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The Perils of Success and Excess: Is China's Economy Overheated?

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The report on China's economic growth continues to be on the upbeat note. It accelerated at its fastest in more than a decade with 11.3 per cent growth in the second quarter over the same period a year earlier. It was propelled by record trade surplus; rapid, uncontrolled expansion in capital investments; and unstoppable rise in real estate value. Just like an old Chinese saying, "Mr. Cai lost his horse, but it might be the best thing that had happened for him;" the celebration of the accelerated growth in China's economy in recent months needs to be reevaluated.

The continued excessive investment and rapid credit growth have created an excess capacity in the manufacturing sector. In the last five years, I have visited over 350 factories in China. Not a single one that I visited was operating on a three shift schedule, and most of them admitted that they were operating at well below 50% capacity. Yet, I was so amazed to see that, in my return visit to some of those factories, they continued to expand including the construction of new, large facilities. Without any doubt, China's economic growth has created genuine wealth for many people not just in China but in other parts of the world. However, the continued growth could have a backfire effect on China's economy. This will ripple through to Japan and Korea, which have become very much reliant on China. It is paramount that the perils of China's success and excess are well understood and managed properly.

For those who travel frequently to China, they could probably appreciate the meaning of grand scale in almost everything ranging from dinner banquets to infrastructure projects. China will be the home of the world's tallest building, longest bridge, and largest dam.

China is the only country in the history of mankind that has achieved an enviable growth in such a large scale in such a short period of time. The growth was primarily driven by a seemingly unlimited supply of low cost labor, huge capital investments and reinvestments, and the aggressiveness in attracting foreign direct investments,

initially from the overseas Chinese. The growth is further fueled by the eagerness of the financial institutions to lend to those who have hard assets, particularly land. The continued rise in real estate value has allowed many companies to leverage their operations for insatiable growth. The excess in growth is partially the result of the Chinese culture, but ironically it is also the tool for survival. If factories do not expand, they seem to be on a faster track to fall. However, these are potentially dangerous because:

- *Excess capacity has created cut throat competition in the manufacturing sector. Hence, many factories are forced to sell at or even below cost to keep their factories running. (Anti-dumping cases are filed against Chinese exports based on: (a) Chinese are selling below cost; and (b) China is not a market economy. Ironically, Chinese are selling at or below cost because of market force.)*
- *To keep their factories in operation, many of them manufacture goods that do not have a ready market. This is a poor utilization and waste of resources.*
- *An artificial redistribution and a widening gap of wealth have favored those who have access to real property, raw materials, and energy sources. These create social tension and will possibly result in social unrest.*
- *Many Chinese manufacturers will face financial distress in five to ten years. The effect will ripple through to the financial institutions which have lent relentlessly in favor of real estate speculation and capital expansion.*
- *The emphasis on real property and equipment has created a speculative culture. Insufficient investments have been channeled to innovation, product development, intellectual property rights and intangibles, which have a longer term of horizon but are essential for long term success.*

The problem is that without continued capital expansion, China will face an impossible task in keeping its most capable 1.3 billion people gainfully employed. However, with its continued unchecked rapid capital expansion, it will face a more dreadful challenge in 10 years.

Upcoming Events

US-CHINA CHAMBER OF COMMERCE EVENTS

- **Executive Briefing, Cross Cultural and Basic Language Training Workshop.** Chicago, October 26, 2006, Thursday. \$395 for Members; \$495 for Non-Members. http://usccc.org/events/Cross_Culture.htm.
- **Seventh Annual US-China Trade Conference --- Competing in An Era of Excess Capacity, Rising Cost, Shortage of Energy, and Increasing Trade Disputes.** Chicago, November 9 & 10, 2006, Thursday and Friday. \$395 for Members; \$595 for Non-Members; \$545 for customers of sponsors. http://usccc.org/events/Trade_Conf.htm.
- **Symposium on Mergers and Acquisitions in China.** TBA. http://usccc.org/events/M_and_A.htm

