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The Current State of the Private Equity Investment Environment in China

Tuesday, July 19, 2011

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1. About the Speakers



Peter J. Halasz

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Peter J. Halasz is a partner in the Investment Management and Business Transactions Groups at the New York office. Educated in both law and business, his practice includes mergers & acquisitions, securities, private equity, international business and investment funds. In the area of private equity M&A, he has represented clients in auctions and sales, restructurings and leveraged capitalizations, mergers, unsolicited tender offers, privatizations, international joint ventures, special-committee representations and venture capital investments. In the finance area, Peter has represented issuers and underwriters in public offerings of equity and debt, commercial paper and euro medium-term note programs, Rule 144A offerings, and the organizations and offerings of alternative investment fund products.

The United States Lawyer Rankings - 2008, 2009, 2010 and 2011 editions ranked Peter as one of the Top 10 lawyers in the nation in the area of International Trade and Finance. He is a sought-after speaker and the author of "China" in *A Guide to Energy, Natural Resources and Utility Law*, the supplement to the *International Financial Law Review*, and "New Rules of the Game" in *The China Business Review*. After graduating magna cum laude and Phi Beta Kappa from Harvard College in 1980, Peter was admitted to a dual-degree program offered jointly by Harvard Law School and Harvard Business School and, in 1984, was awarded a J.D., *cum laude*, and an M.B.A..



James O'Neill
Managing Director
Jin Niu Investment Management

Mr. O'Neill has been involved in international investment banking and private equity activities for over 25 years and he has been actively involved in China-focused investment activities for more than 15 years. He is currently the Managing Director of Jin Niu Investment Management Ltd., a Beijing-based investment management firm which develops and executes alternative private equity investment strategies for the China market. Mr. O'Neill is also an Advisory Partner and member of the Investment Committee of Suzhou Kabei Gau Deng Fund, L.P., an RMB-denominated private equity fund which he helped establish in early 2011.

Mr. O'Neill was previously a Managing Director of Mahon China Investment Management Ltd., where he helped build and manage their corporate advisory business which assists Western companies develop and implement China entry strategies. Previously, he worked for Trust Company of the West, where he helped build and manage a \$2.2 billion private equity investment program focused on emerging markets with investments across China, Taiwan, India and Latin America. While at TCW, Mr. O'Neill was primarily responsible for originating, structuring, marketing and managing private equity funds totaling over \$400 million which were invested in 17 companies in China. These funds were among the earliest and largest private equity investors in China. He was also responsible for originating and consummating strategic alliances between multinational corporations and the Chinese portfolio companies. Mr. O'Neill ultimately led the transaction which resulted in the sale of these Chinese portfolio companies to a consortium of U.S. private equity funds in 2004.

Other experience includes the execution of international public and private financing transactions at various U.S. investment banks. Mr. O'Neill earned an MBA degree from Harvard Business School and a BBA in Finance from the University of Notre Dame.



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2. PowerPoint Presentation



The Current State of the Private Equity Investment Environment in China

Where is the Value Now?

Notes:

State of the PE Investment Environment in China

Agenda

- Where is China's PE Market Today?
- ≡ What Has Changed?
- ≡ Challenges for Foreign Investors
- 四 Where is the Value Now?

Notes:

Where is China's PE Market Today?



杂于利而务可信也

Opportunities multiply as they are seized

Sun Tzu

Notes:

Where is China's PE Market Today?

Market Structure

	U.S.	China
Development Period	> 60 years	< 20 years
Development Stage	Mature	Developing
Primary Focus (Total Investment)	Buyouts	VC and Growth Capital
Exit Options	Multiple	Limited
Structures	Multiple	Limited
Professional PE Firms	> 2,000	< 500
Regulatory Environment	Increasingly Hostile	Increasingly Supportive

Notes:

Where is China's PE Market Today?

Investment Strategies

	U.S.	China
VC	✓	✓
Growth	✓	✓
Buyout	✓	✓
LBO	✓	
Mezzanine	✓	
Turnaround	✓	
Break-Up	✓	
Build-Up	✓	
Secondaries	✓	
Fund-of-Funds	✓	✓

Notes:

Where is China's PE Market Today?

Investor Participation

	U.S.	China USD	China RMB
HNWI	High	High	High
Corporate Investors	None	None	Moderate
Corporate Pensions	High	Moderate	None
Public Pensions	High	Low	Very Low
Endowments	High	Moderate	None
Foundations	High	Moderate	None
Fund-of-Funds	High	High	High*
Sovereign Wealth Funds	High	Moderate	None**

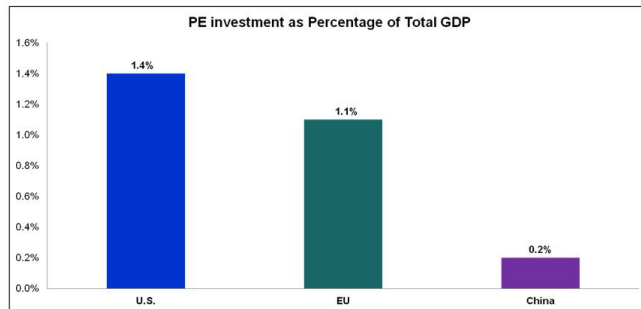
* Including government Guidance Funds

** Excluding CIC

Notes:

Where is China's PE Market Today?

