



## 303 - China: A Market Too Big to Ignore

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## Faculty Biographies

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**Susan Frank**

Susan Frank is SAIC's deputy general counsel and senior lawyer for international activities. SAIC is located in McLean, Virginia. Her responsibilities include export control, FCPA, OFAC and anti-boycott compliance, international contracts, foreign subsidiaries and joint ventures and support for all of SAIC's international business and supervision of three lawyers assisting in this area. She also heads SAIC's export/FCPA staff of five professionals. Ms. Frank has served as a mentor in SAIC's Mentor Protégé Program and is a board member of the American Institute for Practical Training.

Ms. Frank's background includes more than twenty years' experience practicing law in these areas. Before joining SAIC ten years ago, she was a partner with the DC office of Sonnenschein, Nath & Rosenthal. Prior to that, Ms. Frank spent four years in London and qualified as a Solicitor to the High Court of England and Wales, practicing in the international area with the law firms of Theodore Goddard & Co. and Herbert Smith & Co. She also served as an attorney in the Office of the Legal Advisor at the Department of State and was a member of the U.S. delegation to the UN working on the first anti-corruption multilateral treaty initiative.

Ms. Frank is a graduate of Trinity College, Washington D.C. and of the National Law Center of George Washington University.

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# Risky Business and the PRC: FCPA & Export Compliance

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### The PRC Is Particularly Challenging from a Compliance Perspective

- The US Foreign Corrupt Practices Act (FCPA) applies to dealings with state-owned entities. Employees of state-owned or controlled entities are “public officials” within the meaning of the Act. Many PRC entities and individuals will fall into this category.
- The PRC is under an arms embargo, so no U.S. military or military related goods or technology can be exported.
- In addition, the USG has substantially expanded the risks via export controls on commercial items/technology with the recent “China rule.”

### The Foreign Corrupt Practices Act

- Criminalizes bribery as a means of getting business overseas;
- No payments or promises to pay directly or indirectly to government officials;
- Puts the burden on US companies and citizens to hire only reputable foreign agents/consultants/subcontractors;
- PERSONAL liability for those who participate in misfeasance or conduct sham transactions.
- Failure to follow company procedures can be evidence of bad faith in the eyes of DOJ.

## FCPA Prohibited Acts of Bribery

- Payments by companies or their employees or agents to any foreign official, foreign political party, or party official or candidate for the purpose of corruptly influencing decisions by such official or inducing him to use his influence to affect decisions by a foreign government to obtain or retain business or obtain “any improper advantage.”
- A foreign official includes anyone acting in an official capacity for a foreign government or one of its departments agencies or instrumentalities or *state-owned* enterprises and officials of international organizations.
- Employee of foreign government “agency or instrumentality”
  - Local law *not* determinative on this point
  - State ownership and control are factors
  - Department of Justice’s functional analysis: Does employee play governmental role? Does employee have rights and privileges of government position? Is employee capable of influencing public policy?

## PRC & FCPA: Schnitzer Steel

- Schnitzer Steel and its Korean subsidiary, SSI Int’l Far East, fined a combined total of \$15.2 million dollars for improper payments to managers of wholly and partially-government owned companies in China, and improper payments to managers of private companies, i.e., commercial bribery, in order to induce purchases of scrap steel. In both instances, books and records falsely described payments.
- Many payments were in the form of gifts, including a \$2,400 watch in one instance.
- SSI Int’l plead guilty to criminal charges and Schnitzer Steel agreed to deferred criminal prosecution pending annual reviews by a compliance consultant who would review not only FCPA compliance, but also compliance with U.S. commercial bribery laws and foreign anti-corruption laws.

## Foreign Companies are Affected: Sapsizian/Alcatel

- June 7, 2007 - Sapsizian, former Alcatel executive (and French citizen) pleaded guilty to participating in the payment of more than \$2.5 million in bribes to senior Costa Rican government officials in order to obtain a mobile telephone contract – worth \$149 million – from Costa Rica's state-owned telecom authority.
- Payments were funneled through consulting firm.
- Sapsizian faces max of 10 years in prison, a US\$250,000 fine and US\$330,000 in forfeiture.
- Sapsizian is cooperating – stay tuned for Alcatel settlement details!
  - Alcatel was traded through ADRs on US Stock exchange through 2006.