CO-SPONSORED BY US-CHINA CHAMBER OF COMMERCE

- **2nd Annual Investing in Asia Conference.** Organized by New York Society of Financial Analysts. New York, September 28, 2006, Thursday. 8:30 am --- 5:00 pm. Early Registration (before September 7): \$195 Members (Including USCCC); September 8---21: \$265; Thereafter: \$315. For further information and registration: <http://www.nyssa.org/Template.cfm?Section=calendar&template=/ContentManagement/ContentDisplay.cfm&ContentID=7365>

Recent Activities

Shangri-La Hotel Reception. USCCC co-hosted a Leadership Lunch and Executive Briefing with Shangri-La Hotels and Resorts at the Mid-America Club on June 5, 2006. Mr. Martin F. Waechter, Chief Marketing Officer along with General Managers from various Shangri-La properties in Asia joined in this exceptional event to get acquainted with USCCC members and guests. During the reception, Shangri-La announced that **together with the developer, Teng & Associates, Inc., they will open a Shangri-La Hotel in Chicago in 2008.** Mr. Waechter also discussed the current development of China as well as Shangri-La's strategies in the 21st Century. To illustrate the growth in China, he pointed out that in 2020, 250 cities in China will have a population of over a million. A copy of Mr. Waechter's speech can be obtained at <http://usccc.org/main/speech/Shangri-La.htm>

Lunch in Honor of Nanjing Delegation. On July 9, 2006, USCCC co-hosted a Leadership Lunch with The People's Government of Nanjing in honor of a delegation led by the **Honorable Jin Daoqiang, Vice Mayor.** Nanjing is the capital of Jiangsu Province. It is also the site in China, in which Ford Motor is building its second plant. **According to various reports, Nanjing Auto, which has recently acquired MG Rover, will build an auto plant in Oklahoma.** At the invitation of **Party Secretary Luo Zhijun**, the most senior leader in Nanjing, USCCC plans to lead a delegation to Nanjing in the fourth quarter of 2006 or first quarter of 2007. For those who are interested in participating in the delegation, please contact Mai Hoang at

Special Announcements

Ningbo Office

Mr. Liu Mingdao, a prominent business leader and owner of The Portman Plaza, a newly completed US\$200 million ultra luxury commercial/residential/hotel complex in Ningbo, has agreed to serve as Advisor to USCCC for its East China operations. In addition, Mr. Liu has offered our organization a premium office space at The Portman Plaza as well as an Executive Suite at his five-star hotel free to provide services to our members and the business community. All members and guests will now enjoy a special rate to stay at the hotel along with a VIP pass which will give them special privileges. Mr. Liu has also agreed to underwrite the cost of programs organized by USCCC at The Portman Plaza Hotel. We are deeply grateful for the generosity of Mr. Liu. In addition, we will continue to expand our operations at our other office in Yinzhou District, Ningbo. The space is provided by the People's Government of Yinzhou District. The office is open for use by our members. In addition, it is available for those who are considering opening up an office in that area. Please contact Mai Hoang at 312-368-9029 for further information.

Beijing Office

We are grateful to the family of **His Excellency Wang Guanying**, Founder and Chairman Emeritus of Everbright, one of the largest non-bank financial institutions in China, and Retired Vice Chairman of the People's Congress of the People's Republic of China, for their friendship and support. A company owned by the Wang Family will provide free office space to USCCC for its Beijing operations. The Wang Family has been a long time friend of ours, and we deeply appreciate their support. Additional information will be available shortly.

Member News

Members in the Chairman's Circle

We are deeply grateful for the generous support of **Archer Daniels Midland**. ADM has been a member and sponsor for our major events including the Annual US-China Trade Conference and Gala Dinners since 2000. In addition, Mr. G. Allen Andreas, Chairman and CEO has served on the Board for many years.

We are glad to announce that **newegg.com** has joined our organization as a Member in the Chairman's Circle. Newegg.com, the award winning computer hardware and software reseller, has two offices in China, Shanghai and Chengdu. We thank Mr. Fred Chang, Chairman and CEO, for his kind support and generosity.

Director

We are glad to report that Mark Zolno, Esq., Chairman of Customs Practice, Katten Muchin Rosenman will continue to serve as a Director of USCCC. Mark and his company have been long time supporters and sponsors of many programs including the Annual Trade Conference and Gala Dinner. Recently, Mark went to China to meet with potential partners in furthering the firm's services to its clients.

