

SCHECHTER + CHOU, INC.

嘉质策略 • www.splusc.com



S+C NEWSLETTER Volume 1, Issue 2, May 11, 2005

GREETINGS...

Recently, Schechter + Chou returned from the greater China region, having visited Shanghai, Guangzhou, Shenzhen, Hong Kong and Taipei from late March through mid-April. Our schedule was filled, as we met with Chinese government officials, business consulting firms, national law firms, venture capitalists, state-owned enterprises (SOE's), and entrepreneurs. The companies we met with ranged from start-up companies to multi-billion dollar major Chinese companies. The purpose of the meetings was to assist them to do business in the United States, finding funding resources, and locating strategic partners. As a consequence, we are developing programs and proposals and arranging meetings between appropriate partners for both government and private industry.

Our trip to China was very successful, and we look forward to returning to China in the near future.

Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS...

Is it time to revalue RMB?

In recent weeks, there has been increased speculation that China will very soon revalue its currency, which is tied to the U.S. dollar, and "unpeg" its currency from the U.S. dollar. The increased speculation was due to comments from a Chinese banking official, as well as due to the Chinese currency briefly floating above its official trading range, which caused a sharp reaction in global currency markets. Experts vary over when and how any revaluation will proceed, should it occur, and its likely impact.



Some analysts believe the Chinese government will take a more gradual approach, and that any move will not be to "unpeg", but to loosen the "peg" and let the Chinese currency trade in a wider trader range to the U.S. dollar, over time. There have been calls from the U.S. and Europe for China to revalue the Chinese currency as growth has slowed in the U.S. and Europe. In the U.S., some believe that any revaluation will reduce the U.S. trade deficit by making Chinese goods more expensive in the U.S. However, with its large trade surplus with the U.S., China has accumulated large U.S. dollar reserves and bought large amounts of U.S. Treasury securities, thus supporting the U.S. dollar and keeping interest rates low in the U.S. —supporting both the U.S. housing market and consumer spending. For China, a revaluation could reduce their emphasis on its export manufacturing sector, and give China greater control over its economy, and spur growth in its service sector, improving China's long term development.

New Restrictions on Chinese Residents' Outbound Investment

On January 24, 2005, a Circular was issued by China's State Administration of Foreign Exchange ("SAFE"), entitled Certain Issues of Improving Administration of Foreign Exchange in Connection with Mergers and Acquisitions by Foreign Investors (the "Circular").

In the recent years, it has been repeatedly reported that often times, a group of people who manage or control a state-owned enterprise ("SOE") will set up an offshore company and acquire equity of such SOE at a substantially below fair market value price through such an offshore company and then sells the shares in the offshore company, without adding any value or assets to the SOE, to a foreign investor at a much higher price. It has been discussed that the Circular was issued to stop such practices.

In general, this Circular requires all PRC "domestic residents" to obtain approval and registration for any outbound investment and any shares or assets exchanged with offshore entities. In addition, the Circular also requires SAFE's local branches to forward to SAFE any applications for foreign exchange registration made by a foreign investment enterprise ("FIE") for processing, if the FIE was set up by a domestic resident because of mergers and acquisitions through an offshore vehicle. Even the foreign exchange registration by the existing FIE's are still subject to strict scrutiny by SAFE's local branches, should they discover any irregularities. However, a number of crucial terms, including "domestic residents," are not defined anywhere in the Circular. Furthermore, this Circular is quite vague and ambiguous. Also, this Circular was issued by SAFE alone, without the endorsement by Ministry of Commerce ("MOFCOM"), China Securities Regulatory Commission or other relevant ministries.

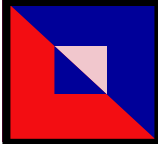
This Circular intends to extend current regulations on outbound investment made by domestic corporate entities to "domestic residents," without defining who such "domestic residents" are. This Circular basically makes outbound investment by domestic residents and foreign exchange registration by the subject FIE more difficult, if not impossible. This Circular also requires that all transfer of onshore shares or property rights by domestic residents for those of offshore companies shall be examined and approved by SAFE without setting forth the procedures for such examination and approval. The actual effect of this Circular is to suspend everything until further notice and formulation of detailed implementation plans, which include the type of transactions that SAFE wishes to stop, however, it also has the impact of suspending all other legitimate transactions. Also, when such further notice and plans will occur is hard to say. These issues hopefully will be addressed by the subsequent implementing rules to be issued.

1

Schechter + Chou, Inc. 嘉质策略 • 10960 Wilshire Boulevard, Suite 1225, Los Angeles, CA 90024, USA
tel: 310-479-8600 • fax: 310-479-0699 • email: info@splusc.com • website: www.splusc.com.