Relative Size of PE Markets



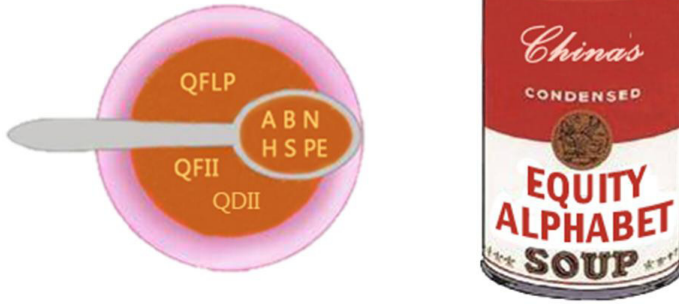
GDP	\$14,582 billion	\$12,175 billion	\$5,879 billion
PE Investment	\$204 billion	\$134 billion	\$12 billion

Source: EMPEA

Notes:

Where is China's PE Market Today?

An "Alphabet Soup" of Investment Alternatives



Notes:

What Has Changed?



温故而知新

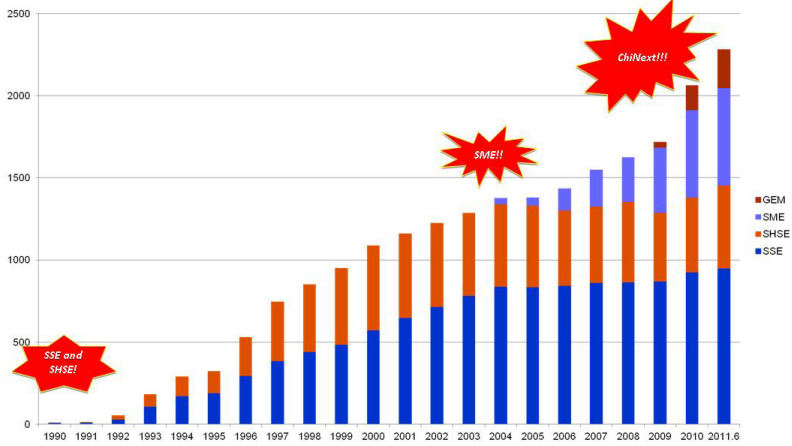
Study the past, if you would divine the future

Confucius

Notes:

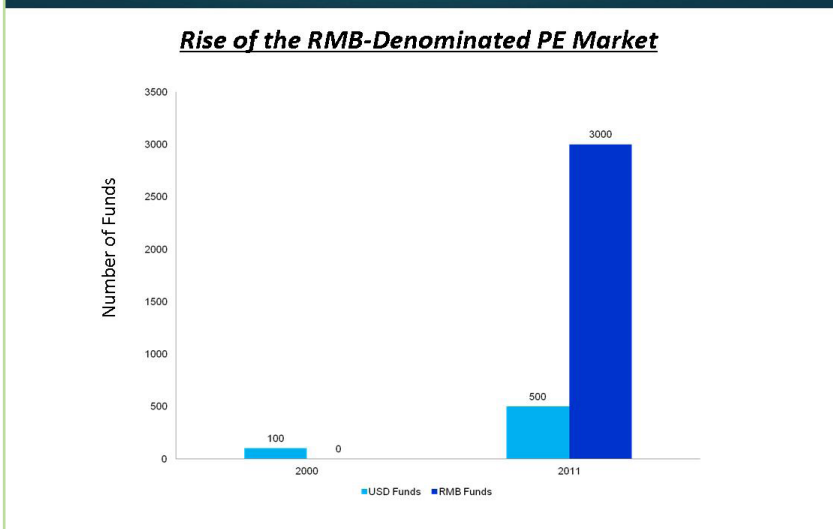
What Has Changed?

More Stock Markets Mean More Exit Alternatives



Notes:

What Has Changed?



Notes:

What Has Changed?

Valuation Metrics

	1990s	Today
Valuation Basis	Net Asset Value	P/E
Value Proposition:		
- Entry P/E	5-7 x	15-20+ x
- Exit P/E	10-15 x	30-50 x
Exit Alternatives	Off-Shore Listing Trade Sale	Domestic Listing Off-Shore Listing Trade Sale Sale to Financial Buyer

Notes:

Challenges for Foreign Investors



玉不琢不成器，人不磨不成材

*The gem cannot be polished without friction, nor
man perfected without trials*

Chinese Proverb

Notes:

Challenges for Foreign Investors

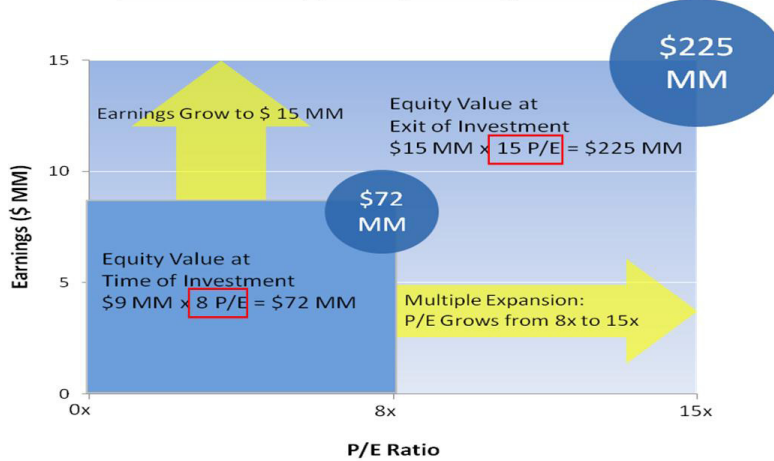
Foreign Investors Face Stiff Competition for Deals



Notes:

Challenges for Foreign Investors

Old Valuation Approach for Foreign Investors



Notes:

Challenges for Foreign Investors

Current Valuation Gap

Pre-2008

Investor	Entry Multiple	Exit Multiple		
		China	Hong Kong	U.S.
Domestic (RMB)	7-10 x	15-20 x	N/A	N/A
Foreign (USD)	7-10 x	N/A	12-15 x	15+ x

