you there.

LEGALLY SPEAKING…

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

The New PRC Anti-Pollution Notice Shows A Change of Attitude of PRC Government in Enforcing Anti-Pollution Rules

Chinese manufacturers, who export their products, can no longer choose to simply pay fines in order to avoid operating their facilities in compliance with the anti-pollution rules in China any longer. On October 8, 2007, a notice on "Strengthening the Environmental Monitoring over Export Enterprises" (the "Notice") was issued jointly by the PRC Ministry of Commerce ("MOFCOM") and the State Environmental Protection Administration of China ("SEPA"). This Notice changes the way that the anti-pollution rules are being enforced in China against manufacturers involved in exporting their products.

Prior to the issuance of this Notice, most of the existing anti-pollution rules simply imposed fines on polluters. Since most of Chinese manufacturers believe that it is cheaper to pay the fines than to operate in a less polluting manner, most of the manufacturers choose to simply pay the fines and continue polluting the environment. However, they can no longer do that after the issuance of this Notice. This Notice, a collaboration between MOFCOM, an agency who regulates exporters, and SEPA, an agency who enforces China's environmental laws, provides that MOFCOM and its local comer agencies may suspend the export related applications filed by any manufacturers who violate the anti-pollution rules (the "violators") and prohibit such violators from engaging in foreign trade. The commerce and environmental protection agencies are to establish joint work panels to coordinate their work and share information. This Notice provides that SEPA and local environmental protection agencies under SEPA's control shall conduct environmental compliance monitoring, inspections and management of manufacturers that export products. If a local agency discovers any violations, then it may impose administrative penalties and make public announcements of such penalties, and it shall also order the correction of violations and report such violations and penalties to SEPA. SEPA will then report same to MOFCOM. MOFCOM then will deliver a list of violators and the reports from SEPA to its local commerce agencies. Also, when a local commerce agency reviews an export related application filed by a manufacturer in an industry which might cause significant environmental impact, that agency must request an opinion from the related local environmental protection agency, and the local environmental protection agency must reply within two weeks. In addition, the local commerce agencies may suspend the acceptance of export business applications filed by manufacturers on the anti-pollution violator list provided by MOFCOM. MOFCOM also may prohibit such manufacturers on the list from engaging in foreign trade for more than one year but less than three years, and all applications relating to export filed by such manufacturers during this period have to be suspended. A pilot program of enterprise environmental supervisors will be implemented first in the metallurgical, chemical, cement, textile and light industries, and each manufacturer is required to establish an environmental management body and assign special environmental supervisors to perform various duties in compliance with the rules.

This Notice clearly shows a change of attitude of PRC government in its enforcement relating to the environmental pollution, however, it also creates additional costs, delays and bureaucratic hurdles for exporters in China. The impact of this Notice remains to be seen.

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