Horasis
The Global Visions Community

China Europe Business Meeting

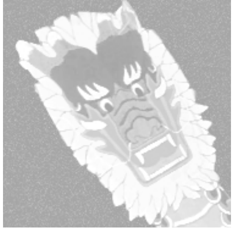
24-26 September 2006, Geneva, Switzerland

a Horasis-leadership event

co-hosts:
All China Federation of Industry and Commerce
China Entrepreneurs Forum
China-Europe Association for Technical and Economic Cooperation
China Federation of Industrial Economics
Economic Development Office, State of Geneva
Kingdom Club

Report compiled in cooperation with
PricewaterhouseCoopers

Report



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Thought Leadership Partner:

PricewaterhouseCoopers

Co-chairs:

Ronnie C. Chan	Chairman, Hang Lung Group Limited, Hong Kong SAR
Chen Feng	Chairman, Hainan Airlines, China
Chen Wenchi	Chief Executive Officer, Via Technologies, Taiwan
Alan G. Hassenfeld	Chairman, Hasbro, USA
Narayana Murthy	Chairman and Chief Mentor, Infosys, India
Ren Hongbin	President, China National Machinery Industry Corporation, China

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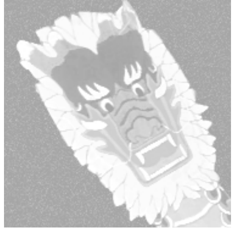


Foreword

The second China Europe Business Meeting of Horasis convened in Geneva reflecting on Chinese firms' sanguine growth and synergetic contributions to our globalized world. In search for visions of a sustainable future, corporate leaders from over 30 countries came together for one and a half day summit to debate the critical requirements for Chinese firms to successfully expand their operations towards a global level-playing field.

China Europe Business Meeting was co-hosted by:

- All China Federation of Industry and Commerce
- China Entrepreneurs Forum
- China-Europe Association for Technical and Economic Cooperation
- China Federation of Industrial Economics
- China Kingdom Club
- Economic Development Office of the State of Geneva

and supported by a group of partner firms led by PricewaterhouseCoopers. The meeting is the premier platform for business leaders from China and their respective peers from Europe. The meeting has been held in the recognition that visions within the Sino-European economic sphere require thought leadership and mutually beneficial peer-to-peer networks. Horasis is uniquely positioned to develop a comprehensive approach for those requirements. As a visions community, we help to explore, define, and implement trajectories of sustainable growth with all the key stakeholders.

Chinese firm's corporate globalization was at the heart of the agenda, with a joining of forces among an engaged community of business leaders, led by the co-chairs: Ronnie C. Chan, Chairman, Hang Lung Group, Chen Feng, Chairman, HNA Group, Chen Wenchi, Chief Executive Officer, Via Technologies, Johan Eliasch, Chairman, Head NV, Alan G. Hassenfeld, Chairman, Hasbro, Narayana Murthy, Chief Mentor, Infosys, and Ren Hongbin, President, China National Machinery Industry Corporation.

A focused high level Preamble Meeting was held two weeks earlier - to map the issues to be discussed in depth at the China Europe Business Meeting. Marcel Boisard, United Nations Assistant Secretary General, Chen Xianglin, Chairman, Shanghai Automotive Industry Corporation, Patricia Francis, Executive Director, International Trade Center, Christoph Franz, Chief Executive Officer, Swiss International Airlines, Fu Chengyu, Chief Executive Officer, CNOOC, Guo Wei, Chief Executive Officer, Digital China, Andreas Koopmann, Chief Executive Officer, Bobst, Xie Qihua, Chairwomen, Shanghai Baosteel, Xu Kuangdi, Vice Chairman, CPPCC, Zhou Xizheng, Chairman, President, China Electricity Council; and Zhu Yanfeng, President, First Automotive Works served as distinguished experts and panellists. The overall feeling among business leaders was that a new era of entrepreneurship and innovation is on the rise in China. The country will no doubt enlarge its stake in the world economy as it contributes manpower, capital and intellectual property.

Participants reached consensus that

First, China is assuming a greater leadership role in world affairs, even though China's transition from a command to market economy will continue to be gradual. 'China's policies and practices on trade, energy and geopolitics will increasingly shape the global agenda', comments Lady Barbara Thomas Judge, Chairperson, United Kingdom Atomic Energy Authority.

Second, as this report demonstrates, China's rise has been accompanied by an enhanced recognition of entrepreneurship. Merger & acquisitions, private equity, and foreign listings might be viable options for future corporate development. As Guo Guangchang, Chairman, Fosun High Technology Group notes: 'Chinese firms must be ready to transform strategic foresight proactively into execution and growth.'