## Beware of Agents, Subcontractors, Freight Forwarders: Baker Hughes

Baker Hughes Services International Inc (April 2007)

- Allegations:
  - Paying approximately \$5.2 million to agents knowing that they would be used to bribe Kazakh officials.
  - Payments to Angolan agents (>\$11 mil),
  - Payments to Nigerian customs brokers and tax accountants (>\$2.5 mil),
  - Payments to an agent for sales of products in Kazakhstan, Russia & Uzbekistan (\$5.3 million) &
  - Payments to freight forwarders for “door-to-door” services that avoided Indonesian customs clearance procedures.
- Moral: it's all about those intermediaries!
- *The combined \$44 million penalty is the largest monetary sanction ever imposed in an FCPA case despite a voluntary disclosure.*

## Vet Your Freight Forwarder: Vetco-Gray

- Three subsidiaries of Vetco International, Inc. criminally fined in total \$26 million for violations of the anti-bribery provisions of the FCPA.
  - Largest criminal penalty ever sought by DOJ
  - Also required to hire independent compliance monitor, undertake a complete investigation of all company conduct, and requires any future purchaser of the companies to be bound by the compliance and investigation requirements.
- The Vetco subsidiaries pled guilty to paying approximately \$2.1 million on 387 occasions to Nigerian Customs Service officials – **using an international shipping and logistics company** -- to induce the officials to provide the companies with preferential treatment during the customs process.
- The shipping co's services were called "express courier payments," "evacuations" and "interventions"—B & R violation.
- They were recorded as "local processing fees" and "administrative/transport fee—B &R violation.

## Fall-Out from Vetco

- According to Dow Jones, 11 oil and oil service firms received a letter on July 2nd from DOJ asking about their relationship with Panalpina World Transport Holding Ltd. (PWTN), a Swiss-based shipping and logistics-management company.
  - "The oil and oil-service firms were asked to list the countries where Panalpina provided it with services in the past five years, and to specify what it paid for those services. Each firm also was asked to meet separately with federal prosecutors in Washington, D.C."
  - "Panalpina announced Tuesday that it is conducting an internal investigation and has been asked to provide documents to the Justice Department relating to services in Nigeria, Kazakhstan and Saudi Arabia for "a limited number of customers."
  - "Obviously, we are cooperating with the investigation," Panalpina spokesman Martin Spohn told Dow Jones."
  - <http://www.marketwatch.com/news/story/us-justice-department-probing-oil/story.aspx?guid=%7B1B210CAC-BB35-4929-99D9-006720B92189%7D>

## Red Flags Ignored: Statoil

- Statoil, a Norwegian company traded on the NYSE, fined a total of \$21 million by SEC, DOJ and Norwegian authorities in connection with a series of improper payments to the head of a subsidiary of the National Iranian Oil Company. Also required to hire an independent compliance monitor.
- Statoil agreed to pay the Iranian Official through a consulting contract with an offshore intermediary company organized in Turks and Caicos and owned by a third party located in London, England. Payments made to Swiss bank account. In return for the payments, the Iranian Official used his influence to assist Statoil in obtaining business in Iran.
- Also of note, apparently numerous reports in the press relating to corruption in official's family – Statoil conducted no due diligence on official.
- Findings of SEC, DOJ and Norwegian investigations:
  - Employees circumvented Statoil's internal controls and procedures that were in place to prevent illegal payments;
  - Statoil lacked sufficient internal controls; and
  - By mischaracterizing the payments as legitimate consulting fees, Statoil violated the books and records provisions of U.S. federal securities laws.

