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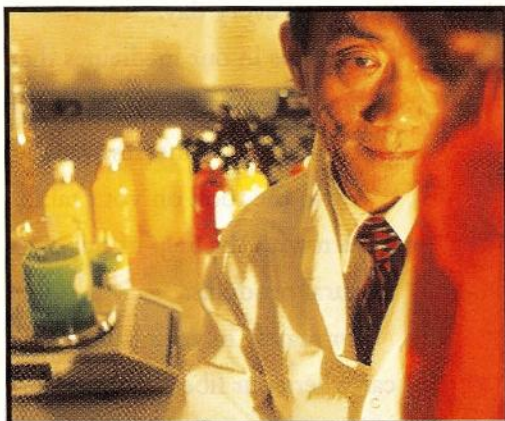
In 1996, Sunbase Asia, Incorporated purchased Southwest Products Corporation, a California producer of ball bearings for U.S. military aircraft. Sunbase is incorporated in the United States, but is owned by an investment group comprised of some of the PRC's largest state-owned conglomerates as well as a Hong Kong company. According to a Southwest executive, the purchase will "take [Sunbase] to the next level" of technology.¹⁰² The Clinton administration has determined that additional information on this transaction cannot be made public without affecting national security.

<http://www.house.gov/coxreport/chapfs/ch1.html>

CHINA

THE CHINA CONNECTION

There are now thousands of Chinese companies in the U.S. Here's how they got here and what they do



BEVERAGES: Jianlibao seeks knowhow

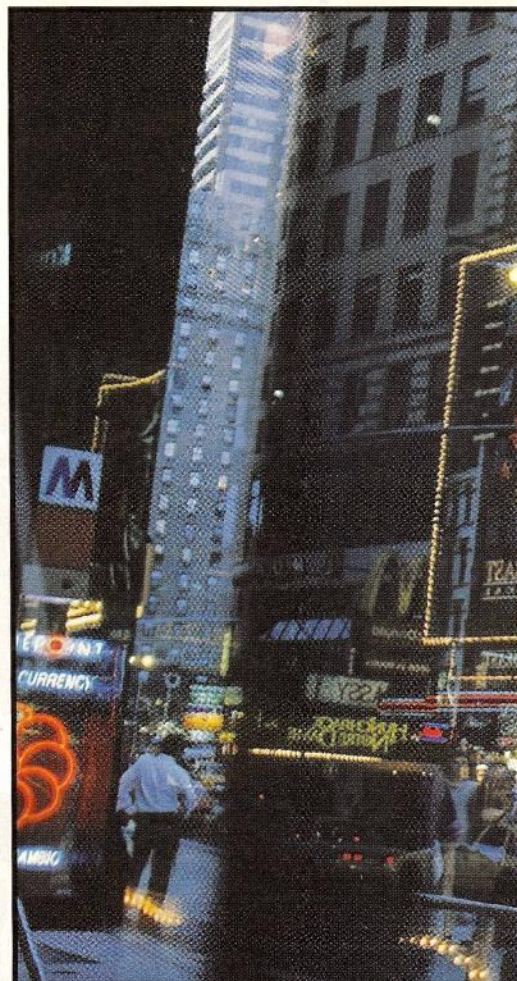
For over half a century, Southwest Products Co. has supplied the U.S. defense and aviation industries. The small but highly regarded Irwindale (Calif.) company has carved out a niche as a leading manufacturer of spherical bearings for aircraft made by Boeing, McDonnell Douglas, and Lockheed. Today, its 60 factory workers make bearings for the Pentagon's C-17 military transport plane. NASA even uses Southwest's bearings in the Space Shuttle.

Figuring out just who owns the company leads to a tale of some complexity. Last January, a recently formed U.S. company named Sunbase Asia Inc. bought Southwest. But it is an American company only on paper. Although it's listed on NASDAQ, Sunbase's real owners are in Hong Kong and China.

In fact, Chinese government companies are among those owners. The key player is Gunter Gao, a skilled dealmaker from the mainland, now in Hong Kong, who has valuable connections across China. His partner is New China Hong Kong Group, an investment fund

that includes some of Beijing's largest state-owned conglomerates. Sunbase also owns a huge bearing company in Harbin, a city in China's northeastern Rust Belt, still partially owned by the city government.

Clearly, Southwest's new owners wanted it for more than quarterly earnings. What they got was a company with solid U.S. government contracts and technology sensitive enough that Southwest needed U.S. government approval to transfer knowhow to a joint venture in Shanghai. Now, Southwest can help transfer some technology to Harbin. "We have the opportunity to take them to the next level," says former Southwest CEO



MILITARY INFLUENCE: The manufacturer

William R. McKay, an American who is now CEO of Sunbase.