We are glad to report that we have a very high renewal rate of memberships. Over 100 Members and Corporate Sponsors have renewed their memberships or joined USCCC in the last four months. An updated directory will be available to members in mid October. Due to limited space, we could only list the following Corporate Sponsors: Alliant Energy International; Barnes, Richardson & Colburn; Bunn-O-Matic Corporation; Butler Manufacturing; Crescent Manufacturing Company; Del-Nat Tire Corporation; Direct Supply, Inc.; Elkay Manufacturing Company; Gruma Corporation; International Profit Associates, Inc.; Invacare Corporation; Jordan Industries, Inc.; Powerzinc Electric, Inc.; RR Donnelley; Siemens; Sinotrans Container Lines Co., Ltd.; and Whiteco International.

USCCC's Activities in China

We recently attended the **First Asian-Pacific Chinese Entrepreneurs Forum in Yunnan, China** and delivered a speech on "*Opportunities for Enterprises in Southwest China and the Roles of Overseas Chinese.*" (<http://usccc.org/main/speech/yunan.htm>.) The Forum was co-organized by the Overseas Chinese Affairs Office of the State Council of China and the Province of Yunnan. Attendees included some of the most prominent Chinese business leaders from Indonesia, Thailand, Singapore, Malaysia, Japan and other countries. In addition, many government leaders participated in the event including **The Hon. Li Haifeng, Vice Director of Overseas Chinese Affairs Office; The Hon. Qin Guangrong, Deputy Party Secretary and Executive Vice Governor, Yunnan; The Hon. Zhao Gong Qing, Vice Chairman, People's Congress of Chongqing;** and others.

We also visited Zhongshan, Dalian, Ningbo and Beijing in our last trip to China in August. In **Zhongshan**, we assisted a US company in setting up a representative office. In addition, we had a discussion with **The Hon. Li Qi Hong, Deputy Party Secretary of Zhongshan, The Hon. Huang Biao Quan, Party Secretary and The Hon. Jeff Peng, Mayor of Zhongshan Xiaolan** regarding future cooperation between USCCC and Zhongshan with the possibility of setting up a joint venture to provide trade services between Zhongshan and the US with a focus on the audio-video and light metal industries as Zhongshan Xiaolan has been designated as the base for audio-video industry in China.

In **Ningbo**, we signed a contract with The Portman Plaza Hotel offering special rates and certain privileges to USCCC members during their stay in the hotel. In addition, USCCC has reached an agreement with The Portman Plaza to host two events in December 2006 and April 2007 that will be underwritten by **Mr. Liu Mingdao**, owner of The Portman Plaza Hotel.

In **Dalian**, USCCC is working with one of the largest developers in identifying world class hotel management companies for three five-star hotels. The three hotels are part of three separate large development projects. In two separate private meetings with **The Hon. Xia Deren, Mayor and The Hon. Sun Guang Tian, Vice Mayor**, Dalian, USCCC was urged to expedite the process to bring in more world class hospitality companies as Dalian has been designated as one of the three cities for tourism in China and is experiencing a shortage of five-star hotels.

In Beijing, USCCC met with **China Association for Small & Medium Commercial Enterprises** and is in the process of evaluating a proposal from the Association regarding future cooperation. Further information will be provided to USCCC members when it becomes available.

Members' Activities: Mergers & Acquisitions; Setting Up Operations

Gruma Corp. Gruma Corp., the world's largest corn flour and tortilla producer, is in the process of completing its first factory in China. On September 21, it will celebrate the Grand Opening of its plant in Shanghai. It is reported that Gruma will invest and expand aggressively in China with an initial investment of \$100 million in Shanghai.

Jordan Industries. Through International Mining Machinery Limited, a company formed by Jordan and Beijing based co-investors, Emory Williams and John Lee, Jordan Industries has completed the acquisitions of 100% of Jixi Coal Mining Machinery Co., Ltd. and 100% of Jiamusi Coal Mining Machinery Co., Ltd., suppliers of shearers, road headers and other coal mining equipment, from a unit of the Heilongjiang Provincial Government.

