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GREETINGS...

Greetings to our friends, contacts, clients, and associates in the U.S. and China. Things are certainly heating up for a great fall season. Please enjoy our latest newsletter!

Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS...

China's Bull Market in Stocks Continues

China's domestic stock market continues to sizzle, despite the recent slump in other world markets. The Shanghai stock market hit new all-time highs in August, and the Shanghai Composite Index is up more than 90+% this year. Total capitalization of the Shanghai and Shenzhen exchanges has risen by 3.6 times to a valuation to almost \$2.8 trillion USD since China's bull market began in July of 2005. Current stock valuations are considered high by many, but with limited investment options elsewhere, domestic Chinese investors continue to open accounts at a torrid pace with 1.78 million



accounts opened during the first half of August. The less than 20 year old domestic stock market in China is somewhat isolated and restricted to mostly domestic investors. For previous discussions of China's stock market, please review our August 10, 2006 and February 6, 2007 Newsletters at <http://www.splusc.com/newsletter.htm>.

Chinese Investors Are Now Able to Trade Hong Kong Listed Securities

On August 20, 2007, China's State Administration of Foreign Exchange announced a "pilot" capital-control liberalization project that would allow domestic Chinese investors to buy foreign stocks, in this case, Hong Kong listed securities. This "pilot" project is a major change that opens another channel, through which China's large pool of savings can flow into international markets. The reaction was swift on the day that the announcement was made as the Hong Kong exchange rose 5.9% on the news. Interestingly, some Chinese company's shares, that trade on both the China stock exchange (either in Shanghai or Shenzhen) and the Hong Kong exchange, trade with much higher valuations on China's domestic stock exchanges. It remains to be seen how many investors will take advantage of the new program, since the China stock exchanges shares have been soaring, while the Hong Kong Benchmark Hang Seng Index, prior to the announcement, was up only 8.2% for the year.

Barclays, China and Blackstone Group

In July, Chinese –government controlled China Development Bank ("CDB") announced that it, together with Temasek Holdings (part of the government of Singapore's investment arm), were each taking a stake in Barclays, a large British banking institution. This came as a result of boosting Barclays in its bid to acquire ABN AMRO, a Dutch Bank ("ABN"). CDB would buy an initial 3.1% of Barclays for USD \$3 billion and, if Barclays succeeds in purchasing ABN, the CDB will invest a further \$8 billion to \$10.5 billion USD, raising its stake in Barclays to more than 5%. If the ABN deal is completed, it would be an important sign of a global shift in wealth and flow of capital from emerging markets to established markets. The US private-equity giant Blackstone group's advisory arm was the advisor to CDB related to this deal. It was only in May that China's State Investment Co., ("CSIC") the new government agency to be formed to recycle China's \$1.2 trillion in foreign reserves, announced a \$3 billion USD investment in Blackstone Group for 10% of Blackstone's equity and non-voting shares. China and the soon to be established CSIC avoided scrutiny in the US with its investment in Blackstone by taking a small stake in Blackstone. CSIC will be a "sovereign-wealth fund" and is expected to oversee approximately \$200 billion USD that China plans to use this year for investment purposes. Such funds have been set up in other countries as well, such as Norway, Singapore, Saudi Arabia, and Australia, and other countries like Russia, India, and Japan are considering setting up such funds. CSIC's investment in Blackstone marks as the first time that a government owned company took an ownership position in such a private equity firm, and CSIS will receive a share of all fees and profits that accrue to the management company itself. In addition, this deal benefits both parties – China will gain knowledge for establishing its own domestic private equity industry, and Blackstone will get an entry into, and preferential treatment in, the Chinese M&A market. Blackstone went public shortly after the Chinese investment was announced and raised an additional \$4.6 billion USD.

Imported Products from China Under Scrutiny

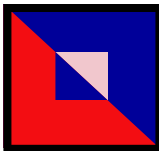
Since the tainted pet food scandal hit in March, 2007, US consumers have witnessed one Chinese related safety problem after another - from lead-tainted toys, to problems with toothpaste, fish and tread-separating tires. Looking at the numbers, food and agricultural products make up less than 3% of

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HOT TOPICS—Continues...