## This can get personal:

- At the March 28, 2007 FCPA Conference, the DOJ Fraud Section Chief cited prosecution of responsible individuals in corporations as a priority. He noted that the more senior the executive, the more DOJ would look to them to set an example and follow proper procedures.
- He also emphasized that DOJ will look at the culture of the company to determine if senior executives are following procedures and setting an example. If not, they will be targeted by prosecutors.
- The former CEO of Titan's Africa subsidiary has plead guilty to authorizing improper payments.
- David M. Pillor, former Senior Vice President for Sales and Marketing and member of the Board of Directors of InVision Technologies, Inc., agreed to pay a \$65,000 civil penalty in settlement of SEC charges that he aided and abetted in the company's failure to establish adequate internal controls to prevent improper payments.
- Pillor received e-mail messages from his Asian regional sales manager that suggested that InVision's overseas sales agents/distributors intended to make improper payments or other gifts to foreign government officials. InVision subsequently paid invoices to its agents/distributors in China and the Philippines and improperly recorded the payments as legitimate business expenses.

## Record Keeping Under the FCPA

- Under SEC rules, SAIC & subsidiaries must maintain accurate financial records which demonstrate that:
  - You know what is being paid to whom for what.
  - You have strict accountability in international business.
- This has become a strict liability standard in practice.
- 50-50 joint ventures or minority investments are held to a good faith standard by the US partner to use its influence to the extent reasonable to ensure that the sub uses good accounting controls.
- Actual interference or *de facto* management of the 50 percent or minority venture could, however, create greater liability.

## Recent Cases: DirecTV/Hughes Network

- DirecTV/Hughes Network fined \$5 million, received directed remediation mandate, and foreign subsidiary debarred for satellite technology transfers, including to China and India, proscribed countries.
- DirecTV/Hughes Network also required to participate on a “lessons learned” panel.



## Recent Cases: Boeing

- Boeing fined \$15 million and directed remediation mandated for unlicensed exports of QRS-11 gyrochip, an ITAR item incorporated in commercial aircraft, including to China, a proscribed country.
- Notwithstanding persuasive argument by Boeing that commercial aircraft standby systems containing the chip should not be subject to the ITAR despite see-through rule, DDTC interpreted otherwise. Boeing disregarded this interpretation. The regulations were later revised to move chips to Commerce jurisdiction when incorporated in commercial aircraft and other conditions met, however, Boeing still fined for prior transfers.
- Moral: You must comply with rulings/interpretations of regulatory agencies, even if they make little sense, until such time a regulatory fix or change in position effected, or else face potentially stiff penalties! Or in other words, don't dis DDTC!

## ITT Industries

- ITT plead guilty to two felony charges, deferred prosecution as to third, March 27, 2007
- \$100 million in fines:
  - \$20 million to DDTC
  - \$2 million criminal fines
  - \$28 million forfeiture
  - \$50 million must be invested in R&D and fielding of night vision technology for US soldiers with USG retaining Government Purpose Rights in technology
- Plus full panoply of compliance – independent monitor, audits, training, etc.
- ITAR debarment limited to ITT's Night Vision division:
  - Existing export approvals mostly still valid
  - Future export approvals subject to a policy of denial except in support of US Government contracts/end-use, or coalition partners in support of war on terror

## ITT Facts

- False and misleading statements in voluntary disclosure – “recent discovery” of violations when company was aware of facts more than 2 years before disclosure
- Offshore procurement of night vision parts and components in Singapore:
  - Without license before 1994
  - With DSP-5 license but exceeding “build-to-print” technology by engaging in collaborative design and manufacture until 2000
  - With TAA but in violation of provisos (no hardware exports, no production, no design manufacturing or design technology) until 2003

## More ITT

- Procurement of Light Interference Filter (laser countermeasure for night vision), with classified specification in Singapore, China and UK
  - Singapore/China: After US supplier was denied ITAR license to produce a substrate lens in China, Manager B tells Singaporean company to produce it, and suggests it could be produced in China facility
  - In UK, sends classified LIF specification to UK supplier facility without license
    - after having been told by US Gov’t it would be difficult to obtain approval and
    - after being told by UK company that it did not have the necessary security clearance
- Production continues in UK even after US Gov’t requests the return of the LFI classified specification from the UK