All rights reserved. Copyright 2005, Schechter + Chou, Inc.

Schechter Plus Chou, Inc., does not share your email address or any other information with other parties.
To remove your name from the mailing list, contact us at the above-referenced address or at frances@splusc.com.



SCHECHTER + CHOU, INC.

嘉质策略 • www.splusc.com



S+C NEWSLETTER Volume 1, Issue 2, May 11, 2005

LEARN THE ROPES...

Our Recent Talks in the U.S. and China...

In February, Schechter + Chou were guest lecturers at the University of Southern California on the topic of "Doing Business in China – Legal and Cultural Issues." for their graduate-level course in International Real Estate, at the School of Public Policy, Planning and Development. Approximately 45 students and faculty attended the lecture.



In March, Schechter + Chou presented a business/legal seminar on "How to do business in the U.S." and "How to attract U.S. investment" which was hosted by the city government in Guangzhou and had 40 attendees.

In April, Schechter + Chou presented a business/legal seminar in Shanghai on "How to do business in the U.S." and "How to attract U.S. investment", which was hosted by a Chinese government sponsored Association and had 120+ attendees. The event took place at the new 2010 World Trade Expo (administrative) building.

In April, Frances Chou was an instructor for the California International Trade Development Center (CITD) for their course "Legal Do's and Don'ts" in International Trade.

UPCOMING TALKS...

On May 12th, Frances Chou will be speaking on the topic "Top 5 Legal Issues" at a seminar on Doing Business in China hosted by 1st PMF Bancorp and CoFace North America in Los Angeles.

On May 13th, Schechter + Chou will be speaking at the "2005 Entrepreneurs Conference" at the U.C.L.A. Andersen School of Management. They are on the China panel and topic is "The Wild, Wild East: Legal, Cultural and Strategic Considerations for China." For tickets and information, visit www.uclamba.com/eac/. We hope to see some of you there!

LEGALLY SPEAKING...

The following is provided by Y.F. Chou, Prof. Corp. If you have any questions, please contact info@yfchou.com.

Who Regulates Mergers and Acquisitions Transactions in China

More and more investors are interested in investing in China by way of mergers and acquisitions of domestic companies in China. The first thing that such investors should know is that Chinese government agencies play an extremely important role, and are much more involved, in different types of transactions in China, and extensive and pervasive approvals are required for various transactions. Chinese government agencies are heavily involved in reviewing and approving specific arrangements in mergers and acquisitions transactions. Quite frequently, Chinese government agencies act not only as regulators but also as vendors in such transactions. They also have concerns which extend well beyond the commercial aspects of such transactions. Such involvements and concerns of government agencies are not typical in other countries.

Two government agencies play a significant role in mergers and acquisitions transactions in China. The Ministry of Commerce ("MOFCOM") and State Development and Reform Commission ("SDRC") have the primary responsibility in regulating such transactions. MOFCOM is in charge of regulating foreign investment and supervising and approving such transactions. SDRC is in charge of approving any foreign investment project applications and the restructuring of state-owned enterprises. There are other agencies who are also involved in such transactions, depending on the types of transactions. Different agencies have different goals, purposes and agendas. Therefore, obtaining the approval from one agency does not guaranty the approval by other agencies.

The approvals required for a mergers and acquisitions transaction depend on the type of entities involved, the type of the investment projects, the classification of the investment projects, deal structure, the target type and the transaction value. As a general rule, an "encouraged" or "permitted" project with an investment amount of US\$100 million or more will need to be approved from the MOFCOM and SDRC, and such a project with a total investment amount under US\$100 million will only require to be approved from provincial or lower level branches. A "restricted" project with a total investment amount of US\$50 million or more will require to be approved from MOFCOM and SDRC, and such a project with a total investment amount under US\$50 million will only require to be approved from provincial or lower level branches. Exceptions have been, and will be, made for certain particular projects, which will be determined on a case by case basis.

Therefore, it is crucial for an investor, who is interested in investing in China by way of a mergers and acquisitions transaction, to carefully examine and evaluate who the regulating government agencies are for such transaction, what kinds of approvals are required, from which agencies it should obtain approvals, and what the laws and regulations are concerning such transaction.

2

Schechter + Chou, Inc. 嘉质策略 • 10960 Wilshire Boulevard, Suite 1225, Los Angeles, CA 90024, USA
tel: 310-479-8600 • fax: 310-479-0699 • email: info@splusc.com • website: www.splusc.com.

All rights reserved. Copyright 2005, Schechter + Chou, Inc.

Schechter Plus Chou, Inc., does not share your email address or any other information with other parties.
To remove your name from the mailing list, contact us at the above-referenced address or at frances@splusc.com.