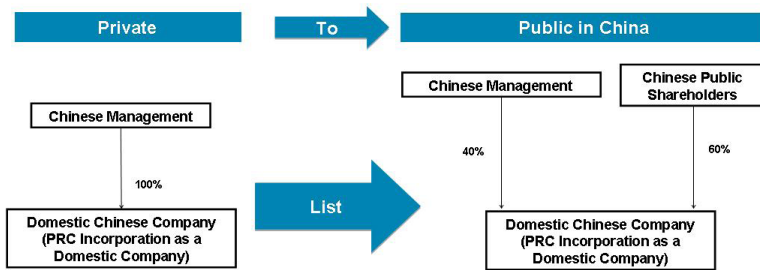
Today

Investor	Entry Multiple	Exit Multiple		
		China	Hong Kong	U.S.
Domestic (RMB)	15-20 x	30-40+ x	N/A	N/A
Foreign (USD)	10-15 x	?	10-12 x	5-10 x

Notes:

Challenges for Foreign Investors

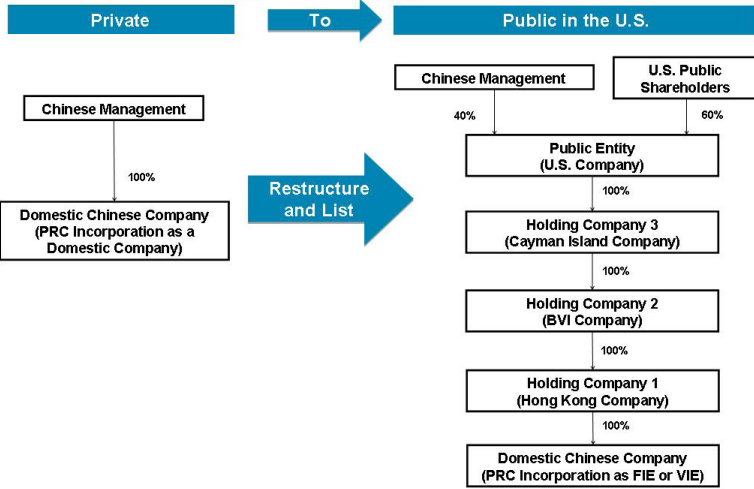
Domestic Listings are Straight-Forward



Notes:

Challenges for Foreign Investors

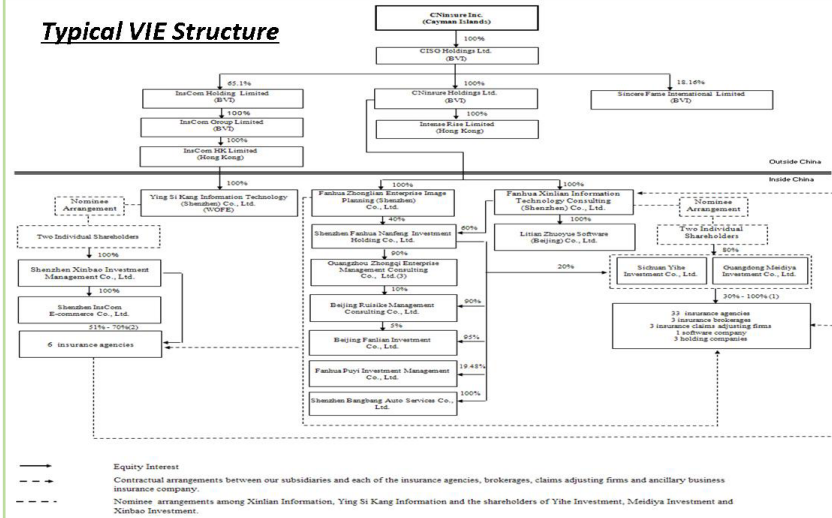
Off-Shore Listings are Not



Notes:

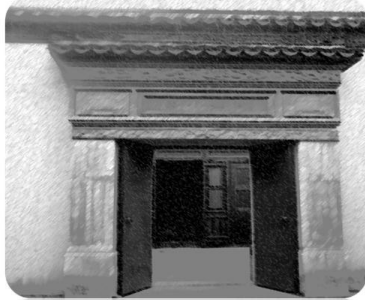
Challenges for Foreign Investors

Typical VIE Structure



Notes:

Where is the Value Now?



人生而有欲

A person is born with a liking for profit

Xun Zi

Notes:

Where is the Value Now?

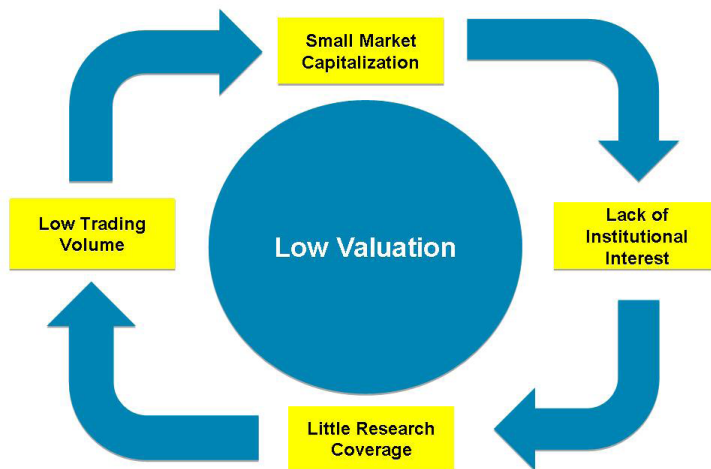
More than 500 Chinese Companies Have Been Listed in the U.S.