## Still More ITT

- Enhanced Night Vision Goggle system – ITT designs next generation system with assistance from Singaporean company without a TAA from 2000 to 2004
- TAAs drafted to cover activities but never filed due to concerns about past violations
- So ITT decides to use a “Front Co” in US:
  - ITT requested employment of US engineer of Singaporean company by US affiliate in Rochester NY
  - US affiliate obtained broad TAA without detailing technical information to be sent
  - US engineer then used as conduit to send Enhanced Night Vision Goggle technical data – email indicates Rochester co was front
  - AND IT TURNS OUT, US Engineer was never employed by Rochester company in any event, but remained an employee of Singapore company

## ITT Lessons

- ITT conduct so egregious, are there any lessons for the defense industry?
- YES:
  - Outsourcing of parts and components abroad must be done very cautiously.
  - Make sure whether you can use a DSP-5 for offshore procurement, take time to see if a TAA is enough or an MLA is necessary.
  - The days of making a TAA do an MLA's work are over.
- Be very cautious using US companies to do something you do not have authorization to do.

## OTHER DEVELOPMENTS – China military end-use rule

- Exports, reexports or transfers in China of U.S. items that fall into one of the following 31 ECCNs require a license from BIS if sold to a “military end-use”
  - Cat 1 – Materials, Chemicals, Microorganisms, and Toxins, 1A290, 1C990, 1C996, 1D993, 1D999, 1E994
  - Cat 2 – Materials Processing 2A991, 2B991, 2B992, 2B996
  - Cat 3 – Electronics Design, Development and Production 3A292.d 3A999.c 3E292
  - Cat 4 – Computers 4A994, 4D993, 4D994
  - Cat 5 – Telecommunications 5A991, 5D991 5E991
  - Cat 6 – Sensors and Lasers 6A995, 6C992
  - Cat 7 – Navigation and Avionics 7A994, 7B994, 7D994, 7E994
  - Cat 8 – Marine 8A992, 8D992, 8E992
  - Cat 9 – Propulsion Systems, Space Vehicles and Related Equipment 9A991, 9D991, 9E991

## What is a “Military End-Use”?

- Incorporation into a military items:
  - described on the U.S. Munitions List (USML)
  - described on the International Munitions List (IML) (as set out on the Wassenaar Arrangement, <http://www.wassenaar.org>); OR
  - listed under ECCNs ending in “A018” on the CCL;
- For the “use”, “development”, or “production” of military items described on the USML or the IML, or items listed under ECCNs ending in “A018” on the CCL; and
- For the “deployment” of items classified under ECCN 9A991 (aircraft and engines). Deployment is defined as “placing in battle formation or appropriate strategic position.”

## WHAT DOES THIS MEAN?

- Due diligence process even more necessary than before for exports of dual-use items to China
- Various options available:
  - Due Diligence providers, Google, Local Counsel Report
  - Can also ask the Chinese company to become a Verified End User (VEU) to eliminate licensing concerns

## What if my ECCN is not listed?

- No licensing requirement for military end-uses, but WATCH OUT, you still have:
  - Numerous prohibited parties in China on various restricted lists
  - Companies that could be engaged in business of WMD concerns – which require a license regardless
  - The risk that any form of support of a product sold to a Chinese military end-user will be subject to the ITAR as a defense service and proscribed since China is a proscribed country
- **BOTTOM LINE:** any form of dealing with Chinese customers requires due diligence as to the identity and activities of those customers

## Conclusion

- FCPA and Export Control are increasingly evolving into strict liability areas—the dark side of doing business internationally;
- PRC dealings are under particular scrutiny and require care, attention and monitoring/auditing; and
- Set up comprehensive policies and review systems to ensure compliance.