China's total export value, and toys and games only about 2% China's total export value. Economists therefore think that while exporters could be hurt in certain sectors hit by scandals, the impact on overall trade isn't likely to be significant. Of course, if product safety problems spread to other areas there could be greater impact. As for solutions, some US lawmakers have called for an "import czar" at the US government level to focus on the rising tide of Chinese goods coming into the US. Others see that approach as protectionist and argue that a better approach is to let the markets decide, and that incentives already exist for companies to maintain high quality control standards to better protect their own brands and to avoid costly product liability litigations. Additionally, large publicly traded companies, who maintain higher standards, will be rewarded by the market with a higher stock price.

LEGALLY SPEAKING...

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

The Impact of China's New Anti-monopoly Law

On August 30, 2007, the Standing Committee of the National People's Congress in China passed the final version of the new anti-monopoly law, 13 years after the first draft of this law had been presented. The law will take effect on August 1, 2008. The new law has ignited heated discussions, both inside and outside of China, regarding its potential impact. The new anti-monopoly law contains similar provisions as those often seen in US and European anti-trust laws, such as regulations on mergers and acquisitions, restrictions on price fixing and penalties on abuses of dominant market positions. Some experts believe that this new law is fairly neutral and could be used to pursue conventional anti-trust cases and to bring more competition and openness to the Chinese economy. However, this new law also contains provisions requiring foreign acquisitions affecting "national security" to obtain special approvals. Even though such provisions are also often seen in the US and European countries, such as those used by the US to block CNOOC's acquisition of Unocal in 2005, some experts worry that the Chinese government will use these provisions to effectively block foreign investments in order to prevent takeovers of the "crown jewels" or the elimination of Chinese brands. Also, this new law provides state-run companies with exemptions. Some experts believe that these exemptions will be used to push industrial policies that would benefit state-owned companies at the expense of private and foreign companies. The Chinese government, however, believes that certain protections for Chinese companies are necessary in order to provide Chinese companies in certain industries a chance to consolidate and to be more competitive. One thing that the experts do agree on is that no one can be sure of the impact of this new law until the Chinese government begins enforcing it. Some experts remain hopeful that this new law will bring some regularity and transparency to the Chinese government's anti-monopoly policies.

The Impact of the New Employment Contract Law

On June 29, 2007, the Standing Committee of the National People's Congress adopted the new Employment Contract Law, which will take effect on January 1, 2008. As the China's Labor Law of 1995 was rarely enforced against foreign invested enterprises (the "FIE's") in the past, the adoption of this new law could have a significant impact on the FIE's. One of the provisions of the new law requires that all workers shall have written employment contracts. If no written contract is provided within one month, but less than one year, of employment, then the employer has to pay the employee double the agreed upon wages. If no written contract is provided after one year of employment, then the term of the employment becomes indefinite, and it makes it extremely difficult for an employer to terminate such an indefinite employment, because the employer can only terminate such an indefinite employment for cause. If the contract is for a fixed term, then, at the end of the term, the employer has no obligation to renew the term. If, however, the employer renews the term of the contract twice, then the term of the employment, again, becomes indefinite. On the other hand, an employee can terminate the employment simply with a 30 day notice for any reason or with no notice at all, if the employer fails to provide working conditions specified in the contract, does not pay wages or social insurance premiums on a timely basis or violates the laws. The new law further provides that an employer may enter into non-compete agreements with senior managers, technical personnel and employees with confidentiality obligations. However, the period that such employees cannot compete with their former employer is limited to 2 years, and the former employer shall pay the monthly salary during such period. The new laws also provides extensive provisions concerning layoffs, to which the FIE's should pay specific attention when it becomes necessary to reduce its work force in China, such as requirement to discuss the layoffs, prioritization on the employees to be layoff, rehire of dismissed workers, etc. The new law also requires an employer to pay severance pay, and the normal rate is one month's wages for each year of employment. The new law also specifically precludes the expatriates from seeking high severance pay from their employer by providing that, if the monthly salary of the departing employee is more than three times the average monthly salary in the local area, then the severance pay of that employee will be limited to three times the average monthly wage in the local area for each year of employment not to exceed the maximum of 12 years. Again, the impact of this new law on the FIE's remains to be seen until the Chinese government begins enforcing it. Much will depend on the quality of enforcement by the provincial and local governments.