

Earning Trust Across Borders

Hisense Group and Carlton Fields

By Amy I. Stickel

Rudyard Kipling once wrote, “East is East, and West is West, and never the twain shall meet.” Clearly, Kipling didn’t anticipate the global economy of the 21st century. He almost certainly never pictured the relationship that Hisense Group, based in Qingdao, China, and Carlton Fields have developed as Hisense strives to become a global player in the electronics field.

Hisense, which got its start in the late 1960s producing transistor radios, is now a multibillion-dollar-revenue-generating consumer electronics conglomerate with dominant market position in various products in China. It’s also actively working to spread its brand around the globe and has a stated goal of turning the Hisense brand into a well-known one in the world market.

*Seth P. Joseph (below),
Carlton Fields, and
Zhou Houjian, Hisense Group*



Photo by Jay Carlsson



Photo provided by Hisense Group

Hisense business executives are embracing the challenge, with help from a team of attorneys from Carlton Fields.

“There are three steps that are required to develop a world-renowned brand,” says Zhou Houjian, Hisense chairman of the board and chief executive officer. “First, we have to make sure our personnel have an international flavor. Secondly, we have

to make sure that our product has an international market we can export to. So we need to understand the market in other parts of the world. And third, we have to make sure the capital is in good flow.

“[Our desire to expand] is giving rise to the need for legal services,” says Zhou. “We require a law firm that understands our culture and needs.”

Step 1: An International Team

Hisense’s needs include a global team of business executives and outside counsel.

In 2006, a mutual friend introduced Zhou to Seth P. Joseph, a shareholder at Carlton Fields—and admitted Sinophile—who was visiting Qingdao, a port city located in the eastern part of China. Zhou and Joseph met for lunch and quickly decided that Carlton Fields could help Hisense gain access to capital markets in the West. “Our relationship and mutual trust have grown tremendously,” says Zhou. “It’s been speedy, but in a positive way.”

According to Joseph, mutual trust and respect are key. “To established Chinese companies, relationships are everything. Hisense executives know that we are zealous advocates for Hisense, and that we will do what is best suited for them.”

Joseph has long been interested in China, and his background has helped him smooth over cultural and business differences. As an undergraduate, he majored in political science with an emphasis on China and over the 30 years since then has made numerous trips there, including several over the last couple of years in his role as relationship partner with Hisense.



Photo by Jay Carlson

From left, William D. Rohrer and Jin Liu, Carlton Fields; Wang "Charlie" Zhihao, Hisense Group

While he is learning Chinese, Joseph admits that he will probably never be fluent enough to conduct international business deals. Fortunately, Carlton Fields has an attorney who can serve not only as legal adviser, but interpreter—and not just in terms of language. Jin Liu, an associate at Carlton Fields, earned a law degree in her native China before coming to the United States and getting a juris doctor. Her background and education have helped avoid potential miscommunications over differences in law, language and culture.

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"My role is unique. Because I grew up in China, Chinese is my first language and I have a Chinese law degree," says Liu.

Zhou has also actively recruited business executives who bring an understanding of international cultures. One of the business executives that Joseph works with closely at Hisense is Wang "Charlie" Zhihao, senior vice president in charge of IT and chairman of Hisense TransTech. A native of Qingdao, Wang earned an engineering degree from the University of Southern California and spent more than 10 years working in the

United States for corporations and the Maryland state government. In 2002, Zhou began recruiting Wang to Hisense, and Wang decided to return to his native city in 2003.

"It's a big help [to have experience working overseas]," says Wang. "We understand the local culture." Wang estimates that he spends 50 percent of his time traveling, making frequent trips to the United States and Europe.

Besides racking up frequent-flier miles for face-to-face meetings, Hisense and Carlton Fields rely upon email and phone conversations, managing the half-day difference between Miami and Qingdao. Carlton Fields is also in the process of exploring a dedicated teleconferencing video link system, which Joseph hopes will improve communications if for no other reason than that attorneys and executives will be able to put faces to names more easily.

Step 2: Crossing Borders

The second step in Hisense's plans for global expansion involves understanding the markets it plans to export to, as well as developing the fiscal systems and disciplines required to conduct business in the West.

"The financial and legal systems are very different in China," says Joseph. "A lot of what I do is explain those differences."