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*A-B's Experience in China  
M&A Transactions*

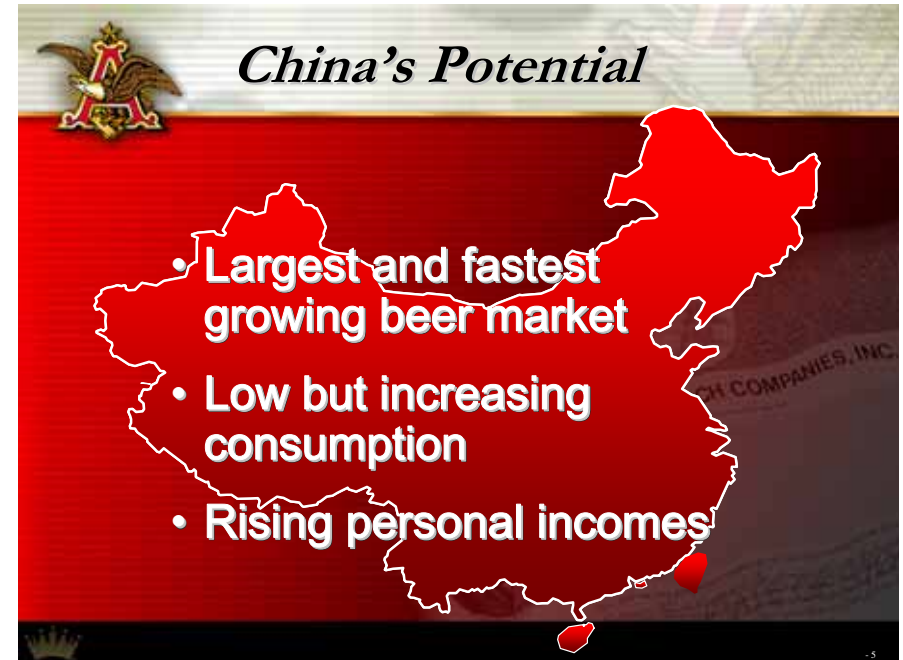
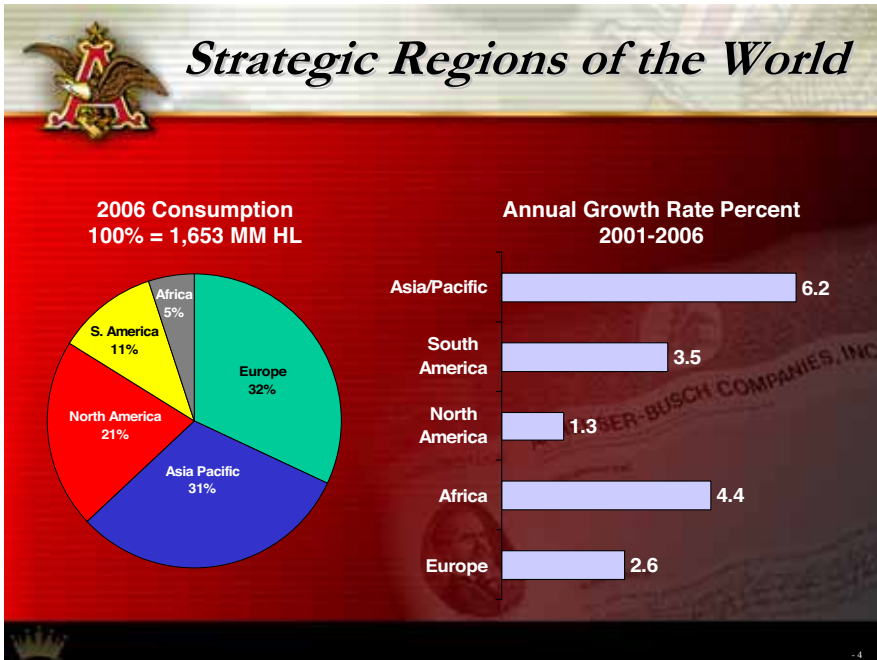
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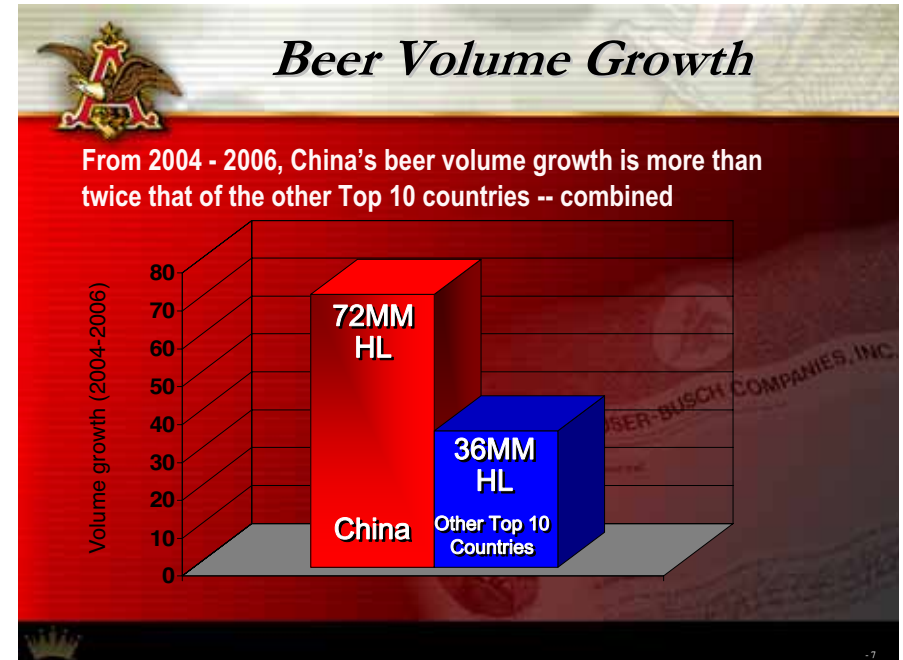
*Agenda*