Notes:

Where is the Value Now?

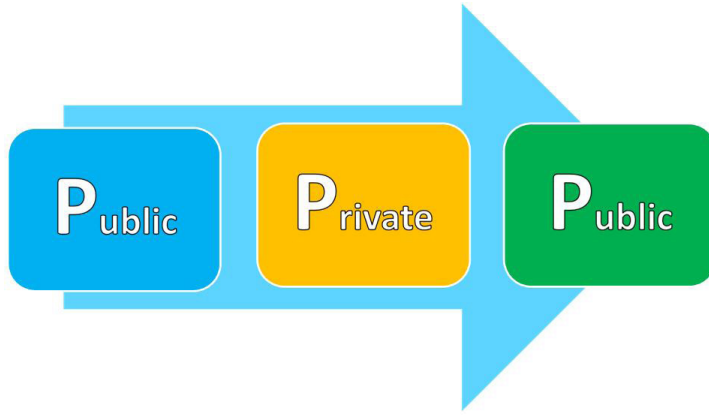
Negative Cycle for U.S.-Listed Chinese Companies



Notes:

Where is the Value Now?

The Solution



Notes:

Where is the Value Now?

Value Proposition of PPP Strategy

	Traditional PE	PPP Strategy
P/E at Investment	10-15 x	4-6 x
P/E at Exit	5-12 x	25-30+ x
Growth Rate	30%+	30%+
Transparency	Low	Mid-to-High
Ability to List	Questionable	High
Operational Risk	High	Lower
Time Frame	6-8 years	3-5 years

Notes:

Where is the Value Now?

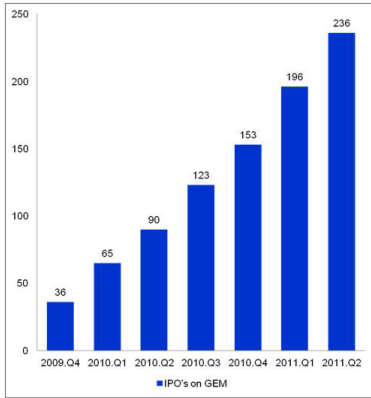
Valuation Arbitrage is Real

Company	Target	Comp. 1	Comp. 2	Comp. 3	Comp. 4	Comp. 5	Comp. 6	Comp. 7
Exchange	NYSE	NASDAQ	HKSE	HKSE	HKSE	SHSE	SHSE	SHSE
Revenue	577,488	619,301	3,707,954	1,098,701	1,403,788	956,511	1,816,440	229,797
Gross Margin	46.9%	40.8%	36.7%	13.7%	15.6%	14.2%	34.2%	22.8%
Net Income Margin	28.5%	24.6%	5.3%	4.5%	3.8%	-5.4%	9.8%	3.9%
Revenue Growth Rate	85.9%	47.0%	11.8%	-12.9%	-9.3%	-14.6%	9.2%	6.1%
Income Growth Rate	91.8%	44.6%	-32.3%	-40.6%	-31.2%	-180.1%	24.9%	-41.4%
Current Market Value	429,048	382,184	5,965,016	1,352,401	1,090,491	3,402,679	6,259,150	1,897,458
<i>Valuation Statistics:</i>								
P/E Ratio	2.6x	2.4x	30.1x	27.6x	19.8x	(66.4)x	35.0x	211.2x
Total Market Cap. /Sales	0.7x	0.7x	1.8x	1.9x	1.3x	4.6x	3.4x	8.6x
Price to Book Value	0.7x	0.5x	1.2x	1.1x	1.1x	3.3x	8.2x	5.1x

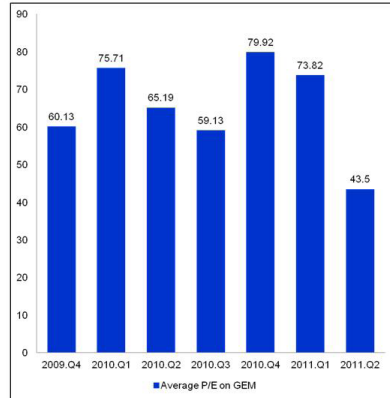
Notes:

Where is the Value Now?

Are Domestic Listings Possible?



Will Valuations Hold Up?



Notes:

Where is the Value Now?