Global Wing. Global Wing, a private jet service based in Japan that has already set up joint venture with Air China in providing private jet service in China, has recently received approval to offer private jet service both domestically and internationally in Japan.

Butler Manufacturing. BlueScope Steel, the largest steel company in Australia and parent of Butler Manufacturing, has completed its \$70 million investment in a plant in Guangzhou. Butler will host its Global Alliance Conference on October 19-20 in Kansas City.

Stant Manufacturing. Stant Manufacturing is currently setting up an operation in Suzhou.

Selected Capital Transactions in China

Date	Acquirer	Target	Industry	Deal Size	Form	Status
8/4	IDS Group	STLog	Logistics	25.75 Mil (US\$)	Acquisition	Pending
8/3	Lingbao Gold Co Ltd	Chi Feng City Zheng Ji Mining Ltd Co	Mining	68.64 Mil (RMB)	Acquisition	Pending
8/3	Suntech Power Holdings Co., Ltd.	Japan's MSK Corp	Photovoltaic (PV) cells	290 Mil (US\$)	Acquisition	Pending
8/2	Shum Yip Investment Shenzhen Ltd	Huayin Traffic Development Co Ltd	Infrastructure	661.88 Mil (RMB)	Acquisition	Pending
8/2	China Everbright Securities	Shanghai Nandu Futures Brokerage Co Ltd	Securities	NA	Acquisition	Pending
8/2	Hunan Nonferrous Metals Corp Ltd	Compass Resources NL	Natural Resources	30 Mil (A\$)	Acquisition	
7/31	Lotte Confectionery Co Ltd	Shanghai BBKA Aloha Chocolate Co Ltd	Confectionery	20 Mil (US\$)	Acquisition	Pending
7/31	CVC Asia Pacific	Shandong Chenming	Paper	625 Mil (US\$)	Acquisition	terminated
7/31	Shanghai Real Estate Ltd	Shenyang Huarui Shiji Investment Development Ltd	Property development	204 Mil (RMB) (51%)	Acquisition	Pending
7/28	Ping An Insurance (Group) Company of China Ltd	Shenzhen Commercial Bank	Banking	4.9 Bil (RMB) (89.24%)	Acquisition	Pending
7/26	Mattel Inc	Radica Games Ltd.	Games and toys	\$230 Mil (US\$)	Acquisition	Pending

Selected Capital Transactions in China

Date	Acquirer	Target	Industry	Deal Size	Form	Status
7/25	Various Bidders	PCCW	Telecom	NA	Acquisition	terminated
7/25	Gome Electrical	China Paradise	Electrical appliances	684 Mil (US\$)	Acquisition	Pending
7/25	Motorola	Huawei	Telecom	NA	JV	Pending
7/21	China Merchants Dichain (Asia) Ltd	China Coal Energy Holdings Ltd	Coal mining	395.62 Mil (HK\$) (40%)	Acquisition	Pending
7/20	Singapore Int'l Airlines	China Eastern	Airlines	NA	Acquisition	Pending
7/18	Public (IPO)	Industrial & Commercial Bank of China	Banking	14-19 Bil (US\$)	IPO	Pending
7/18	Standard Chartered PLC	Pakistan's Union Bank Ltd	Banking	338 Mil (US\$) (66%)	Acquisition	Pending
7/14	Mergent Inc	Praedea Solutions Inc	IT	1.6 Mil + \$8.5 earn out (US\$)	Acquisition	Pending
7/14	Sun Media Investment	US Weekly Entertainment	Publishing	NA	Acquisition	Pending
7/10	Hainan Jinpan Enterprise Co Ltd	FAW Haima Motor Co Ltd	Automobile	1 Bil (RMB)	Buyout of JV Interest	Pending
7/5	Hunan Valin Iron & Steel Group Co Ltd	China Euro Securities Ltd (CESL)	Banking	NA	Acquisition	Completed
6/28	China National Building Material Co Ltd	Xuzhou Conch Cement Co Ltd	Cement manufacturing	1.2 Bil (RMB)	Acquisition	Pending
6/20	Sun Hung Kai & Co	UAF Holdings	Finance	4.33 Bil (HK\$)	Acquisition	Completed
6/20	Panva Gas Holdings Ltd		Pipeline	99.33 Mil (RMB) (90% Fusion; 50% Hangzhou LPG)	Acquisition	Pending
6/13	Multifield International Holdings Ltd	Zhuhai Century West Sea Estates Investment Ltd	Property development	134.28 Mil (RMB)	Acquisition	Pending
6/12	China's TOM Online	Infomax	IT	75 Mil (US\$)	Acquisition	Pending
6/9	Shougang Concord International Enterprises Co Ltd	Asia Iron Holdings	Steel manufacturing	306 Mil (HK\$) (72.6%)	Acquisition	Pending
6/9	Cathay Pacific Airline Ltd.	Dragon Airline Ltd.	Airlines	8.22 Bil (HK\$) (82.21%)	Acquisition	Pending
6/8	China Mobile (Hong Kong)	Phoenix Satellite Television Holdings Ltd	Telecom	NA (19.9%)	Acquisition	Completed