- Why is China an important beer market?
- Budweiser presence in China
- How A-B's deals were done
- Lessons learned

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## Agenda

- Why is China an important beer market?
- **Budweiser presence in China**
- How A-B's deals were done
- Lessons learned

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## A-B's China Business

- A-B owned and operated  
No. 5 Brewer in China** → Harbin
- A-B 27% minority position  
Leading Chinese Brewer** → Tsingtao
- A-B 97% / City of Wuhan 3%  
No. 1 Super-Premium Brand** → Wuhan

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## *Purchase of Wuhan Brewery*

A-B invested \$52MM for 80% stake in 1995

At the time, the brewery was owned by 6 JV partners – 3 German and 3 Chinese

A-B did full due diligence and negotiated with the 6 JV partners

With city government's support, A-B was able to reach agreement with the 6 partners

Our purchase price was mainly used to pay bank debt

- The original JV partners were diluted

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## *Purchase of Wuhan Brewery*

Prior to 1995, we did not sell Budweiser in China

A-B had to invest additional money to upgrade the brewery

All the minority partners were bought out over time, except City of Wuhan which remains our partner today

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## *Budweiser Wuhan Brewery*



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## *Budweiser Wuhan Brewery*

Since 1995, A-B has expanded Wuhan Brewery 3 times

- Capacity of 4 million hectoliters

Today, Budweiser is leading international premium beer, with 40% share of Super-Premium segment

- 1% of total market share

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*Agenda*

- Why is China an important beer market?
- Budweiser presence in China
- **How A-B's deals were done**
- Lessons learned

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*Tsingtao Strategic  
Investment Agreement  
2002*

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### *5% Equity Stake in 1993*



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### *5% Tsingtao Stake*

**Tsingtao is the most famous Chinese beer brand**

**In conjunction with Tsingtao's IPO in Hong Kong in 1993, A-B purchased 5% stake of the company**

**Tsingtao was the first Chinese company listed on the Hong Kong Stock Exchange**

**A-B was the first foreign company invested in a Chinese company through public tradable shares in an overseas market**

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## *Why Was Tsingtao Attractive?*

**China is the largest volume beer market in the world**

**Tsingtao is the most important player in this market with a rich tradition, a brand recognized world-wide, nation-wide presence, and a strong management team**

**Investment in Tsingtao provided A-B with a “growth option” on the mainstream Chinese market, complementing our high-end Budweiser strategy**

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## *Tsingtao SIA*

**We had remained in contact with Tsingtao due to our 5% stake**

**They contacted us in 2001 to say they would be looking for a strategic partner**

**Negotiations resulted in an agreement on a Term Sheet in June 2002**

**We then proceeded to definitive negotiations and signed a Strategic Investment Agreement in October 2002**

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## *Tsingtao SIA*

The negotiations were friendly but took a long time

- Concessions were made on both sides
- Set stage for a very good and trusting relationship going forward

