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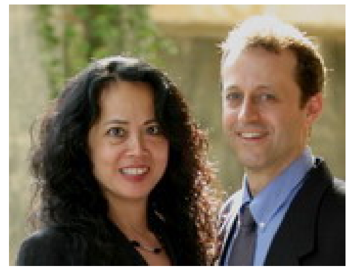
GREETINGS…

Greetings to our clients, associates, and friends in the US, China, and Asia. We visited China in March/April and enjoyed the great weather in Shanghai, Hangzhou, Beijing, and Xi'an. We were able to visit some of the Olympic stadiums and infrastructure improvements, like the new Beijing Airport expansion. We look forward to the coming Beijing Olympic Games! Please enjoy our most recent newsletter!
Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS…



New Marketing Emphasis for Nike and Adidas….

Nike, Inc., the market leader in sportswear in China, and Adidas, are battling in the global sneaker wars, aggressively pushing their apparel and shoes to appeal to the local Chinese consumer; both companies are incorporating Chinese influence into their styles – a change from their recent past, where they have marketed mostly Western influenced styles. This year, both Nike and Adidas expect sales in China to surpass US $1 billion, making China the largest market for both companies, after the US. Additionally, over the next five years, premium brands such as Nike and Adidas are expecting 35% – 40% growth in sports-wear sales in China. For its part, Nike has signed exclusive deals with some of China's Olympic medal hopefuls. Such marketing is a shift for Nike, which previously promoted American–style individualism and US sports stars, like Michael Jordan, with great success in China. Now, with the upcoming Beijing Olympics, Nike believes that Chinese youth wants to see their own country and sports stars succeed on the world stage. Nike's competitor, Adidas, paid more than US $80 million to be an official sponsor of the Beijing Olympics and will provide shoes to China's medal winners for the podium and also shoes for 100,000 Olympic staff and volunteers. Three years ago, in an effort to localize their apparel, Adidas opened their Adidas Creation Center in Shanghai. In their designs, elements such as clouds, dragons, fans and bright colors are used to evoke Chinese tradition and allow Chinese youth to express their identities, according to the Center's director. By the time the Olympics begin on August 8th, Adidas will have approximately 5,000 stores across China, including their largest store in the world, in Beijing. China's largest domestic sportswear brand, Li Ning, founded by the Olympic gold medalist, will use the Olympic theme in its ads, but its sportswear will not incorporate traditional Chinese elements.

More Venture Capital Money is Pouring into China….

While China is dealing with decade-high inflation, a slumping stock market, and slower than super-hot economic growth, venture capitalists continue to increase their levels of investment there; investors in Q1 2008 plowed US $940.7 million into 116 Chinese firms, more than double the US$419 million total in Q1 2007, according to Zero2IPO Group, a Beijing-based research company. Further, a total of 23 China-focused VC funds together raised US $2.26 billion last quarter, which represents more than a six times increase from the amount raised a year earlier. In April, Intel Capital announced plans to invest an additional USD $500 million in China during the next several years. Intel had established its first China-focused fund with USD $200 million in 2005, investing in more than 28 companies, including 3 that have gone public.

Recent Developments Regarding China Stock Market….

China's stock markets have lost more than 40% of its value since the market peak in October 2007. In our last Schechter + Chou newsletter, dated January 7, 2008, we discussed the relatively poor performance of Chinese IPO's at that time, and advised caution in the market (see http://www.splusc.com/Newsletter010708.pdf). China's markets have been weighed down by concerns over rising inflation, tightened credit, as well as the global economic slowdown. Additionally, some are concerned about the heavy Chinese government ownership of shares, and that previously non-tradable "locked" shares might soon be "unlocked", thus acting as a damper on the market. Still, the Chinese economy continues to grow, with a 10.6% rise in GDP for the first quarter. Also, some experts point out that the Chinese economy never got a boost from consumer spending while the stock markets were rising, so the recent stock market slump may not do much to affect consumer behavior. Investor psychology may take a hit, however. Almost one-third of the 58 million Chinese investors that opened accounts in 2007 have since closed their stock trading accounts.

China Real Estate Updates….