Selected Capital Transactions in China

Date	Acquirer	Target	Industry	Deal Size	Form	Status
6/6	China Yurun Food Group Ltd	Anhui Furun Meat Processing Co Ltd	Food	67.41 Mil (RMB)	Acquisition	Pending
5/16	New World China Land Ltd	Chengdu Xinyi Development	Property development	500 Mil (RMB) (60%)	Acquisition	Pending
4/10	Hon Po Group (Lobster King) Ltd	Newsummit Investment Ltd	Coal mining	5.08 Bil (HK\$) (60%)	Acquisition	Pending
4/6	Chinese People Gas Holdings Co Ltd	Wei Nan City Natural Gas Co	Natural gas	33 Mil (RMB) (51%)	Acquisition	Pending
4/4	Starwin Media Holdings Inc	Strategic Media International Limited	Entertainment	NA (70%)	Acquisition	Completed
3/31	New World PCS Ltd (NWPCS)	Hong Kong CSL Ltd (CSL)	Mobile telecoms	NA	Merger	Completed
3/28	China Mobile (Hong Kong) Ltd	China Resources Peoples Telephone Co Ltd	Telecom	NA	Acquisition	Completed
3/27	Vision Grande Group Holdings	World Grand Holdings Ltd	Printing	928.1 Mil (HK\$) (68.5%)	Acquisition	Pending
3/13	CapitaLand Ltd	Lai Fung Holdings Ltd	Property development	644 Mil (HK\$) (20%)	Acquisition	Pending
2/22	Celestial Asia Securities Holdings Ltd	CASH Retail Management Group Ltd	Retailing	140 Mil (HK\$)	Restructuring	Pending
2/21	Sunny Global Holdings Ltd	Beijing Woda Taifeng Consultation Co Ltd	IT	54 Mil (HK\$) (89%)	Acquisition	Pending
2/6	CK Life Sciences International (Holdings) Inc	Vitaquest International Holdings	Nutraceutical food	166 Mil (US\$) (80%)	Acquisition	Pending
2/2	Sino Gas Group Ltd	Jetco Innovations Ltd	Natural gas	31.85 Mil (HK\$)	Reverse Merger	Pending
1/24	Baoye Group	Hubei Construction Group	Property development	132.86 Mil (RMB)	Acquisition	Completed
1/23	Good Fellow Group Ltd	Beijing Wan Fu Chun Forest Resources Development Co Ltd	Apparel	560 Mil (HK\$) (70%)	Acquisition	Pending
1/19	Auric Pacific Group Ltd	Food Junction Holdings Ltd	Food courts	116.25 Mil (HK\$) (29.9%)	Acquisition	Pending
1/6	Mitsui & Co Ltd	Baltrans Holdings Ltd	Logistics	NA 20%	Acquisition	Pending

* Deal Size May Represent Partial Interest

Upcoming Trade Fairs in China; Hong Kong (September)