Adapting to Western methods of bookkeeping and financing has involved a learning curve.

partnership at a glance

Hisense Group

Qingdao No. 2 Radio Factory, the predecessor of Hisense Group, was founded in 1969 with about a dozen employees. Today, the company, which changed its name to Hisense in 1993, has more than 20 subsidiaries and had 2006 sales of \$5.6 billion. Hisense manufactures color televisions, air conditioners, mobile phones, refrigerators, computers and digital equipment such as firewalls and servers.

Zhou Houjian was named director of Qingdao Television Factory in 1992. Three years later, he was named chairman of the board. During his time at Hisense, the company has grown to become one of the 100 largest Chinese electronics manufacturers. Zhou has also served as a deputy in the National People's Congress.

Wang "Charlie" Zhihao, senior vice president in charge of IT and chairman of Hisense TransTech, joined the company in 2003. A native of Qingdao, China, Wang spent nearly 14 years in the United States while earning an engineering degree from the University of Southern California and working for the state of Maryland and several corporations.

For decades before and during the Cultural Revolution, China was closed off from the West economically, socially and culturally. The open-door policy, which began in 1978, laid the groundwork for today's tremendous economic growth. Nonetheless, the business climate and legal system in China are still quite unlike those in the West.

For example, during the Cultural Revolution, Chinese companies used accounting methods that grew out of the communist ideology. Under the old system, profits, loss and debt were not considered particularly

partnership at a glance

Carlton Fields

Carlton Fields' Corporate, Securities and Tax practice group works with private organizations as well as public corporations and partnerships, limited liability companies and other business organizations of every size, at every stage. The firm works with private equity funds, venture capital firms and emerging clients in acquisition and financing activities.

Seth P. Joseph is a shareholder in the Corporate, Securities and Tax practice group at Carlton Fields, where he has extensive experience with securities and mergers and acquisitions practice, including domestic and cross-border assignments. Joseph has twice served as general counsel of public and pre-IPO technology companies with substantial cross-border technology sharing and ownership of non-U.S. companies. He is Peer Review Rated. Contact Seth at sjoseph@carltonfields.com.

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William D. Rohrer, an international tax attorney and a certified public accountant, is a member of Carlton Fields' Corporate, Securities and Tax practice group. His practice focuses on strategic tax planning for foreign and domestic clients, many of whom have tax issues spanning multiple tax jurisdictions. He represents multinational companies, including both closely held and public companies doing business inside and outside the United States. William is co-chair of the International Tax Committee for the International Law Section of the American Bar Association. He is Peer Review Rated and can be reached at wrohrer@carltonfields.com.

"Chinese companies who wish to attract foreign capital generally form joint ventures outside of China," says Carlton Fields' Shareholder William D. Rohrer. "Because Chinese law and standard business practices are still evolving, and because high-tax jurisdictions such as the United States are unattractive," the joint ventures that Carlton Fields is helping Hisense develop are based in low- or no-tax jurisdictions such as the Cayman Islands.

"These foreign joint ventures are not cookie-cutter transactions," Rohrer says. "They each have unique characteristics, constraints and challenges. So, we're really on the cutting edge when it comes to setting up these joint ventures for Hisense."

Carlton Fields has been representing Hisense and its subsidiaries on multiple deals, including the sale of stock of tax



Photo by Jay Carlson

important. Forward-looking statements, which Western shareholders and bankers scrutinize carefully when considering investments, were nonexistent. To compete in a global economy, leading Chinese companies like Hisense have implemented International Financial Reporting Standards.

The legal systems and the role of attorneys are also quite dissimilar, as few companies in China look to their attorneys as trusted advisers the way that U.S. corporations do.

"During the first couple of deals, there were a lot of questions about why things needed to be done a certain way," recalls Joseph. "Hisense is much more Westernized now. But most companies in China haven't gone through the learning curve that Hisense has."

Step 3: Finding the Capital

Adapting GAAP standards and including forward-looking statements in annual reports are only some of the challenges that Hisense and Carlton Fields face when seeking Western investments. Among other challenges, foreign entities are forbidden from investing directly in Chinese companies.

Finding other methods for foreign investment into China requires a great deal of ingenuity and technical knowledge.

haven subsidiaries, and on its commercial relations in North America.

Like the transactions themselves, the relationship between Hisense and Carlton Fields is not formulaic. "We feel a lot of friendship [with the Carlton Fields] team," says Wang. "Things have gotten very smooth."

Joseph agrees. "We have to be very understanding of their business environment," he says. "We have to be very sensitive as to what will work for them. It takes a long time to develop that." ●