Sunbase is a link in America's new China connection. It is one of hundreds, perhaps thousands, of companies with Chinese ties that have quietly stepped up

China Inc. in America

Here are the different kinds of Chinese entities operating in the U.S.

STATE-OWNED ENTERPRISES Affiliates of central government such as Sinochem, CITIC, and COFCO have been active in real estate, manufacturing, and finance and are the largest direct Chinese investors in the U.S.

PROVINCIAL AND CITY COMPANIES Formerly obliged to work through Beijing, locals have now set up their own American trading, manufacturing, investment, and financial companies

PEOPLE'S LIBERATION ARMY COMPANIES Military-owned companies such as Norinco have a widespread network of American affiliates importing Chinese-made consumer goods, toys, auto parts, and medical equipment

HYBRIDS Working through wholly owned subsidiaries in Hong Kong, many companies are blending funding from Chinese government or military entities with Hong Kong capital, blurring their identity



of 999 pharmaceuticals, advertised in New York's Times Square, is partly owned by the People's Liberation Army

operations in the U.S. From gigantic state monopolies to nimble new enterprises backed by local municipalities, the Chinese corporate presence is spreading in myriad ways. A prosperous village in Shandong province now owns a 213-room hotel, the Cockatoo Inn, near Los Angeles International Airport. A company partially owned by the People's Liberation Army (PLA) advertises its 999 brand pharmaceutical products on a Times Square billboard.

DARK SIDE. Despite the ups and downs in relations between Beijing and Washington, the Chinese have lots of reasons to expand in America. Many see the growing \$35 billion trade surplus with the U.S. and want to get a greater piece for themselves. Others crave U.S. technology and capital to boost their campaigns to compete in China and elsewhere. Within 10 years, "we'll see a significant number of internationally competitive Chinese firms," predicts Barry Naughton, an economist at the University of California at San Diego.

But there's a darker hue to some

Chinese activity. In many cases, companies are testing the limits of U.S.—and Chinese—policies. At a time when many U.S. lawmakers and business and labor leaders worry about technology flows to China, Chinese entities operating in the U.S. are winning access to knowhow. Trade is another area of potential abuse. In May, U.S. representatives of PLA companies were among 14 people charged in San Francisco in an alleged scheme to smuggle AK-47 machine guns and other munitions into the U.S.

Moreover, an estimated 100 Chinese companies have employed sophisticated maneuvers to acquire listed companies in North America, gaining backdoor access to financial markets. If the practice expands, it could undermine the ability of regulators to maintain transparency and protect smaller investors.

The China connection thus is a double-edged sword. It can help introduce Western business concepts into China's economy. But it also means that Americans are confronting a new kind of foreign investment, sometimes made by compa-

nies that aren't really private. And the corporate model favored by Chinese companies is so complex, with multiple layers and various offshore entities as buffers, that it is often hard to determine the real ownership (table).

If current trends hold, this Chinese influx could be just the beginning. According to the new China Chamber of Commerce in U.S.A. Inc., fewer than 400 companies from China have approval from Beijing to be in the U.S. But it estimates the actual number is more than 1,000. Add companies run by Chinese nationals in the U.S. and the number is more than twice that, says Xiaomin Chen, a graduate of Brigham Young Law School who is president of the U.S.-China Lawyers Society.

Since only a tiny percentage of China's millions of enterprises are operating in the U.S., the potential for growth is huge. Many in Corporate America anticipate a spending spree. "They'll do what the Japanese did in the 1980s," predicts Robert S. Bodey, a senior manager at Deloitte & Touche in New York. "One



Chairman

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Chairman

Dr. Gunter Gao, chairman of Sunbase International (Holdings), is a prominent businessman and a patriot of China and Hong Kong. For the past 20 years, apart from investing in Hong Kong, Australia, United States, and other places, he has also poured in huge investments in Mainland China to develop various industries, transport, infrastructure, high-technology, and other business sectors. In the '90s, Dr. Gao became a forerunner in the economic development happening in the Northeast Region. He also poured in large amount of capital to the Harbin Economic Development Zone – becoming the Hong Kong entrepreneur with the largest local investment. Later, he was also the first to earn the distinction of Honorary Citizen of Harbin. Dr. Gao is the pioneer of China's west development drive. As early as the mid-'90s, he already saw the tremendous opportunity in and the potential of west development drive. He took the lead and visited provinces such as Yunnan and Shaanxi for inspection and research. After nearly a year and after investing tens of millions, he proposed the establishment of the famous "China Bio Valley", which is today highly valued in the country and in Yunnan Province.