Third, firms operating in China should benefit from the abundant growth opportunities the country represents. 'Still, they will need patience as achieving long term profitability may be a more realistic target than short term gains', holds Jeffrey R. Shafer, Vice Chairman, Citibank. Multinationals need to sustain product value in order to gain and maintain market share.

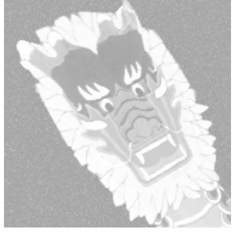
These themes and outcomes are discussed in-depth in this report and we would like to thank our Thought Leadership Partner PricewaterhouseCoopers for their commitment and outstanding syntheses of the discussions*. As such, this report is more than an account of the spoken word - it is a survey of what is currently and also in the future on the Chinese emerging Multinationals' agenda.

We at Horasis will continue to play a proactive role in facilitating Chinese firms' rise to global eminence. As Supachai Panitchpakdi, Secretary-General, UNCTAD remarks, 'The trade and economic relationship between China and the world has extensive synergies and large potential, leading to a dynamic and - at the same time - balanced world economy.' Xu Kuangdi, Vice Chairman, CPPCC adds that 'it is in creating a framework for dialogue that this meeting has established one of its most important functions.' The China Europe Business Meeting will further promote win-win economic relations, stimulate innovation and provide business opportunities for corporations in China and the world.

We would be delighted to welcome you back to next year's China Europe Business Meeting.

Dr. Frank-Jürgen Richter
President
Horasis: The Global Visions Community

* Special thanks go to the following members of the PricewaterhouseCoopers Eurofirms China Business Group: Anselm Stolte, Caitriona McCarthy, Paul Fang, Florence Tang, Jianrong Zhao, Xiaocheng Lu, Lea Gebhardt, Huey-Mien Tan, Lukas Luescher, Valerie Carpaccio and Carol Ma for their contribution to this report and on-site reporting during the China Europe Business Meeting.
Many thanks also to Enzo Carpaccio for providing photographs of both the Preamble Meeting and the China Europe Business Meeting.



Preamble Meeting

On 8 September 2006, **Horasis** hosted the High-Level Meeting on Sino-European Trade and Business Relations. Participants of this **Preamble** to the **China Europe Business Meeting** mapped the issues to be discussed in depth at the China Europe Business Meeting. The main purpose of the meeting was to define perspectives for Sino-European trade and investment and their impact on business.

This event was co-hosted by the **China Federation of Industrial Economics**, the **Geneva Chamber of Commerce** and **PricewaterhouseCoopers**. The Chinese delegation was lead by **Xu Kuangdi**, Vice Chairman of the CPPCC and Chairman of the China Federation of Industrial Economics. From the Chinese side, **Chen Xianglin**, Chairman, Shanghai Automotive Industry Corporation, **Guo Wei**, Chief Executive Officer, Digital China, **Fu Chengyu**, Chief Executive Officer, CNOOC, **Xie Qihua**, Chairwomen, Shanghai Baosteel, **Zhou Xizheng**, Chairman, President, China Electricity Council, China, **Zhu Yanfeng**, President, First Automotive Works attended the meeting, among others.

Ambassador Zhu Bangzao, during the opening ceremony

'The China factor in world affairs is increasingly recognized,' said **Frank-Jürgen Richter**, President, Horasis, in his introductory remarks. 'China is the world's new engine of growth. Perhaps the most promising side of China's success story lies in looking toward the future. Long-term confidence in China's economy has risen significantly. China has now displaced the United States as the world's most attractive destination for foreign investment, and will soon become the world's largest trading nation.' The Preamble meeting brings together views from China and Europe to reflect the two powerhouses' recent progress and future outlook. In closing, Mr. Richter called on participants 'to build trust amongst the Chinese and European business communities, turning them from a gathering of minds into a true partnership of results.'

In his welcome, the Chinese ambassador to Switzerland **Zhu Bangzao**, reminded us that Switzerland was one of the first Western countries to establish friendly relations with the New China; official diplomatic were formed on 14 September 1950. Since then, relations have been remarkably good, evident in the rising level of meetings between the nations' top officials and business people. Not surprisingly, the most significant of all such developments has occurred in business and commerce. More than 600 Swiss-based companies have business operations in China, including such well-known names as ABB, Nestlé, Novartis, Zurich, Credit Suisse and Swiss Re.

Frank-Jürgen Richter gives an outlook Sino-European Trade

Pierre Muller, Vice Mayor of the City of Geneva thanked the organizers for hosting such a prominent gathering in the City of Geneva. He pointed out that Geneva was the appropriate meeting place, as it is home to literally hundreds of international organizations that are active in the fields of labor, health, trade, human rights, environment and sustainable development, humanitarian aid, training and education, peace and security, meteorology, intellectual property and telecommunications. Moreover, the City of Geneva has established close ties with several major cities in China over the past 20 years.