- 11 - 14 September 2006: ZOW International Furniture Components & Supply Expo, Shanghai. <http://www.cmpsinoexpo.com/zow/>
- 11 - 14 September 2006: The 12th China International Office Furniture Expo, Shanghai. <http://www.cmpsinoexpo.com/furniture/office/>
- 11 - 14 September 2006: Furniture Manufacturing & Supply China 2006, Shanghai. <http://www.cmpsinoexpo.com/fmc/>
- 11 - 14 September 2006: Furnishing, Fabrics & Lightings China 2006, Shanghai. <http://www.cmpsinoexpo.com/furniture/furnishing/>
- 11 - 14 September 2006: Furniture China 2006, Shanghai. <http://www.cmpsinoexpo.com/furniture/>
- 12 - 18 September 2006: The 7th China (Hubei/Wuhan) International Auto Exhibition, Wuhan. <http://www.cnhan.com/>
- 13 - 15 September 2006: 4th International Exhibition on Chemical Processing Systems and Technology in China, Beijing. <http://www.hqlink.com/>
- 13 - 15 September 2006: 4th International Exhibition on Water and Wastewater Treatment Systems and Technology in China, Beijing. <http://www.hqlink.com/>
- 13 - 15 September 2006: 4th International Exhibition on Pollution Control and Environmental Management Technology, Beijing. <http://www.hqlink.com/>
- 13 - 16 September 2006: International Trade Fair for Measurement, Instrument and Automation, Beijing. <http://www.miconex.com.cn/>
- 13 - 16 September 2006: The 7th International Exhibition on Rotating Equipment, Fluid, Air & Gas Handling Systems, Fluid Power, Control Systems & Instrumentation, Water & Wastewater Treatment Systems & Technology, Pollution Control & Environmental Management Technology in China, Beijing. <http://http://www.hqlink.com>
- 14 - 16 September 2006: The 6th China International Heating Ventilation, Air-condition Products and Technology Exhibition, Beijing. <http://www.cihe.cn/>
- 14 - 18 September 2006: The 7th Shenzhen International Jewellery Fair. Shenzhen. <http://www.newayfairs.com/zij/index.htm>
- 15 - 18 September 2006: The 3rd China International Small and Medium Enterprises Fair and Sino-Italy Small and Medium Enterprises Fair, Guangzhou. <http://www.csmeff.com.cn/>
- 17 - 20 September 2006: International Trade Fair for Information Technology, Telecommunications Software and Services for China and the Asian/Pacific Region, Shanghai. <http://www.cebit-asia.com/>
- 18 - 21 September 2006: 3rd International Trade Show for Brands Sports, Fashion and Lifestyle in Asia, Shanghai. <http://www.ispochina.com/>
- 18 - 21 September 2006: Asia's Fashion Jewellery & Accessories Fair - September, Hong Kong. <http://www.jewellerynetasia.com/exhibitions/>
- 18 - 23 September 2006: September Hong Kong Jewellery & Watch Fair, Hong Kong. <http://www.jewellerynetasia.com/>
- 19 - 20 September 2006: Apparel Sourcing Expo Asia, Shanghai. <http://www.apparelmag.com/conferences/China/CS06/CS06.shtml>
- 19 - 21 September 2006: 3rd International Trade Fair and Conference for Analytical Instrument, Biotechnology, Laboratory Technology Services, Shanghai. <http://www.analyticachina.com/>
- 19 - 21 September 2006: International Trade Fair for Technical Textiles and Nonwovens, Shanghai. <http://www.techtextil.com/>
- 19 - 22 September 2006: The 3rd China International Occupational Safety & Health Exhibition, Beijing. <http://www.sino-safework.org.cn/>
- 20 - 21 September 2006: 4th China International Coking Technology and Coke Market Congress 2006, Beijing. <http://www.cokechina.com.cn/>
- 21 - 23 September 2006: ILE China 2006 - 12th China (Shanghai) Lighting Expo. <http://www.utex.com.cn/shanghai>
- 22 - 26 September 2006: 10th Nanning International Stationery Fair / 2006 Nanning International Education Exhibition, Nanning. <http://www.ccpitgx.org/>
- 25 - 28 September 2006: China International Wire and Cable Trade Fair, Shanghai. <http://www.wirechina.net/>
- 25 - 28 September 2006: China International Tube & Pipe Trade Fair 2006, Shanghai. <http://www.tubechina.net/>
- 25 - 28 September 2006: 2006 China International Machine Components Industry Exhibition, Shanghai. <http://www.macomponents.com/>
- 25 - 28 September 2006: The 4th International Fastener Technology Exhibition for China, Shanghai. <http://www.macomponents.com/>
- 25 - 28 September 2006: 2006 International Gear Transmission Exhibition for China, Shanghai. <http://www.macomponents.com/>
- 26 - 28 September 2006: 2006 International Sourcing Fair (Shanghai, China), Shanghai. <http://2006.sourcing.org.cn/>
- 27 - 29 September 2006: China International Hardware Show 2006, Shanghai. <http://www.cihs.com.cn/>
- 29 September - 1 November 2006: Women Expo, Singapore. <http://www.womenexpo.com.sg/>