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## *Tsingtao SIA*

This was the first sale of “mandatory convertible bonds” by a Chinese-listed company to a foreign investor

The Strategic Investment Agreement was signed in New York when President Jiang Zemin visited the U.S. in October of 2002

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## *Objectives of Parties*

### **Tsingtao**

- Access A-B's management expertise and best practices
- Restructure 30 plus breweries acquired in recent years
- Improve operations through the introduction of new brewing technology
- Build the Tsingtao brand
- Access the capital required to lead the China market consolidation during a period of increasing competition

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## *Objectives of Parties*

### **A-B**

- Broaden exposure to the Chinese beer market through an equity investment in Tsingtao
- Assist Tsingtao in the management of their business:
  - Manage acquired breweries
  - Implement western management planning and control systems
- Obtain an attractive return on our investment of capital and management focus
- Learn from Tsingtao and grow the relationship for the future

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## *Summary of Agreement*

Purpose of the investment – to develop Tsingtao company and the brand

Investment structure – convertible bonds

A-B with ultimate 27% economic rights but 20% voting rights

Best practice exchange

Anti-dilution rights for A-B

Qingdao City to remain largest shareholder

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## *Tsingtao Wrap - Up*

In 2005 we converted all Bonds into shares and now own 27% equity

- A-B appointed two directors and one was named Vice Chairman

Tsingtao consented to Harbin acquisition

Summary: a good deal for both sides and the relationship is strong

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*Harbin Brewery Group  
Acquisition  
2004*

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*Harbin Acquisition*

As part of the revitalization of the industry base in Northeast China, the Harbin government decided to divest non-strategic assets in 2003

This provided an opportunity for foreign investment in Northeast China

Harbin Brewery was an asset that the government decided to divest

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## *Harbin Structure – “Pre A-B”*

Harbin Brewery was a Cayman Island Company listed in Hong Kong

Harbin Brewery was founded in 1900 and is the oldest brewery in China

Operates 13 breweries in Northeast China and was the 5<sup>th</sup> largest brewing group in China

Shareholding structure in 2003 was:

|                |     |
|----------------|-----|
| City of Harbin | 29% |
| SABMiller      | 29% |
| Public         | 42% |

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## *Harbin Acquisition (2004)*

The City originally intended to sell the shares to SABMiller which was already a 29% owner of the company

The City was not able to reach an agreement with SAB-Miller. Shares were sold to a Hong Kong financial investor

A-B was contacted about the opportunity and met with the Hong Kong investor and City of Harbin

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## *Harbin Acquisition (2004)*

With Harbin City's support, A-B signed a Purchase Agreement to take over the rights of Hong Kong investor with certain conditions

Under Hong Kong Listing Rules, A-B's purchase was required to be made public

After A-B's public announcement SABMiller announced a voluntary offer at a price of HK\$4.30 per share

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## *Harbin Acquisition (2004)*

At this time, A-B had secured the support of the Chinese government and the Harbin management and employees

SABMiller's tender offer was viewed as a hostile offer and speculation mounted as to whether A-B would bid

During this period, A-B purchased about 7% of Harbin shares through the open market

A-B launched a counter-offer at HK\$5.58 per share

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## *Harbin Acquisition (2004)*

SABMiller tendered its shares to A-B  
A-B acquired more than 95% of Harbin shares in the tender offer

This was followed by a compulsory squeeze out and delisting of Harbin

Named “deal of the year” in Asia in 2004. World-wide coverage of China's first contested takeover in the Hong Kong market

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## *Post-Harbin Acquisition*

Due to the nature of public tender offer, A-B's pre-acquisition due diligence was limited

After the acquisition, A-B completed intensive due diligence

A-B has bought out minorities' interests in several of the breweries

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## *Post-Harbin Acquisition*

A-B has implemented financial and legal controls in all the Harbin Breweries

A-B has conducted various trainings with management and employees

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## *Agenda*

- Why is China an important beer market?
- Budweiser presence in China
- How A-B's deals were done
- **Lessons learned**

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## *Lessons Learned*

Face to face meetings are essential

- Focus on the relationship

You must have good advisors

- Trustworthy, reliable translation is critical

Don't equate lack of sophistication with lack of expertise

Bargain hard, it is expected and will give you "face"

Do your Due Diligence

You must be a good partner

You will find things you would never see in a U.S. company

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## *Conclusion*

A-B has more than \$1.6 billion invested in China

We feel well-positioned with Budweiser, Tsingtao and Harbin

Global brewers have come and gone in China . . .