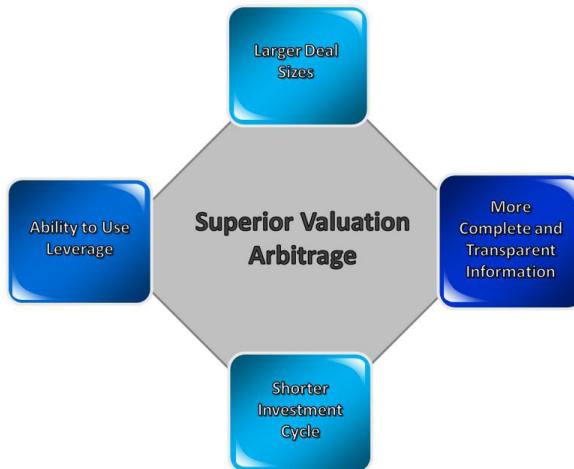
Strategy is Catching On

	Harbin Electric	Chemspec International	China Fire and Security	China Security & Surveillance	Funtalk China Holdings	Fushi Copperweld	CNinsure Inc	Puda Coal, Inc	Sinoenergy Corporation	Tongjitong Chinese Medicine
Ticker	HRBN	CPC	CFSG	CSR	FTLK	FSIN	CISG	PUDA	SNEN	TCM
Acquiror	Mgt. and Abax Global	Mgt. and Primavera	Mgt. and Bain Capital	Management	Mgt., Fortress PAG	Mgt. and Abax Global	Mgt. TPG Asia CDH	Management	Management	Mgt. and Fosun Group
Total Transaction Size	\$750.0 mm	\$287.7 mm	\$212.7 mm	\$583.2 mm	\$443.0 mm	\$434.0 mm	\$952.0 mm	\$360.3 mm	\$30.3 mm	\$117.1 mm
Financed Amount	\$455.5 mm	\$129.5 mm	\$170.4 mm	\$461.3	\$101.5	\$298.6 mm	\$626.0 mm	\$269.1 mm	\$18.4 mm	\$20.2
Lender	CDB HK	Standard Chartered Bank	BofA, Citigroup, HSBC	CDB HK	None	N/A	None	N/A	None	CITIC Bank International
Loan Amount	\$400.0 mm	\$70.0 mm	\$80.0 mm	Up to \$500 mm	-	N/A	-	N/A	-	\$20.2 mm
Premium Over Market Price	18.3%	28.2%	44.4%	58.5%	35.9%	26.4%	43.9%	100.0%	48.0%	14.0%
P/E of Offer Price	11.2 x	6.8 X	20.0 x	7.0 x	10.6 x	14.0 x	10.6 x	10.4 x	NMF	NMF

Notes:

Where is the Value Now?

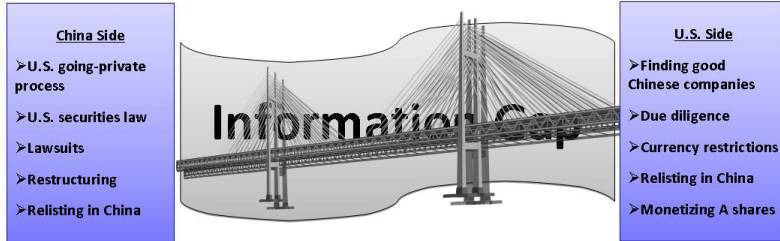
Advantages of the PPP Strategy



Notes:

Where is the Value Now?

Why is the Valuation Arbitrage So Great?



Notes:

Where is the Value Now?

Requirements for Successful Execution



Notes:

人尽其才，物尽其用

Never give a sword to a man who can't dance

Chinese Proverb



In other words, get the right person for the job!

Notes:



3. U.S. Aspects of Going Private Transactions

U.S. Aspects of Going Private Transactions

“Going private” refers to a transaction in which a company that is subject to the U.S. Securities Exchange Act terminates its public company status and public reporting obligations. If the buyer in a going private transaction is an affiliate of the company, such as management or a significant stockholder, the transaction will also be subject to Rule 13e-3 under the Securities Exchange Act. In addition, the law of the jurisdiction of incorporation of the company addressing fiduciary duties of directors in conflict transactions will affect structural considerations.

This memo describes the transaction structures used by companies to go private and issues that should be considered in a going private transaction. Structuring considerations are particularly important given the interplay of the Securities and Exchange Commission’s (SEC) rules and the corporate law of the company’s jurisdiction of incorporation and the high likelihood of litigation alleging breach of the company’s directors’ fiduciary duties in a going private transaction.

1. Transaction Structures

Going private transactions are typically accomplished through a tender offer or a negotiated merger agreement. Less commonly, going private transactions can be accomplished through a reverse stock split to reduce the number of stockholders below 300 so the company can terminate its public reporting status.

A. Tender Offer

In a going private tender offer, the buyer offers to purchase shares directly from the company’s shareholders for cash by means of a written offering document containing material terms of the offer and other required disclosures, referred to as an “offer to purchase.” There is often no agreement between the buyer and the company. By law, the offer must remain open at least 20 business days and must be extended by 10 business days if there is a change in the offer price and by five business days (and perhaps 10, based on significance) from the date of disclosure of other material changes to the terms of the offer. Typically, the offer will be conditioned on a minimum percentage having been tendered, usually the percentage required to obtain control of the company or the percentage required to enable the acquirer complete a merger without a stockholder vote (for example, 90 percent in Delaware). Stockholders have the ability to withdraw the tender of their shares until the expiration of the offer. The company must file a Schedule 14D-9 within 10 business days from commencement of the offer disclosing the board’s recommendation to stockholders with respect to the offer which may be to accept the offer, reject the offer, that the board takes no position on the offer or that the board is not yet able to take a position on the offer.

Tender offers are subject to SEC rules and require filing a Schedule TO with the SEC, which is publicly available on the SEC’s website. Unlike a negotiated merger, which requires filing a preliminary proxy statement, the offer can be commenced without prior clearance by the SEC. The SEC will typically decide within a week whether it will review the offering documents. If the SEC

does review the offer, the acquirer will amend its offer documents to reflect SEC comments and the tender offer cannot close until the SEC is satisfied with the revised disclosure. The SEC comment and review process for non-Rule 13e-3 cash tender offers is generally quicker and less extensive than for merger proxies. Tender offers can be completed more quickly than a negotiated merger agreement because they do not require solicitation of proxies for a stockholder vote.

B. Negotiated Merger Agreement

A negotiated merger agreement typically provides that the company will be merged by operation of law with a subsidiary of the acquirer. A negotiated merger agreement must be approved by the company's board of directors and a vote of the company's stockholders. The stockholder vote is obtained by calling a special meeting and sending the company's stockholders a proxy statement that discloses material information about the transaction and requests stockholders to grant a proxy to the company to vote in favor of approving the transaction. The company is required to file a preliminary proxy for merger transactions, which is publicly available on the SEC's website. The SEC will notify the company within 10 calendar days whether or not the SEC will review the proxy statement. If the SEC chooses not to review the proxy statement, the company can file a definitive proxy statement. If the SEC notifies the company that it will review the proxy statement, it typically provides its first set of comments within 30 calendar days of the filing of the preliminary proxy. The SEC review process can involve several rounds of comment and response, and can take several months.

