

**SCHECHTER + CHOU, INC.**

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**S+C NEWSLETTER** Volume 1, Issue 5, January 11, 2006

### **GREETINGS...**

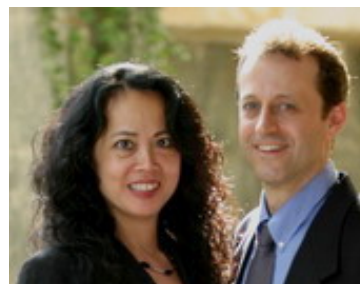
We wanted to wish our U.S. contacts, friends and clients a very Happy New Year. Additionally, we want to wish our Chinese friends, contacts and clients an "early" Happy Chinese New Year's greeting as well. Please enjoy the latest copy of our newsletter. Wishing you all a great year 2006!

Sincerely,  
Aaron Schechter and Frances Chou

### **HOT TOPICS...**

#### **Chinese Foreign Exchange Regulator Hints At Diversifying Foreign Currency Holdings, as well as Easing Restrictions On Chinese Companies Wishing To Invest Abroad**

Comments out of Beijing on January 5, 2006, that the Chinese ... "want to "perfect" their management of foreign-currency reserves..." were the first official word that the Chinese government wants to diversify its massive holdings in foreign debt, held mostly in US government bonds. There was no timetable or targets given for any such move.



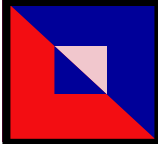
As of the end of October, 2005, Chinese holdings of US Treasury securities amounted to approximately \$250 Billion. One quoted US economist viewed such a move as a "serious U.S. dollar negative". However, with their extensive holdings of US debt, China has a lot at stake as well and is unlikely to do anything that would speed the dollars decline.

At the same time, Beijing indicated a willingness to ease restrictions on Chinese companies interested in expanding their businesses overseas. They would accomplish this by abolishing sometime in 2006 the quota limits on foreign currency that Chinese companies are allowed to buy each year for investment offshore. China has capped investment overseas nationwide to \$5 billion per year, and Chinese companies seeking to buy more than US \$10 million worth of foreign currency overseas have to seek special regulatory approval. This action could lead to Chinese companies acquiring companies abroad. Chinese companies have been raising money overseas in the Hong Kong stock market. They want to put that capital to use. The regulator said that it plans to work on ways to make it easier to move money across China's borders, while at the same time increasing supervision of such flows. After Lenovo's purchase of IBM's PC unit, and last years failed bids by Chinese company Haier for Maytag and CNOOC's bid for Unocal, Chinese companies' buying of US assets is a hot topic in China.

Regarding investment into China, in early 2006, Citigroup announced that they are leading a consortium group in negotiations to acquire a controlling interest in Guangdong Development Bank. Their consortium bid roughly \$3 billion for an 85% share of the midsize lender, and Citigroup could end up with between 40-45% ownership stake, by far the largest by a foreign investor in a Chinese bank. Deals such as this represent local or provincial banks that need the capital infusion and foreign know how to stay competitive. Additionally, last September Mittal Steel gained a foothold in China by buying a minority 37% stake in Chinese state-owned steel maker Hunan Valin Steel for \$338 million and marked the first entry into the controlled steel market by a foreign buyer. Bear Stearns was involved in this transaction as advisor to state-owned Hunan Valin Steel, and the deal took about a year to complete. Neil Morganbesser, Senior Managing Director of Bear Stearns, who runs West Coast and Asian Mergers & Acquisitions for Bear Stearns, will be speaking at the upcoming China event in Los Angeles hosted by the UC Berkeley Haas School of Business Los Angeles Alumni Chapter, on February 2, 2006. For information regarding this event, please visit [www.haasla.com](http://www.haasla.com).

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

Leaving 2005, and entering into 2006, we continue to assist U.S. companies to gain market access for their products, including lighting products, into the Chinese market through our contacts in China. Additionally, we continue building relationships with Chinese companies wishing assistance in market research, setting up their operations, obtain financing and locating strategic partners in the U.S. Further, we recently entered into a strategic alliance with a Chinese central government agency related to technology, with the goal of assisting Chinese companies to do business in the U.S. 2006 promises to be an exciting new year.