But we are there for the long run!

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## Emerson's Journey in China

**Brian J. Walsh**

Vice President & Associate General Counsel  
Emerson



### Characteristics of Emerging Markets

#### Pros

- Market Potential and Opportunities for First Mover Advantage
- Low Cost Talent Available, often without Experience
- Eager to Attract Foreign Investments

#### Cons

- Lack of Infrastructure
- Rules and Regulations not Transparent
- Rule of Law questionable
- Corruption and Safety Issues
- No Reliable Market and other Information
- Language and Cultural Differences
- Fast Changing Market Dynamics
- Plenty of Unknowns and Uncertainties



### How we started in China

- No grand strategy in the beginning
- All we knew was that we could not afford not to be in China
- High level 'push' – CEO
- Local level 'pull' – Silver Platter
- Started small, took risks, learned from mistakes and moved on
- 1991 - Sales approx. \$56 mil  
Headcount 146 people



## Asia-Pacific Milestones - the Period of Significant Changes (1984 to Now)

- 1984 - CEO's first Asia Trip
- 1986 - Set up Regional Headquarters in Hong Kong and Taiwan
- 1990/92 - Set up country offices in Singapore, Thailand and Malaysia
- 1993 - Emerson Electric (China) Holdings established in Shanghai
- 1994 - Senior Emerson Executives (Vice Chairman level) posted to Hong Kong to continue the transfer of the Emerson Management Process to Asia
- 1995 - Set up Emerson India
- 1997 - Emerson Law Department established in Hong Kong
- 1999 - Procurement Department established in Hong Kong
- 2001 - Established eBusiness center in Manila
- 2006 - Asia has the largest headcount among all regions for Emerson



## Partnering Programs with China Universities



- **CEO Dialogue with MBA students**
- **China Research Programs**  
 Started in 1996 - Total of 30 programs at 5 universities and 1 research institute to date  
 Sponsorship for Ph.D. candidates to perform research on topics initiated by Emerson

- **MBA Scholarship Programs**

|                               |
|-------------------------------|
| 2005                          |
| Tsinghua University, Beijing  |
| CEIBS, Shanghai               |
| Jiaotong University, Shanghai |
| Fudan University, Shanghai    |



### Corporate Social Responsibility Programs

■ Advisory posts to committees

|  |   |
|--|---|
| David N Farr<br>Chairman, CEO & President  | ■ Economic advisor to Jiangsu governor, Liang Bao-hua   |
| Edward L Monser<br>Chief Operating Officer | ■ Economic advisor to Guangdong governor, Huang Hua-hua   |
| Peter Yam<br>President, Greater China      | ■ Member of the Suzhou Industrial Park Int'l Advisory Committee<br>■ Director of the Executive Committee of Foreign Investment Companies in Beijing |



Dave Farr as economic adviser to Jiangsu governor Liang Baohua



Ed Monser meets with Huang Huahua, Guangdong Governor



### Emerson China Presence Today

- China is Emerson's biggest partner in Asia
- Current infrastructure:
  - 39 entities in 15 cities
  - There are 13 R&D centers
  - Over 35,000 employees
  - Sales of approx \$1.5 Bil.



### Strategic Issues We Face in China

- Developing the leadership required to manage the sales and infrastructure growth in the future
- Understanding and developing strategies to address the regional differences of China
- Adapting to the changing influence/impact the government, financial community, and social structure have on business (11<sup>th</sup> 5 Year Plan, RMB, Labor Law Changes, Bird-Flu, RoHS, etc.)
- Designing products to suit the emerging multi-tiered markets
- Competing with emerging local competition