A negotiated merger agreement can also provide that the buyer will launch a tender offer. This type of merger agreement, referred to as a two-step merger agreement, typically conditions the tender offer on obtaining 50.1 percent of the company's stock and granting the buyer a top-up option to purchase enough additional shares to reach the percentage required to enable the acquirer to complete a merger without a stockholder vote. The two-step merger agreement combines the advantages of a tender offer — speed and not having to obtain a stockholder vote — with the advantages of a contractual agreement with the company containing representations and warranties, covenants and deal protections.

C. Reverse Stock Split

Although less common, management can effect a going private transaction through a reverse stock split designed to reduce the number of stockholders below 300, so the company can terminate its public reporting status. In a reverse stock split, each outstanding share is converted into a fraction of a new share, and shareholders receive certificates representing whole shares and cash in place of fractional shares. A reverse stock split is accomplished by amending the company's certificate of incorporation, which requires the company to disseminate a proxy statement and requires the shareholders to vote on the amendment.

2. Rule 13e-3

If the transaction is between the company and affiliates of the company, such as management or a significant stockholder of the company, then Rule 13e-3 applies in addition to the proxy rules (in the case of a negotiated merger or reverse stock split) and the tender offer rules (in the case of a tender offer). The SEC defines an “affiliate” as a person that directly or indirectly, through one or more intermediaries controls, is controlled by, or is under common control with, the company. What persons may be affiliates of the company engaged in a going private transaction and, thus, subject to the requirements of Rule 13e-3 is a fact-specific analysis. Generally, stockholders that own 10 percent or more of a company are presumed to be affiliates, however, that presumption can be rebutted if the stockholder does not actually exercise control. If management remains in place at the company following the acquisition, as would be typical in an acquisition by a private equity firm, there is a risk that management may be deemed to be an affiliate of the acquirer if they will own equity of the buyer, will be members of the buyer’s board or receive more favorable employment agreements. Management may be required to comply with Rule 13e-3 even if management’s involvement in negotiations with the acquirer is limited to the terms of their future employment and equity participation with the buyer.

The requirements of Schedule 13e-3 are usually met by incorporating information by reference from a proxy statement or offer to purchase. It is the SEC’s policy to review all Rule 13e-3 transactions, so parties should allow time for SEC comment and response in their timetable for the transaction. Rule 13e-3 requires certain disclosures in addition to those required by a proxy statement or offer to purchase. For example, the company and each affiliate engaged in the transaction, referred to as “participants,” must state whether they believe the transaction is fair to unaffiliated shareholders and provide a detailed discussion of the material factors leading to the determination that the transaction is fair. The SEC rules list eight factors typically important in determining fairness: current market prices, historical market prices, net book value, going concern value, liquidation value, purchase prices paid in prior purchases of company stock by the company or the affiliate, fairness opinions and firm offers to acquire the company made by unaffiliated third parties during the past two years.

Each report, opinion or appraisal provided by outside parties to a participant must be disclosed. The SEC requires that all financial adviser presentations to the company’s board be filed as exhibits.

Disclosure of any arrangements that treat target stockholders differently is required. This includes a detailed discussion of employment agreements, equity participation by management in the acquirer and the financial interest of management in the transaction.

Disclosure of transactions in company stock by executive officers and directors of company for the 60 days prior to filing is required including name, date, amount, price per share and where and how the transaction is effected.

Each participant must disclose the purpose of the transaction, alternatives considered and reasons for rejecting alternative transactions, and the reason for and effects of the transaction structure chosen.

3. Fiduciary Duties

In contrast to Rule 13e-3, which focuses primarily on disclosure, the statutory and judicial fiduciary duty law of the jurisdiction of the company's incorporation focuses on procedural and substantive fairness. The fiduciary duty law of the company's jurisdiction of incorporation should be reviewed to determine what standard the transaction will be reviewed under and what steps can be taken to structure the transaction to maximize the parties' ability to defend the transaction from allegations of a breach of fiduciary duty. For example, in Delaware, courts review conflict of interest transactions under an "entire fairness" standard. Such conflicts may arise in situations where directors stand on both sides of a transaction, such as a management buyout, or will benefit or experience some detriment that does not flow to the company's stockholders generally. When the entire fairness standard applies, Delaware courts will consider both the process by which the transaction was negotiated, referred to as "fair dealing" and the fairness of the price to stockholders, referred to as "fair price." The analysis of fair dealing focuses on when a transaction was timed, how it was initiated, structured, negotiated and approved by directors and stockholders. The analysis of fair price focuses on the economic fairness of the price to unaffiliated stockholders of the company. In Delaware, defendants in a litigation have the burden of proving fair dealing and fair price, but the burden may be shifted to plaintiffs if the transaction is approved by a special committee of independent disinterested directors or consummation of the transaction is subject to a non-waivable condition of approval by an informed majority of the company's stockholders entitled to vote that are not affiliated with the company or the controlling stockholder, referred to as "a majority of the minority vote." To be effective, a special committee should retain its own legal and financial advisers and have the power to negotiate on behalf of the entire board. Which directors may be considered disinterested or independent is a fact-specific analysis based on the relationship between the director and the buyer. To be effective, the majority of the minority vote must be fully informed, which means that stockholders have been provided with all material information when deciding to approve the transaction. Directors are entitled to rely on expert advice and it is typical for a company to engage a financial adviser to analyze and deliver a written opinion to the board on the fairness of the transaction price, referred to as a fairness opinion. The proxy statement will disclose the financial adviser's methodology for determining fairness, usually analyses of discounted cash flow, comparable company, historical trading and comparable transactions. Disclosure of management's financial projections may be required depending on their materiality and the extent to which the projections were relied on by the financial adviser or the buyer.



