

GREETINGS...

Greetings to our clients, associates and friends in the US, China and Asia. We hope everyone is staying cool in the summer heat. Frances just returned from a recent trip to Asia where she visited Shanghai, Beijing, Shenzhen, Hong Kong, and Taipei. We hope you enjoy our latest newsletter. Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS...

Chinese Firm Makes Bid for US Hummer to Extend Global Reach...

Shortly after filing for bankruptcy on June 1, General Motors (GM) announced a tentative memorandum of understanding with Sichuan Tengzhong Heavy Industrial Machinery, based in China, to sell its Hummer division, although the deal requires Chinese government approval. The price of the acquisition was said to be less than US\$500 million, with analysts estimating the final price between US\$200-300 million. The announcement captivated many, as little known Tengzhong, a

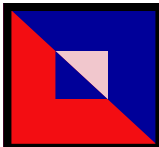


company that manufactures special-use vehicles and bridge and highway components, has no experience with commercial passenger vehicles. Tengzhong is private company with US\$440 million in sales in 2007, was founded by Huatuo Industry Development. The founder of Huatuo is Yan Li, one of the richest people in Sichuan province, and whose net worth is estimated at US\$730 million. Tengzhong plans to keep the current Hummer management team in place as well as the 3,000 US manufacturing jobs, although some manufacturing may move to China at some point in the future. The reaction in the US was positive and the White House seemed to applaud the sale.

Tengzhong's proposed acquisition of Hummer is consistent with the Chinese governments' goal that Chinese private homegrown companies expand beyond China's borders. It also offers a way to invest in western business and learn how to run world-class enterprises. On July 14th, after Tengzhong had filed for regulatory approval with the Chinese central government, the powerful Ministry of Commerce showed its support for the deal. Afterwards, the National Development and Reform Commission, which oversees economic restructuring and promotes sustainable development, raised concerns regarding environmental issues; that the Hummer is a gas guzzler that causes pollution and runs counter to the Chinese government goal to develop a national target to limit automobile emissions. Tengzhong will likely need to show a plan as to how they will fund and develop more fuel efficient Hummer's in the future. In regards to financing Hummer, Tengzhong likely has local government support from Sichuan province; support must be there for the central government to support the deal.

China: Bubble or No Bubble?

On July 16, 2009, new data showed China's GDP growth increased to 7.9% in the year to the second quarter. During that same period, the US economy likely contracted again. China's economic stimulus has been very effective, and now some experts are wondering whether, in fact, it has been too effective. In the year to June, fixed investment grew by 35%, car sales rose 48%, and purchases of homes increased by more than 80%. After falling in 2008, home prices are now rising quickly in some big cities, and share prices on the Shanghai stock exchange have risen by 80% from their November low. Lending due to China's stimulus plan has surged in the first half on 2009. By one estimate, as much as 20% of new lending has worked its way into the stock market. On May 20, 2009, Fitch Ratings issued a warning that they are seeing early signs of asset-quality deterioration at Chinese banks amid a torrent of lending to help fund government stimulus projects. China's lending has accelerated even as Chinese corporate profits are shrinking; raising concerns that borrowers are not as profitable as during the boom years, and that some will therefore struggle to service their debts.



SCHECHTER + CHOU, INC.

嘉 质 策 略 · www.splusc.com



S+C NEWSLETTER Volume 1, Issue 18, August 7, 2009

HOT TOPICS (Continues)...

The Chinese government has a difficult balancing act as they attempt to stimulate the economy and keep workers employed, without creating asset bubbles and banking problems in the future. While bubbles may be forming, the stock market is still only at half its 2007 peak, and although housing prices have risen sharply in some cities, the nationwide average is about where it was a year ago. The pace of lending by Chinese banks is not sustainable and the central bank is letting banks know it is taking a closer look at and increasing scrutiny of new bank loans. In regards to the housing market, the construction industry employs almost as many people as the export industry, and stimulating housing spurs domestic consumption as consumers purchase appliances, furniture and

REGISTER NOW...

Real Estate Event Hosted by UC Berkeley Haas Alumni Network, Los Angeles Chapter

REAL ESTATE: Where from Here? Fast recovery or lingering doldrums... In 2005 and 2006, the panelists for this Real Estate Event predicted the current real estate market calamity before any other experts. If you missed those events, now is your opportunity to hear their current and future outlook for the real estate market. Three distinguished speakers, including Dr Robert Edelstein of UC Berkeley's Haas School, Dr Chris Thornberg, Principal of Beacon Economics and former senior economist of UCLA's Anderson Forecast, and Dr. Richard Green, Director of the USC Lusk Center for Real Estate, will share their insights on the current and future outlook of California real estate. Aaron Schechter, Board member of the local Haas Alumni Network, is one of the event leaders/organizers of this real estate event. This event will be held on September 17, 2009, at 6:30 p.m. at the Luxe Hotel, Los Angeles, California. To Register, please visit: <http://www.acteva.com/booking.cfm?bevalD=187533>.

LEGALLY SPEAKING...

China's Outbound Investments Are On the Rise with Government's Encouragement

On March 16, 2009, China's Ministry of Commerce (MOFCOM) announced Rules on Administration of Outbound Investment (2009), effective on May 1, 2009, which loosens the control over the outbound investments by Chinese companies. Under these new rules, the provincial government level MOFCOM office ("COFTEC") has authority to approve outbound investment from USD\$10 million to USD\$100 million, where the old rules only allowed COFTEC to approve outbound investment up to USD\$10 million. However, the following types of investments still requires approval by MOFCOM: investment in Afghanistan, Iraq, Taiwan or any country that does not have diplomatic relations with China; investment that involves interests of multiple countries or regions; the establishment of a special purpose vehicle outside China for the purpose of a round trip investment; and investment by a central government controlled state owned enterprise. Also, the old rules imposed the burden of proof on the applicants, however, the new rules provide that the government may reject an outbound investment application only if such investment: endangers China's sovereignty, national security or social public interest; endangers China's foreign relations with the country or region of that target; potentially violates international treaties to which China is a signatory; or involves technology or goods that cannot legally be exported from China. However, MOFCOM or other higher level government authority still, in fact, retains absolute discretion in approving or rejecting any outbound investment if it chooses to do so. The new rules also simplify application procedures. It is worth noting that certain approvals are still required, such as investment to establish a plant or factory that is not related to any equity or asset acquisition and investment in a foreign financial institution. Also, the Chinese investor still needs to obtain approval from the State Administration of Foreign Exchange in order to convert renminbi to a foreign currency for its investment.