



News Release: China-U.S. Strategic Ventures Moving Forward on Entertainment and Private Equity Investment

China-U.S. Strategic Ventures (www.cusv.net) has made significant strides in the areas of entertainment, media, and private equity investment. Through arduous efforts in the second part of last year, CUSV, led by Demos Vardiabasis and Albert Huang, now advises Beijing Cultural Bureau and China Venture Capital and Private Equity Association in shaping the entertainment and the private equity industry development in China. On specific projects, CUSV partnered with California based Ultrastar Cinema in its cinema development in China and helped shape deals for rapid expansion with state-owned company, popular theme park company, and large-scale urban developers. Moreover, CUSV founded Beijing-Hollywood Entertainment to identify and to implement solutions in training budding Chinese directors, producers, and scriptwriters while connecting leading U.S. entertainment companies and education institutes with likes of Jackie Chan. With the Chinese central government placing emphasis on cultural development in its five-year plan starting 2011, top investment funds and venture capital companies are looking to place capital in the entertainment and media companies and their projects. Therefore, in December 2011, China Venture Capital and Private Equity Association hosted an investment forum at Beijing University to address this interest. At the 500-people plus forum, Chinese investment experts claimed that the movie business may see an increase in box office revenue by as much as ten fold over the next three years. Next month, Scott Rosenfelt, CUSV entertainment advisor who directed the all-time hit "Home Alone", will revisit China to discuss developing contents for Chinese films. As many predict that there will be more Chinese-American joint venture movies, there will also be partnership formed by CUSV to address this insatiable demand for American entertainment in China.

About China-U.S. Strategic Ventures (CUSV.net)

The CUSV platform is established following the success of the first-ever U.S.-China Real Estate Summit in August 2010, where leading business executives and entrepreneurs from both the U.S. and China were brought together on real estate opportunities in both countries. Since the conference, a board of advisors were brought together and organized into their areas of expertise.

The areas of expertise were divided into:

1) Commercial Real Estate, 2) Education, 3) Finance, and 4) Technology/Energy.

Commercial real estate can be divided into areas of logistics, retail, commercial office, recreational/entertainment, hospitality, health/retirement facilities, and apartments.

The U.S. team is spearheaded by Dr. Demos Vardiabasis and Former Mayor Albert Huang. Since September, Dr. Vardiabasis and Mr. Huang have brought to China the head of state (Former Greek Vice Prime Minister Roussopolous) and his delegation to leading executives in various areas of retail development (Michael Mugel of RMG), theme park designer (Paul Comstock of Disney), high-rise architect (Scott Johnson of Johnson-Fain), sustainability expert (Russ McKeekin, formerly with Honeywell), fund executive (David Ahn of DMI Funds), and finance attorney (David Fong of Asia Pacific Capital).



Dr. Demos Vardiabasis is currently a professor of international business and economics at Pepperdine University. He has well over 25 years of experience as a professor, entrepreneur, executive, and consultant. He has founded several companies such as the IQ Now Corp, served as a consultant for companies and industries such as Northwest Airlines, Edison Utilities and Northgate Supermarkets, and has also served as an advisor/board member for several startup companies. He is an expert in Chinese economic affairs, and has been heavily involved with Asia since 1978.

Why does China need the U.S. and vice versa?

Dr. Vardiabasis begins by explaining how, "The United States is the largest debtor nation in the world", with a government debt of over 14 trillion dollars," and how "the main financiers of the enormous international debt in the United states, are currently Chinese". He then gives some ominous statistics, saying that the U.S. is over 100% in debt compared to its total income, and that the PIGS European countries and Japan are doing worse, with their debt to income ratio sitting at 150% and 300% respectively. He then explains that this will cause a global increase of interest rates, which can bankrupt not only the U.S., but also other 'mega countries' such as England and Japan within a short period of time. "Can we avoid it?" He asks, and then answers "always there is a solution." Dr. Vardiabasis then declares that "China could and should play a critical role." He gives information on China, how China doubled its GDP in 30 years 8 times, compared to U.S. doubling only once in 50 years, and how China's general work ethic, entrepreneurial nature, and overall economic model led to their success today. He then contrasts China's success with its shortcomings, citing issues with " the well known income distribution problem" and a "regional unevenness problem," where "all the growth in China is coming from the East coast" and not Western China. "Both problems are issues that can be resolved in China in my mind through the continuous high economic growth" Dr. Vardiabasis says, but "given that China is the top exporter in the world, its economic growth depends upon the economic conditions of all other countries in the world, since they're all China's clients." Here we can see why the U.S.-China relationship is so important. The U.S. is in a situation where it needs financial assistance soon or face bankruptcy and China needs continued economic growth in order to solve its internal issues, which means that China's main client (the U.S.) must survive from a financial point of view, since China makes much of its income through exporting products. With a specific focus of economic cooperation with each other, the U.S. and China can create a synergy which has the potential to alleviate and potentially eliminate major issues within both countries.