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4. Glossary of Terms

A Shares

Shares in companies based in mainland China that trade on either the Shanghai or Shenzhen stock exchanges. A-shares are generally only available for purchase by mainland citizens; foreign investment is only allowed through a tightly-regulated structure known as the Qualified Foreign Institutional Investor (QFII) system

B Shares

Shares in companies based in mainland China that trade on either the Shanghai or Shenzhen stock exchanges. B-Shares are eligible for foreign investment provided the investment account is in the proper currency (Shanghai B-shares trade in U.S. dollars, while Shenzhen B-shares trade in Hong Kong dollars)

BVI

British Virgin Islands

CBRC

China Banking Regulatory Commission, a Chinese government agency authorized by the State Council to regulate China's banking sector

ChiNext

A NASDAQ-type exchange for high-growth, high-tech start-ups opened in 2009 on the Shenzhen Stock Exchange

CIC

China Investment Corporation, a Chinese government-sponsored entity that seeks to invest in securities and commodities abroad

CICC

China International Capital Corporation, China's first joint venture investment bank, established in August 1995 as a strategic partnership among prestigious Chinese and international financial institutions and corporations

CIETAC

China International Economic and Trade Arbitration Commission, China's principal arbitration institute for resolving disputes between foreign firms and Chinese legal persons

CIRC

China Insurance Regulatory Commission, a Chinese government agency authorised by the State Council to regulate China's insurance sector

CITIC

China International Trust and Investment Corporation, a state-owned investment company of the PRC, established in 1979 with the approval of Deng Xiaoping. It now owns 44 subsidiaries including China CITIC Bank, CITIC Holdings, CITIC Trust Co. and CITIC Merchant Co., Ltd (mainly banks)

CJV

Contractual Joint Venture or Cooperative Joint Venture, a foreign investment vehicle that operates under a structure similar to that of a Western-style partnership. The profit and loss distribution ratio is generally defined in the contract and can vary over the term. The parties to the CJV have considerable freedom to negotiate their CJV interest, respective rights, obligations, sharing of risks and liabilities, management, and ownership of property at the eventual termination of the CJV

CLS

Company Limited by Shares, a corporate entity in China that divides its share capital into shares of fixed amounts and can then issue them to shareholders. A limited liability company must be converted into a CLS in order to go public

CSRC

China Securities Regulatory Commission, the main securities regulatory body in China, which regulates all securities exchanges and futures markets activity within China

EJV

Equity Joint Venture, a joint venture between a Chinese and a foreign company within the territory of China. It is a limited liability company that has the status of a Chinese legal person. The parties agree to create an entity by both contributing equity, and they then share in the revenues, expenses, and control of the enterprise in proportion to their capital contributions

FDI

Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially "hot money" which can leave at the first sign of trouble, whereas FDI is durable and generally useful whether things go well or badly

FIE

Foreign Invested Enterprise, a common method of creating an operation in China. Any one of a number of legal entities can be considered FIEs including equity joint ventures (EJV), cooperative joint ventures (CJV) and wholly-owned foreign enterprises (WFOE)

GEM

Growth Enterprises Market, a NASDAQ-type exchange for growth enterprises on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange

Guidance Funds

Municipal Funds of Funds that invest in RMB Funds. Usually require RMB funds to invest in a particular locality

H Shares

A share of a company incorporated in the Chinese mainland that is listed on the Hong Kong Stock Exchange or other foreign exchange. H-shares are still regulated by Chinese law, but they are denominated in Hong Kong dollars and trade as other equities on the Hong Kong exchange. L Shares trade on the London Stock Exchange; N Shares trade on a U.S. stock exchange; S Shares (or S chips) trade on the Singapore Exchange

MOFCOM

Ministry of Commerce is an executive agency of the State Council of China. It is responsible for formulating policy on foreign trade, export and import regulations, foreign direct investments, consumer protection, market competition and negotiating bilateral and multilateral trade agreements

NDRC

National Development and Reform Commission, formerly State Planning Commission and State Development Planning Commission, is a macroeconomic management agency under the Chinese State Council, which has broad administrative and planning control over the Chinese economy. One of its principal functions is to examine and approve major construction projects

PBOC

People's Bank of China, China's central bank

QDII

Qualified Domestic Institutional Investor, a program to allow financial domestic Chinese institutions to invest in offshore markets such as securities and bonds

QFII

Qualified Foreign Institutional Investor, a program to allow licensed foreign investors to buy and sell yuan-denominated "A" shares in China's mainland stock exchanges

QFLP

Qualified Foreign Limited Partnerships, a program to allow a certain number of foreign PE funds to make equity investments in China after exchange settlement

Red Chip

Red chips stocks are the stocks of mainland China companies incorporated outside mainland China and listed in Hong Kong. The actual business is based in mainland China and controlled, either directly or indirectly, by organizations or enterprises that are owned by the state, provinces or municipalities of mainland China

RMB

Renminbi, China's official currency, also referred to as Yuan

RTO

Reverse takeover, or reverse merger, a type of merger used by private companies to become publicly traded without undertaking an initial public offering

SAFE

State Administration of Foreign Exchange is primarily responsible for drafting policies and regulations related to foreign reserves and foreign exchange, supervising and inspecting forex transactions, and managing China's forex and gold reserves and foreign currency assets