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**LEARN THE ROPES...**

**Our Recent and Upcoming Talks and More...**

On November 17, S+C were instructors at the California Center for International Trade Development (CITD) seminar on importing products from China.

On January 19, Frances Chou will be speaking at the Risk Management Seminar for Exporters hosted by the West Los Angeles Office of the US Department of Commerce.

On March 22, S+C are instructors at the California Center for International Trade Development (CITD) seminar on importing products from China.

On May 30, Frances Chou will be an instructor at the "Legal Do's and Don'ts" course for the California Center for International Trade Development (CITD).

Schechter + Chou is involved in the membership drive for Asia Society Southern California. We have been proud members for the past few years and hope that you can join, too. For more information, please call 213-613-9934, ext. 24 or visit [www.asiasociety.org/membership/southernca\\_membership.pl](http://www.asiasociety.org/membership/southernca_membership.pl).

**REGISTER NOW...**

On February 2, the UC Berkeley Haas School of Business, Los Angeles Alumni Chapter presents "**Catch the China Wave – Get the Inside Story on Doing Business with China**" at the Jonathan Club Downtown in Los Angeles. The panelists include Lindsay Gardner, Executive Vice President, Sales and Marketing, of the Fox Cable Network; Neil Morganbesser, Senior Managing Director, Bear Stearns Mergers and Acquisitions Group; and Jack Sheng, Co-founder of Eforcity Corporation, a personal electronics e-tailer. Aaron Schechter, Chairman/CEO of Schechter + Chou, is co-leader for the event and will serve as moderator. The event is being held in association with the Wharton Club of Southern California and the Stanford Business School Los Angeles Alumni Chapter. For ticket information/RSVP, please visit [www.haasla.com](http://www.haasla.com). **The space is limited, and we expect that this event will be sold out.** Please RSVP as soon as possible to guarantee your seating. We hope to see you there!

**LEGALLY SPEAKING...**

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

**New Rules on Foreign Exchange Control in China**

On October 21, 2005, the State Administration of Foreign Exchange of China ("SAFE"), issued Circular No. 75, "Relating to Foreign Exchange Administration of Financings and Return Investments by On-shore Residents Utilizing Offshore Special Purpose Companies." Circular No. 75 went into effect on November 1, 2005, which replaced Circular No. 11 issued on January 24, 2005, and Circular No. 29, issued on April 8, 2005. Circular No. 75 specifically stated that China's national policies "encourage, support and guild" Chinese private companies and high tech companies to obtain offshore financing. This Circular provided the much welcomed news to foreign venture capital, private equity and other foreign investors, who are interested in investing in China.

Circular No. 75, again, is applicable to all "domestic resident" "legal person" or "natural person." It intends to regulate "return investment" from any offshore special purposes companies either set or controlled by Chinese resident for the purposes of raising offshore equity financing with domestic assets or legal interests in China. Circular No. 75 abandoned the requirements set forth in Circular Nos. 11 and 29, which required prior approval by relevant authorities, including the Ministry of Commerce, and then registration with SAFE, for any Chinese resident to directly or indirectly establish or obtain control, or to exchange domestic assets or equity interest for stock or assets, of a foreign company. After the issuance of Circular No. 11, because there was no corresponding rule of such relevant authorities for the approval and no detailed guidance for the SAFE registration procedures, it was difficult for Chinese companies to obtain foreign financing, which effectively put most of the foreign investment deals on hold. Circular No. 75 is a significant change of tone from the two prior Circulars. Circular No. 75 only requires Chinese residents to register with SAFE for such transactions, without requiring any prior approvals for such transactions. However, Circular No. 75 requires multiple foreign exchange registrations by relevant parties involved in the offshore equity financing transactions and imposes severe penalties for non-compliance by PRC resident investors, which will impact not only the PRC resident investors but also the offshore special purposes companies and its onshore subsidiaries.

Thus, Circular No. 75 is a positive development towards the right direction, however, it still remains to be seen how this Circular will be implemented and how the various issues can be resolved in practice.