* For complete listing through July 2007, please go to: http://usccc.org/main/trade_fairs.htm.

Important New and Proposed Regulations

China Imposes New Takeover Rules

China's Ministry of Commerce has published new rules on foreign takeover of local companies to ensure standard treatment for acquisitions while also protecting national economic security. The rules will become effective on September 8, 2006. The new rules are part of new regulations governing overseas investors and a reform of domestic stock markets. They are primarily the result of increasing complaints from government officials and economists in China that international companies are seizing too many of the country's prize industrial assets and famous brands. Also, the new rules will for the first time allow foreign companies to use stocks as merger currency. It is unclear whether the new rules will make it harder or easier for foreign investors to consummate merger transactions in China. The rules require that prospective investors report in advance any acquisition where there is a national economic security issue or it will lead to a change in control over a famous trademark or old Chinese brand. Failure to do so could lead to nullification of the acquisition.

Unification of Income Tax

There is discussion underway regarding the unification of income tax on Chinese invested enterprises and foreign invested enterprises (FIEs). If that becomes effective, the tax advantage for an FIE will be significantly reduced. The current income tax rate of 15% for FIEs operating in Special Economic Zones, Economic and Technological Development Zones will be gradually increased to 25-28%. The Chinese government will cancel and simplify all tax preferences except that the tax preferential treatment will be applicable to ALL enterprises (both Chinese and FIEs) engaged in high-tech or new technology or in certain geographical areas such as the Western region. A window of five years will be implemented for the transition.

Reported Scams

USCCC continues to receive reports from individual companies regarding certain scams that were cited in our previous newsletters and special e-mails. Certain small companies received unsolicited inquiries (primarily through the internet) from Chinese companies or individuals claiming to place very large orders and then requesting executives from the US, European, or Latin American companies to go to China. In some instances, they may solicit US companies to represent their companies in the US for certain activities. In the process, many of them lost money and found out it was a scam.

We have also received complaints from Chinese companies that had extended trade credits to US importers. Typically, those importers are small, and the amounts involved ranged between US\$25,000 and \$50,000. After receiving the goods, the US importers will "bust up" the companies and form new ones. For further information regarding scams and specific companies, please contact our office.

Travel and Other Services Provided by USCCC

USCCC provides hassle free, fast, reliable US passport and visa processing service. NO INVITATION LETTER IS REQUIRED. Most applicants can get one year multiple entries visas with up 120 days stay in China within one business day. In addition, USCCC has signed contracts with Shangri-La Hotel (booking can be made directly with any Shangri-La Hotel or www.Shangri-La.com by using **USCCC Corporate ID: C50015300**) and The Portman Plaza in Ningbo (**booking can be made directly phone: (86) 574-87688688 or fax: (86) 574-87758866 or rsvn@portmanplaza.com by mentioning that you are with US-China Chamber of Commerce**), which offer special rates and privileges for its members and guests. For other travel arrangements including car pickups in major cities, services such as translation, research, and setting up meetings, please contact our office at info@usccc.org; 312-368-9911 (phone) or 312-368-9922 (fax). Other important links: Job Opportunities --- <http://usccc.org/main/careers.htm>.

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* The views expressed in this article are those of the authors and do not necessarily reflect the opinions of US-China Chamber of Commerce. The information provided herein has been obtained from sources deemed to be reliable and is solely for informational purposes.