Are there any common grounds between both countries, and where does China and U.S. go from here?

Dr. Vardiabasis gave details on how the differences of governments within the U.S. and China has an interesting effect on the markets of the countries. He says how “normally if you ask anyone, they would say “I would rather work in the American economy or a British economy” because of the capitalistic economy while China is communist,” but how “In reality, China in my mind, is more capitalistic than the US or anyone.” His statement shows how both countries are largely capitalistic, indicating a similarity in marketing operation principles, yet China has become more capitalistic due to the U.S. having “so much bureaucracy, lack of long term planning, lack of proactive strategies.”

For the current direction that the countries should take, Dr. Vardibasis says that “China being the leader, with some support of other Asian economies that are also growing fast, the south East Asian countries Thailand, Malaysia or Singapore, and with some help from the other 3 growing economies, Russia, Brazil, India, hoping that with their activities, will help the US economy to grow out of the recession ... So, China and U.S. right now, have to work together, not only because that will save the global economy, but also because it would save each one’s own economy, and promotes political stability.”



Michael Mugel founded the Red Mountain Retail Group, a company that develops and redevelops retail and mixed-used real estate. His company's real estate portfolio covers over 4 million sq. ft. of land in seven states. His ability to find and create deals with incredible returns turned 45 million dollars worth of shopping centers into 550 million within 5 years. He has interacted with Chinese companies since 1984, and currently assists Chinese firms and organizations, serving as a resource for retail development.

Commercial real estate has been the focus of China due to strict regulations placed on the residential side. How different is commercial real estate compared to residential real estate?

Mr. Mugel describes the commercial side of real estate as "literally different businesses entirely," explaining that "for commercial real estate, you're building a 'tenant mix', you're building a mix of tenants who hopefully are all complimentary to each other that create synergy, so it's a much more sophisticated business plan to build retail commercial than residential." Mr. Mugel emphasizes the importance of mixing the correct types of tenants with each other, where "in retail, it's absolutely mandatory that when you build something, the tenants all have a theme or a common driver of a synergy created amongst the retailers so they actually all thrive together".

What types of real estate services do you envision will come about as of this latest trend?

Mr. Mugel noted the need for western assistance in commercial properties because "there hasn't been a lot of history in China in building quality commercial projects." He goes on to say "the Chinese are going to have to rely a lot on western services or countries that have been westernized, their services, for whether its architectural, especially in leasing and marketing, property management, and legal ... because there's a lot of sophisticated legal nuisances that go into retail and commercial development."

What types of companies will succeed in the US and China?

"Many companies can be successful monetarily," Mugel says, "but if their looking to build companies that will last for generations, or decades, then the type of companies that are going to last are the companies that are going to have to build quality environments for the people, and educate their people on how the businesses actually work." He explains how a business plan and a more sophisticated approach, educating the people of China and building a culture around that is key to long lasting success of a company intent on operating in China.



Scott Johnson is one of the most highly respected and well known architects in California. He and William Fain acquired the firm now known as Johnson Fain in 1987, and has created many designs that have become widely published and/or public landmarks, such as the Opus One and Byron Wineries in Napa Valley, as well as the San Francisco Rincon Center. Mr. Johnson and his firm have worked on projects in China with a focus on housing and master planning, and have participated in competitions held by China, winning the plan for the central business district of Beijing in 1999-2000.

Where are we as architects in China?

Mr. Johnson explains that in China, “architects are really hired to communicate certain values.” He observes that the Chinese are “building a middle class and upper middle class at lightning speed and they’re very aspirational,” and with the money, they want new things and lifestyles that western cultures already have. “What we do as architects,” Mr. Johnson says, “is that we convey those things [they want] and what they mean from a lifestyle point of view in China. So we’re almost like authors writing books, but we’re not writing books, we’re making buildings.”

What direction is architecture taking in China now and in the near future?