Dr. Gao also took the initiative during the early '90s in investing more than 4 billion yuan in China's large-scale machinery, steel and iron, cement, and other state-owned enterprises. His move not only effectively carried out



management bios

ABOUT BILL MCKAY

Chairman and Chief Executive Officer



Mr. McKay has served as our Chairman and Chief Executive Officer since February 2010. Mr McKay has twenty-five years experience in the aerospace/manufacturing industry, holding many senior management positions including General Counsel, General Manager, Manufacturing Manager, COO and CEO of both private and public companies. Since March 2009, Mr. McKay has been the founder and Chief Executive Officer of Harbin Aerospace Company, LLC, an aircraft component part design, engineering and manufacturing company. Prior to forming Harbin, he was an aerospace industry consultant involved in aerospace projects in China and other aspects of the industry (2008 to 2009). From 2006 to 2008,

Mr. McKay served as Chief Operating Officer for Acromil Corporation, an aerospace structural component manufacturing company. Prior to Acromil, Mr. McKay served (from 1986 to 2006) in a variety of senior management roles with Southwest Products Company, a specialized engineering consulting firm and designer and manufacturer of plain spherical bearings used primarily in aerospace, naval and sophisticated commercial applications. He started as General Counsel (1986), and was promoted to Executive Vice President and General Manager (1987) and Chief Executive Offices (1991). As part of the acquisition of Southwest Products Company by Sunbase Asia, Inc., a Hong Kong-based aerospace company, Mr. McKay also took on the role of President-CEO of Sunbase Asia. He received a B.A. in History (Magna Cum Laude and Phi Beta Kappa) as well as a JD and an MBA from the University of Southern California. He is a member of the California State Bar.

Arnhold & S.Bleichroeder Private Placement Targets

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SUNBASE ASIA DUE DILIGENCE TRIP INVITATION LIST (as of 26 February 1996)

<p>AIIG Investment Corp. (Asia) Ltd. Cesar Zalamea, President</p>	<p>1 Stubbs Road - 14th Floor Hong Kong Tel: (852) 2832-1374 Fax: (852) 2893-9530</p>	<p>did not meet - has PPM</p>
<p>China Walden Mgmt. Ltd. Victor Kung Emily Zhang</p>	<p>89 Queensway - Room 3903 Central, Hong Kong Tel: (852) 2523-0615 Fax: (852) 2521-5778</p>	<p>Emily Zhang accepted on 2/26 (Harbin only)</p>
<p>Citicorp Capital Asia Ltd. Adrian Lam Benjamin Cheng Jaafar Johari</p>	<p>3 Garden Road - 44th Floor Central, Hong Kong Tel: (852) 2868-8383 Fax: (852) 2509-3052</p>	
<p>Crosby Asset Management (Hong Kong) Ltd. Roger Marshall</p>	<p>3 Lockhart Road - 25th Floor Wanchai, Hong Kong Tel: (852) 2821-3328 Fax: (852) 2866-3802</p>	
<p>DLJ Asia Ltd. Bernard Teh, Exec. Director</p>	<p>One Exchange Sq. - 29th Flr. Central, Hong Kong Tel: (852) 2501-3800 Fax: (852) 2501-8333</p>	<p>did not meet - has PPM</p>
<p>E. M. Warburg, Pincus & Co. Asia Ltd. Chang Sun, Mng. Director</p>	<p>2 Ice House St. - Room 1107 Hong Kong Tel: (852) 2521-3182 Fax: (852) 2521-3869</p>	<p>declined meeting earlier- no PPM</p>
<p>GE Capital Asia Daniel Dwight</p>	<p>89 Queensway - Room 3206 Central, Hong Kong Tel: (852) 2978-9300 Fax: (852) 2826-9247</p>	<p>cc Stamford (Anders Maxwell)</p>
<p>Goldman Sachs (Asia) Ltd. Y. T. Du X. D. Yang</p>	<p>3 Garden Road - 37th Floor Central, Hong Kong Tel: (852) 2978-1000/0301 Fax: (852) 2978-0440</p>	
<p>HSBC Asset Management Yeh Ching-Ju</p>	<p>3 Garden Road - 10th Floor Central, Hong Kong Tel: (852) 2801-0111 Fax: (852) 2845-5959/0226</p>	
<p>HSBC Private Equity Management Ltd. Alan Ho Brian Law</p>	<p>3 Garden Road - 10th Floor Central, Hong Kong Tel: (852) 2845-7688 Fax: (852) 2845-9992</p>	<p>Brian Law accepted on 2/26</p>

