

SCHECHTER + CHOU, INC.

嘉 质 策 略 · www.splusc.com



S+C NEWSLETTER Volume 1, Issue 21, June 9, 2010

GREETINGS...

Greetings to our clients, associates and friends in the US, China and Asia. Please be advised that we have recently moved our offices to 10940 Wilshire Boulevard, Suite 1600, Los Angeles, California 90024. We hope you enjoy the latest edition of our company newsletter.

Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS...

AmCham Survey Results...

Recent surveys from the American Chamber of Commerce in China, released in March and April, indicate that concern is growing among US businesses in China that protectionist policies in the country are threatening their long-term future there. At the same time, they remain optimistic about the Chinese economy, which has rebounded strongly from the global recession. For the first time in the 12-year history of the survey, regulation tops the list of concerns among member



companies, displacing concerns about rising salaries, and recruiting and retraining key staff. The main grievance is that laws and regulations are inconsistently applied around China. Another concern was regulations aimed at squeezing foreign firms out of China's vast government procurement market valued at billions of dollars a year. In April, China's Ministry of Science and Technology, after an outcry from foreign businesses, appeared to soften the procurement regulations, although some believe the issue is still "vague". In response to survey findings, China says steadily increasing levels of foreign investment indicate the country remains an attractive destination for foreign businesses. As for the numbers, foreign direct investment in China rose 7.7% in the first three months of 2010 from the year earlier period.

Google Retrenches in China, While Things Go Better For Coke, Pepsi, McDonalds And Starbucks

In a much publicized move, on March 22nd, Google moved its Chinese site, Google.cn, to Hong Kong and halted self-censorship of its search results. Earlier, Google had announced that it would stop obeying Chinese government censors on its Chinese search site, citing cyberattacks originating in China and worsening limits on internet freedom. Also in March, McDonald's Corp. announced plans to nearly double its presence in China over the next few years, from 1,100 outlets to 2,000 by the end of 2013. In April, Starbucks Corp. announced that China is set to pass Japan as its biggest market outside North America, and has plans to open "thousands of stores" in China over time. In May, PepsiCo announced plans to invest \$2.5 billion in China over the next three years, on top of \$1 billion invested since 2008. PepsiCo's rival, Coca-Cola Co., had announced a \$2 billion investment in China late last year. Both Pepsi and Coke are concentrating on organic growth in China after the Chinese government last year blocked Coke's proposed \$2.4 billion takeover offer for fruit-juice maker China Huiyuan Juice Group Ltd.

Update on Chinese/Asian Investment in Distressed US Real Estate

In March, the Chinese real estate development company Shenzhen New World Group Co. purchased the Los Angeles Marriott Downtown out of foreclosure at a substantial discount. While the price was not publicly disclosed, Shenzhen reportedly paid \$60 million. The hotel was last sold in 2007 for what was widely believed to be more than \$110 million.

That followed the sale of San Francisco's W Hotel in July 2009 to Hong Kong investment firm Keck Seng Investments. In the first hotel transaction in San Francisco in two years, the company purchased the hotel for \$90 million, estimated at less than 50 percent of the replacement cost.

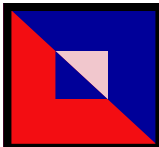
1

Schechter + Chou, Inc. 嘉质策略 · 10940 Wilshire Boulevard, Suite 1600, 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 2010, 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 21, June 9, 2009

HOT TOPICS (Continues)...

In January 2010, Taiwanese investor Steven Pan bought office building, 49 Stevenson Street, for \$24.2 million, which was 40% below its assessed value. The acquisition of the 126,110-square-foot office building by a Taiwan-based buyer marks the return of offshore capital to the San Francisco office building market. Pan had been an aggressive investor in downtown San Francisco in the mid-1990s, buying 225 Bush Street and 22 Fourth Street, but sold his holdings when values peaked between 1998 and 2000.

These sales represent interest from Asian investment groups in the gateway cities on the West Coast. There are trophy properties in California that are less expensive than the prices in China, so Chinese/Asian investors are buying at a discount.

REGISTER NOW...

Asia Society Southern California's Annual Gala Dinner, June 22, 2010 Millennium Biltmore Hotel, Los Angeles, California

Schechter + Chou is proud to be a Cooperating Organization for this special event. The Annual Gala Dinner will "Celebrate Extraordinary Visionaries" who have helped to build bridges between the U.S. and Asia through their astonishing careers. For more information and to register for the event, please visit www.AsiaSocietySoCal.org or call 213/613-9934. Please be sure to mention that you were referred by Schechter + Chou to receive the member discount for the event.

LEGALLY SPEAKING...

Forming a RMB Private Equity Fund by Using a Foreign-Invested Partnership...

After the Administrative Measures for the Establishment of Partnership Enterprises by Foreign Entities or Individuals (the "FIP Measures") and the Regulations for the Administration of the Registration of Foreign-Invested Partnership Enterprises (the "FIP Registration Regulations") took effect on March 1, 2010, more foreign investors are looking into forming RMB private equity funds in China by setting up investment FIPs.

Despite the lack of clear rules, the FIP Registration Regulations seem to provide that the relevant administration of industry and commerce authorities (AICs) at the provincial level are in charge of registration of investment FIPs but should actively communicate with the local counterparts, such as the Ministry of Commerce ("MOFCOM"), the National Development and Reform Committee ("NDRC"), the State Administration of Foreign Exchange ("SAFE") and other relevant agencies. Investment FIPs' investment in China also will have to comply with laws, regulations and rules on foreign investment, such as subject to approval by NDRC, MOFCOM or other relevant agencies for certain types of foreign investments. The structure of FIPs offers more flexibility. For capital contributions, FIPs are not subject to any statutory minimum capitalization requirement, and both cash and in-kind contributions (such as services) are recognized. For profits/dividends, they can be distributed among the partners on a basis other than pro rata based on partners' original capital contribution. In addition, FIPs also enjoy pass-through tax treatment. Even though an investment FIP may have a comingled fund with both foreign currencies and RMB, however, SAFE Circular 142, prohibiting the conversion of foreign currencies into RMB for equity investment purposes, remains unchanged. Therefore, in order to make contributions in RMB cash, the foreign investor must get the approval from SAFE.

Detailed guidance in various areas, such as issues concerning foreign exchange conversion and settlement in the operation of FIP investment funds, is still lacking. However, foreign investors have already showed tremendous interests in setting up FIPs.

2

Schechter + Chou, Inc. 嘉质策略 · 10940 Wilshire Boulevard, Suite 1600, 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 2010, 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.