Mr. Johnson’s immediate answer was that “China in that regard is probably like every growing country. Of the amount of buildings that are being produced, they don’t all equate to architecture.” He says how “some of the American or western models [of architecture] have just been landed into China and so they’re like objects on a moonscape.” “There’s contextual and historic culture then there’s a modern thing,” Mr. Johnson says as he emphasizes the issue of western architecture used in China without substantial thought, giving a loss of context. He goes on to explain how China does have very noteworthy positives. “The positive is that their projects of scope and of vision and scale in China you will never get in the United States,” Mr. Johnson explains as he gives examples, “we’re, to plan 30 square miles of regional planning and wetlands, to rethink a entire inner city of 10 million population city, do recreational planning outside major cities or satellite towns or some of the transfer and development of their high speed rail nexus, these are huge projects.” He notes that “Those are the same projects the west needs. We need transit we need land use we need recreational, we need open space, we need housing, we need to rebuild our cities, we need to do that stuff too, but right now we don’t have the dollars. The politics is too high and the dollars is too low.”



Danton Mak is part of Sheldon Mak & Anderson, a law firm specializing in intellectual property. His firm was named by U.S. News as a Best Law Firm, ranking as a National Tier 1 in IP. Born and raised in Hong Kong, he is one of the leading Chinese-speaking patent lawyers in the U.S.. As a result, he holds considerable connections and influence in Taiwan and China. Although he and his firm are primarily based in the U.S., Danton and Sheldon Mak work with Chinese lawyers on cases abroad and are currently marketing themselves in China.

What opportunities are there in terms of intellectual property?

Mr. Mak began talking about how he and his firm has been doing IP litigations on contingency, because "it's very specialized and basically we're so confident on our ability, we put our own capital on the line." He reasons that Chinese "clients that don't have the resources [to spend] or don't want to spend money on lawyers," attributing that as a cultural difference, where "they are accustomed to, paying for professionals," and "are still not accustomed to the idea that you have to pay the lawyers (laughs)." "The way we see it," Mr. Mak says, "is that protection of a successful product is really underserved. Big American companies are really good with having really oppressive contracts of adhesion, and companies like Wal Mart and Home Depot, all have these standards, well they call them standards but they are THIER standards." Mr. Mak lists an example of an oppressive contract when he explains, "I've actually seen one that says: once I buy from you for a period of time, say a year after that, I get a paid up license on everything you own, on all the IP you own, therefore you cannot sue me for anything. Well, then they turn around and buy from someone else who give them another 5% off." He then goes on to talk about how that was totally unfair to suppliers and brought Chinese profit margins to 1.8%, according to the U.S. Dept. of Commerce. "If their IP is protected," says Mr. Mak, "I can easily see their 1.8% double or triple or even go up 10 times." He concludes that smaller companies in China would have more reasonable profits with IP protection, and shows his firm's willingness to act in China by saying, "Few are willing to go after the big retailers of the world. We are."



David Fong is the managing director of the Asia Pacific Capital Company, and has over 16 years of experience in the real estate industry. As one of the top finance and acquisition attorneys in the U.S., Mr. Fong has helped his clients acquire, finance and sell over \$7 billion in real estate assets and debt instruments involving nearly every real estate asset class. Mr. Fong has numerous connections with funding management personnel in China, and is familiar with China's real estate trends. He is a frequent consultant on Chinese business matters for U.S. companies.

Where are the real estate investment opportunities in China?

Mr. Fong begins by saying that it depends, due to the size and broadness of both markets. He then lists off opportunities on commercial/retail sectors due to, "the dampening down of residential development," and senior/affordable housing, giving the statistic that, "by 2050, the amount of people over 60, Chinese people, will be larger than the entire US population." He goes on to talk about an anecdotal reference where an acquaintance of his created a pipeline of several Silicone Valley like business parks, which attracted small to medium businesses, created jobs, and were not subject to government limitations in real estate. Finally, Mr. Fong talks about 2nd and 3rd tier cities, saying that "I think the urbanization in China will continue, that's going to fuel, still, a lot of demand." His thoughts are similar to that of Mr. Mugel, as he notes how "the Chinese still needs some more expertise on the American side," explaining that "we have companies in the U.S. that spent lifetimes just focusing on one area [of real estate] ... so that level of expertise I think is something valuable I think that can help the Chinese."



What are companies like CDH, Carlyle and Angelo Gordon doing in China?