ING Luxfund Management (Hong Kong) Limited Dick Kwan	16 Chater Road - 9th Floor Central, Hong Kong Tel: (852) 2846-3865 Fax: (852) 2501-0241	
Newbridge Capital Ltd. Daniel Carroll Roger Law	9 Queens Rd. - Suite 3006 Central, Hong Kong Tel: (852) 2530-2652 Fax: (852) 2530-9948	
Pacific Capital (Asia) Ltd. John Im	39 Gloucester Rd. - Ste. 2203 Wanchai, Hong Kong Tel: (852) 2861-9189 Fax: (852) 2527-4867	cc Haythe & Curley (Steve Curley)
Paribas Industrial Investment Edwina Lee May Ho	Gloucester Tower - 40th Flr. Central, Hong Kong Tel: (852) 2844-5090 Fax: (852) 2868-5426	
Peregrine Direct Investments Ltd. Josefina Shen, Manager Eric Wei, Director	16-18 Queens Rd. - 23rd Flr. Tel: (852) 2825-1888 Fax: (852) 2845-5426	declined meeting earlier - no PPM
PrimePartners Asset Management (HK) Limited Vincent Chan	18 Queen's Road Central, Hong Kong Tel: (852) 537-5822 Fax: (852) 2537-3475	cc Singapore (Toh Yiu Joe/Lim Boh Soon)
Prudential Asset Management Asia Hong Kong Limited Jose Cheng	18 Chater Road - 32nd Floor Central, Hong Kong Tel: (852) 2844-1000/1071 Fax: (852) 2868-0195	
Richina Enterprise Holdings Ltd. Allen Andersen, Pres. and COO	8-B Shouson Hill Road East Hong Kong Tel: (852) 2592-4968 Fax: (852) 2812-6807	co-invests w/ and used by Chase for due diligence - did not meet - PPM couriered from New York
SCM China Ltd. Benjamin Lee	128 Gloucester Rd. - Rm. 9B Wanchai, Hong Kong Tel: (852) 2877-0156 Fax: (852) 2511-3479	
Search Investment Holdings Ltd. Dick Sum	19 Des Voeux Rd. - 9th Flr. Central, Hong Kong Tel: (852) 2525-1211 Fax: (852) 2810-1572	

Soros Global Research, Inc. Sheldon Kasowitz	3 Garden Road - 26th Floor Central, Hong Kong Tel: (852) 2593-2668 Fax: (852) 2593-2665	did not meet - has PPM
Transpac Capital Ltd. Miranda Wong	88 Queensway - 33rd Floor Central, Hong Kong Tel: (852) 2525-2661 Fax: (852) 2877-6612	
Morgan Grenfell Asia Holdings Pte Ltd. Benjamin Yeo	20 Raffles Place, #23-08 Singapore Tel: (65) 533-2828 Fax: (65) 538-2296	
Chase Venture Partners John Lewis	150 Beach Road, #27-00 Singapore Tel: (65) 290-1651/1608 Fax: (65) 290-1337	
Nomura/JAFCO Investment (Asia) Ltd. Hideyuki Terauchi Amanda Soh	6 Battery Road, #42-01 Singapore Tel: (65) 224-6383 Fax: (65) 221-3690	
OCBC Capital Management Singapore Pte Ltd Ong Kai Seong Low Keng Tee	65 Chulia Street, #07-00 Singapore Tel: (65) 535-7222 Fax: (65) 536-7485	
UOB Venture Management Pte Ltd. Lee Kong Eng Mark Yeo	80 Raffles Place, #10-00 Singapore Tel: (65) 531-5118/5126 Fax: (65) 538-2569	
Greenwich Street Capital Partners Keith Abell Robert Hamwee	388 Greenwich Street New York, NY 10013 Tel: (212) 816-9645/8531 Fax: (212) 816-0166	Declined on 2/26 - Would like to restructure deal as high- yield PIK convert or straight debenture w/ warrants; wants company to come back if deal cannot be done
Hancock Venture Partners Ed Kane Philip Bilden	One Financial Ctr. - 44th Flr. Boston, MA 02111 Tel: (617) 348-3707/33/24 Fax: (617) 350-0305	Phil Bilden would like to go (2/26) but needs to check his schedule for next week

Bridgewater China Partners Lyll Stuart, Sr. VP	57 Wangfujing St. Beijing 100006, China Wangfujing Grand Hotel - Suite 409 Tel: (8610) 522-3937/67 Fax: (8610) 522-3951	no response to meeting letter - no PPM
SBC Warburg Allan Ng	2200 Yang An Rd. - 8th Flr. Shanghai 200335, China Shanghai National Trade Center - Suite 812/813 Tel: (8621) 219-9208 Fax: (8621) 219-9188	no response to meeting letter - no PPM
Tudor Global Trading, Inc. Kyle Shaw, Mng. Director	B1201 Ming Zhu Dasha 57 Shui Cheng Nan Road Shanghai 201103, Gubei New Area, China Tel: (8621) 219-5386 Fax: (8621) 901-0484	no response to meeting letter - no PPM
ValueQuest China Ltd. David Mahon	Asia Jinjiang Mansion, #410 Beijing, Gongti Beilu, China Tel: (8610) 508-2203/5 Fax: (8610) 508-2206	no response to meeting letter - no PPM