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## PRESS RELEASE

# Avon Shareholders sue Board over improper payments in China

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On July 22<sup>nd</sup> 2010, shareholders of the direct-selling cosmetics giant, Avon Products Inc., sued its board and three former directors for their alleged failure to prevent improper payments in China. The payments which include traveling, entertaining and other expenses allegedly provided to a senior official from the Chinese Ministry of Commerce.

In late 1990s, China imposed restrictions on direct selling which happens to be Avon's preferred sales medium. In order to exploit the commercial opportunities presented by China's emergence as a major economy, the company lobbied Chinese authorities to relax the laws. On April 2005, the Chinese government granted Avon permission to run a pilot door-to-door selling campaign in two major cities and one province. And the license awarded to Avon was China's first direct-selling license.

Avon initiated a voluntary investigation into Foreign Corrupt Practices Acts compliance in relation to allegations of violations in China. The investigation, which was conducted by outside counsel, was triggered by a letter sent to Avon CEO Andrea Jung by a whistleblower. With over one dozen countries involved, the scope of investigation has widened way beyond China.

Although Avon's investigation remains ongoing and a settlement has not yet been reached, it is already feeling the pressing financial burden results from the investigation. On April 30<sup>th</sup> 2010, the company's filing outlined that the costs associated with the internal investigation increased by \$18 million in the previous quarter, having escalated to a level that is likely to impact the results.

As a matter of fact, foreign companies always face sponsoring trips by Chinese officials who view them as customary. Despite China's toughening stance in recent years, these practices are still generally deemed as corrupt internationally. The World Bank estimates that over \$1 trillion in bribes is paid within China every year.

The civil action brought by Avon's shareholders against its board and certain former directors highlights

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the increasing concerns shareholders have towards the impact that corruption can have upon their investments.

Scott Garner, Manager of Lehman, Lee & Xu Shanghai Office, said, “Avon shareholders’ action not only shows their determination of fighting against corruption, it could also be used as guidance and reference by other foreign companies who want to run business in China.”

Lehman, Lee & Xu is a prominent Chinese corporate law firm and trademark and patent agency with offices in Beijing, Shanghai, Shenzhen, Hong Kong, Macau, and Mongolia. The firm has also been recognized as one of the top full service and intellectual property firms in China by several international magazines. The law firm is managed by Mr. Edward Lehman, a leading expert on corporate law with 20 years of practice experience in Mainland China.

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