SAIC

State Administration of Industry and Commerce is primarily responsible for business registration, business licenses and acts as the government supervisor of corporations. The SAIC is the Chinese government registrar for official documents like articles of incorporation, legal persons, registered capital and company ownership

SASAC

State-owned Assets Supervision and Administration Commission, a special commission under the State Council responsible for managing China's state-owned enterprises, including appointing top executives and approving any mergers or sales of stock or assets, as well as drafting laws related to state-owned enterprises

SHSE

Shanghai Stock Exchange, one of two stock exchanges in China, located in Shanghai

SME

Small and medium businesses

SOE

State-Owned Enterprise, business entities in China created and owned by the government. State-owned enterprises are governed by both local governments and, in the central government, the national State-Owned Assets Supervision and Administration Commission

SSE

Shenzhen Stock Exchange, one of two stock exchanges in China, located in Shenzhen

State Council

Synonymous with the Central People's Government, China's chief administrative authority. It is chaired by the Premier and includes the heads of each governmental department and agency

VIE

Variable Interest Entities are corporate structures set up to deal with China's prohibition on WFOEs to participate in certain industrial sectors prohibited to foreigners, such as the internet sector

WFOE

Wholly Foreign Owned Enterprise, a limited liability company wholly owned by foreign investor(s)



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5. SRZ China Practice

China

Schulte Roth & Zabel is a full-service law firm with offices in New York, Washington, D.C., and London. The firm delivers sophisticated cutting-edge business and legal advice to a wide array of institutional, entrepreneurial and individual clients, including public and private companies, investment banks, domestic money centers and foreign commercial banks, broker-dealers, investment advisers, private investment partnerships, venture capitalists and pension funds. Our combined legal expertise and business acumen provide a diverse client base with top-notch representation and service in the areas of bank regulatory; business reorganization; business transactions; employment and employee benefits; environmental; finance; individual client services; intellectual property, sourcing and technology; investment management; litigation; real estate; regulatory and compliance; structured products and derivatives; and tax.

The firm is actively involved in cross-border transactions with China and often works in cooperation with local resident counsel. Our attorneys' global range of expertise includes multilingual and multicultural proficiencies that allow us to deliver seamless high-quality service to our clients in transactions including joint ventures, foreign direct investments mergers and acquisitions, private equity, real estate and the establishment of inbound and outbound investment funds and vehicles.

Representative Clients:

- Cerberus Capital Management LP
- Chrysler LLC
- China Mining Resources Group Limited

Representative Clients and Transactions:

Cerberus Capital Management LP, a leading global investment firm with over \$25 billion in assets under management, in its acquisition of a minority stake in HKC (Holdings) Limited, a listed company on the Stock Exchange of Hong Kong.

Chrysler LLC in negotiations with Daimler AG concerning Beijing Benz-DaimlerChrysler Automotive Co. Ltd., a joint venture with BAIC, and Chrysler's potential joint ventures with other local auto companies.

A New York based hedge fund, in negotiating a potential joint venture in Shenyang with other co-investors.

China Mining Resources Group Limited and its affiliates in general corporate and bankruptcy matters related to their acquisition of convertible notes issued by China Shen Zhou Mining & Resources Inc. and related Exchange Act securities filings.

Directors of a publicly traded Chinese company in general corporate governance and potential litigation.

Asian Strategic Investments Corporation in general corporate governance and direct investments in Chinese companies.

An institutional investor in a PIPE transaction with a China based issuer, Qiao Xing Universal Telephone Inc. (senior convertible note and warrant offerings).

Representative Clients and Transactions (continued):

An institutional investor in a PIPE transaction with a China based issuer, China VoIP & Digital Telecom Inc. (senior convertible note and warrant offerings).

An institutional investor in a PIPE transaction with a China based issuer, General Steel Holdings Inc. (senior convertible note and warrant offerings).

A major asset management firm in connection with portfolio investments focused on markets in China, Hong Kong, Korea, India, Japan and other countries in the Asian region.

A private equity fund primarily in connection with making privately negotiated investments in China and Hong Kong consisting of portfolios of multi-credit non-performing loans as well as of other distressed assets in China and Hong Kong.

A private equity fund primarily in making privately negotiated investments in China consisting of portfolios of multi-credit, non-performing loans (which potentially will include settled and foreclosed real estate and other assets) as well as of other distressed and non-performing assets, such as real estate and equity positions in China.

A hedge fund designed to provide investors with superior risk-adjusted returns through an actively traded portfolio of long and short equity investments in the Greater China region, which includes China, Hong Kong, Taiwan and surrounding countries.

A hedge fund organized to take long and short positions primarily in equity securities of companies in the Greater China region.

A hedge fund organized primarily to invest in assets and companies headquartered in, or primarily doing business in China, Hong Kong, Macau and Taiwan, including with respect to the trading of underlying shares of such companies on stock exchanges in any jurisdiction.

Strategic Short Duration Bond Fund, a hedge fund, in connection with investing in a diversified portfolio of debt securities and other credit related instruments in China, among other places.

A hedge fund designed primarily to invest in long and short positions in equity positions listed on Asia Pacific exchanges and/or equity positions of companies with linkages or businesses in the Asia Pacific region.

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About Schulte Roth & Zabel

Founded in 1969, Schulte Roth & Zabel LLP (www.srz.com) is a full-service law firm with offices in New York, Washington, D.C., and London. The firm's practices include bank regulatory; business reorganization; business transactions; employment and employee benefits; environmental; finance; individual client services; intellectual property, sourcing and technology; investment management; litigation; real estate; regulatory and compliance; structured products and derivatives; and tax.

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