Chinese real estate developers have hit stronger head winds in 2008, due to a combination of factors. Chinese government measures to cool the overheated real estate market and dampen speculation have had an effect; for example, by increasing down payment requirements and the imposition of

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HOT TOPICS—Continues…

transaction taxes on non-primary residences. Additionally, aggressive real estate developers paid exorbitant prices for developable land during the last half of 2007, and are now strapped for cash and unable to raise funding in a slumping stock market environment, thus unable to build on land they have accumulated. Prices have slowed in the big cities in southern China, such as Shenzhen, which only one year ago was a very hot market. The average price of flats in Shenzhen has fallen by 28% since last October. Other markets like Beijing and Shanghai have been more resilient, but the rate of price appreciation and sales have slowed. Many expect consolidation in the sector as well funded developers look to acquire developers in financial straits who have good land banks.

REGISTER NOW...

Asia Business Forum: China, the World's Hottest Market on May 17, 2008, at Sun Microsystems Auditorium in Santa Clara, California. Schechter + Chou is one of the organizers for this event presented by the California Society of CPAs with Ascend and UC Berkeley, Haas Alumni Network. The event will be held from 10 a.m. to 2:30 p.m. For full details please call Jane Dunbar at (650) 802-2465 or jane.dunbar@calcpa.org or visit http://www.calcpa.org/Public/Catalog/CourseDetails.aspx?courseID=08I1090508.

Asia Society Southern California's Annual Gala Dinner on May 20, 2008, at Beverly Hills Hilton. Schechter + Chou is proud to be a cooperating organization for the Asia Society Southern California's Annual Gala Dinner. Bill Gross, Founder and Co-Chief Investment Officer of PIMCO, will be the honoree. The event begins at 6 PM. In order to receive the member rate of $250 per person, make sure to mention that you were referred by Schechter + Chou. For more information, please visit www.AsiaSocietySocal.org. Or, contact Lisa Noshi at (213) 613-9934, Extension 24, or at lnoshi@asiasor.org .

LEGALLY SPEAKING…

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

The Draft Regulations Concerning Merger Notification Related to China's New Anti-Monopoly Law Have Been Published.

The draft "Regulations on Notifications of Concentrations of Undertakings" (the "Draft Regulations") have been published for public comments by the China's State Council. These regulations will be used to implement the merger control provisions in China's new Anti-Monopoly Law to be effective on August 1, 2008. For further discussions on the new Anti-Monopoly Law, please see our September 6, 2007 newsletter at: http://www.splusc.com/Newsletter090607.pdf. The Draft Regulations covers three general areas, the definition of "obtaining control," notification thresholds and some procedural issues. As to what constitute "obtaining control," which requires the notification of the merger to the government authority, the Draft Regulations define this to include (other than "whatever the State Council considers to constitute 'obtaining control,'"): (1) acquisition of 50% or more of the equity or assets of another entity; (2) becoming the largest shareholder or asset owner of another entity; (3) acquiring voting rights to actually dominate or determine half or more of the directors of another entity; and (4) exercising decisive influence over the decision-making of the production and operating policies of another entity. The concern here is that with Item 2, there is no minimum size threshold for becoming the "largest shareholder" of the company, which could mean that it owns only 1% of the company but is the largest shareholder. The other concern is that Items 3 and 4 are too subjective. The Draft Regulations also provide 3 notification thresholds, which will trigger the notification requirement of the merger: (1) The combined worldwide annual sales of all entities involved exceed RMB 9 billion and the China sales of two entities each exceed RMB 300 million; (2) the combined China annual sales of all entities involved exceed RMB 1.7 billion, and the China sales of two entities each exceed RMB 300 million; and (3) the concentration will result in an entity occupying a greater than 25% share in the relevant market in China. These thresholds eliminate notification thresholds based solely on the characteristics of one party, which is a huge improvement from the current Foreign M&A Regulations. However, some issues still remain. For example, there is no minimum size of transaction threshold, so some smaller size transactions will be subject to the notification requirements as long as the parties are of sufficient size worldwide and/or in China. Also, there is no requirement that the transaction itself relate to or affect China. Therefore, some large companies, who have substantial sales or market share in China, involving in some transactions outside China and unrelated to China, such as Microsoft's prior attempt to acquire Yahoo, might be subject to the notification requirements. Further, some threshold requirements are still too subjective. With regard to the procedural issues involving the merger review process, the major concern is that the Draft Regulations give even more discretion to the reviewing authority. To conclude, the Draft Regulations are a substantial improvement from the existing Foreign M&A Regulations, however, there are still some remaining issues, which might cause some concerns in the future.

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