"Well companies like Carlyle and Angelo Gordon," Mr. Fong begins, "those are fund managers. Those companies have funds and they're active in investing in Asia." He adds how his conversations with Angelo Gordon's team members indicated that they, "invested in about 15 different projects already in China" and how the company has "north of 600 million dollars US just to invest in Asia." Mr. Fong goes on to explain that these companies "partner with local developers who have projects, they provide the capital, and they rely on the developers to provide the expertise, and then invest in the project together. They will get a preferred return, and they split up the money in a structure that's negotiated."

What kind of moves are Chinese banks making in the U.S.?

Mr. Fong indicated how Chinese banks were very conservative, saying how "they participate in syndicates of loans that are originated by major American lenders" and that they "gravitate towards more really conservative loans. 60-65% loan to value, and nothing more." He shows how it can be a problem, where "the US borrower will still prefer the non-Chinese borrower because again from a borrowers perspective they want certainty of close." And the recent increase in competition for lending in their loan to value range exacerbates the problem. Solutions to the problem Mr. Fong listed included the CUSV as a measure of comfort and confidence to borrowers, and an increase in leverage for Chinese banks through partnering with a Blue Chip company. He describes it as "a credit enhancement, though it does put a little more stress on the cash flow asset."



Albert Yumin Huang served the past 20 years as the principal of the LA and Taipei-based real estate development and design companies Richmond Development and TAG Design Works. Mr. Huang's projects are primarily located in Southern California and Asia. In 2010 he chaired and organized the first-ever U.S.-China Real Estate Summit. Mr. Huang also founded and serves on the Board of American Plus Bank as well as China-U.S. Strategic Ventures. He is a board member of 2 schools (USC in LA and American Academy in China, and has served as councilman and mayor of San Gabriel.

What does a 19 year old do to change the world? At 19, I started a development business by bidding on a land once owned by the Getty Foundation then built it into a 40-project design-built-development company in 10 years. Then tackled the political world and the banking world by becoming one of the youngest mayors and one of the youngest bank founders in the U.S. What's next for the now-35-year old? For someone who had the vision of writing his thesis on sustainability over 10 years ago, I also had the vision of building infinite opportunities through assembling a formidable bridge between the U.S. and China. Over the past 2 years, I devoted countless hours and adjusted daily routines in order to better understand Mainland China. Last year I traveled to China 6 times in order to organize the first-ever real estate summit between the U.S. and China through partnership with the China Real Estate Chamber of Commerce. We drew hundreds of top real estate executives and made history together. The organizing committee made sure the participants were widely represented in hope of not only building strong network between the two countries but also within the U.S. circle. Through this endeavor, China-U.S. Strategic Ventures (CUSV) platform was created to help the American leaders better understand the way of doing business in China and to allow the Chinese leaders to learn from their counterparts American leadership, management, and innovation.

In China, opportunities seem to come in every direction and fast. An entrepreneur must distinguish right away which market segment he wants to address as there are the general mass market and the top 1%. In sheer numbers, 1% of 1.3 billion people is 13 million, more than the population of Greece. It is also pertinent to understand the different tiered cities in China and which tier city fits what business opportunity as the first tier cities now look and feel like Chicago or Miami. Other opportunities come as a result of rapid urbanization such as resolving infrastructure issues specifically related to management and workforce development. To understand China, one must also realize the diversity of people and cultures that vary by regions. A business concept that works in one location may not work for other places base on language, ethnicity, and educational background.



Despite multiplying its economy in unprecedented matter, China's economy is still one sixth of the U.S.'s size. As its hardware outpaces the rest of the world and over one half of current construction in the world occurs in China, the country's "software" development such as the level of education and the number of skilled labors is still estimated at 20 years behind the western powers. In a country that had one person rule political structure for thousands of years, a supposedly communist China is ironically ruled by few powerful figures. For example, the Central Committee has a large amount of influence on China's businesses and its economy through quick implementation of policies, where the western countries lag with suffocating bureaucratic processes and "red tape" issues. It also means knowing influential figures and the right people help determine the success of an individual and his/her business. Examples of the right people in China are separated into major categories of former military leaders, communist school graduates, and returned overseas Chinese. They are often descendants of the political elites and have access to the best available resources as well as first hand information in China. Along with these resources, it helps to have the general population that is rooted in Confucius philosophy which preaches obedience to parents and leadership. Speaking of patriarchies, and the respect for elders, China has a pressing need for support system that caters towards its large senior population, estimated to be almost million people by 2020. When combined with a one-child policy, the senior related and the education related markets need to be addressed immediately.