Michel Balestra, President of the Geneva Chamber of Industry and Commerce pointed out that this private association brings together more than 1,400 businesses from all industry sectors. It seeks to promote Geneva's economy, represent and defend the interest of its members, and provide financial support and legal advice when appropriate.

Fu Chengyu, CEO, CNOOC

In their keynote addresses, the speakers focussed on China's rise to global eminence and the corresponding change to the texture of world economics. China's future role in global trade and Europe's strategic options were the prominent topics.

The session was opened by the former Mayor of Shanghai, **Prof. Xu Kuangdi**, Vice Chairman of the Chinese People's Political Consultative Conference (CPPCC), President of Chinese Academy of Engineering (CAE) and Chairman of China Federation of Industrial Economics (CFIE). Prof. Xu stressed the point that the Chinese government has always regarded and developed China-Europe relations from a strategic point of view. Trade value between China and Europe reached US$217.6 billion in 2005, thereby surpassing US-China trade valued at US$211.6 billion. The objectives set out at the 6th EU-China Summit in 2003 have been realized 8 years ahead of schedule. The EU is China's largest trading partner, and China is the EU's second largest trading partner.

Guo Wei, CEO, Digital China, talks about China's IT-outsourcing industry

He was very happy to see that Switzerland had gradually become one of China's most important European trading partners. The two-way value of trade between China and Switzerland reached US$5.83 billion in 2005, an increase of 13.8% over 2004. Switzerland is one of the major suppliers of technology to China. Chinese government approved 121 contracts to acquire technology from Switzerland, with a total contract value of US$420 million in 2005; and up to this time, in total, it has approved 785 Swiss investment projects in China, with an overall investment of more than US$2 billion.

EU enterprises are an important driving force behind China's economic development which in turn will provide fresh vigour to EU's economic development. EU prosperity is in China's interest. China and the EU should break new grounds and expand cooperation. As China implements the "go-out" strategy, Mr. Xu expects increasingly more Chinese enterprises to invest and set up businesses in Europe.

Pierre Kohler, Chairman of the Switzerland-China Committee, Parliament of Switzerland stressed the importance of supporting China's ambition to reach an understanding with Switzerland to ease its visa policy for Chinese citizens. In this respect, Mr. Kohler recommended to follow the success of the EU visa policy as outlined in the Schengen treaty.

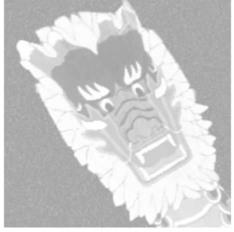
Hans Christian Beltermann, Chairman, Fountan Capital, and Ralf Schlaepfer, Partner, PricewaterhouseCoopers

Patricia Francis, Executive Director of the International Trade Centre, an organisation created by General Agreement on Tariffs and Trade (GATT) in 1964. pointed out that her home country Jamaica was among the first to adopt a One-China Policy.

She was confident that China would continue to enjoy Most-Favoured-Nations status, given the huge exports from China and the seemingly incessant growth of foreign direct investment into China. This favourable environment should help China to address a number of important issues: the growing income gap between the poor countryside and richer urban areas, rising unemployment, the need to further develop its financial system and to enhance the efficiency of its markets. She believes China's goal to move 100 million people to middle class by 2020 would need international assistance and feels that Switzerland, with its strong service industry, has a lot to offer to China.

High-Level Meeting on Sino-European Trade and Business Relations

The following strategic dialogue among business leaders addressed the perspectives for Sino-European trade and the impact on business. The session was chaired by **Frank-Jürgen Richter**, President, Horasis, Switzerland and attended by the following discussion leaders: **Fu Chengyu**, Chief Executive Officer, CNOOC, **Guo Wei**, Chief Executive Officer, Digital China, **Xie Qihua**, Chairwomen, Shanghai Baosteel, **Zhao Xizheng**, Chairman, China Electricity Council, **Hans Christian ann**, Chairman, Fountain Capital AG, Switzerland, **Marcel Boisard**, UN Assistant Secretary-General and Executive Director, UNITAR, **Christoph Franz**, Chief Executive Officer, Swiss International Airlines, Switzerland, **Andreas Koopmann**, Chief Executive Officer, Bobst, Switzerland, **Philippe Petit**, Deputy Director General, WIPO, Switzerland



The session was opened by **Fu Chengyu**, President and Chief Executive Officer of China National Offshore Oil Corporation (CNOOC). CNOOC is one of the three largest state-owned oil companies in China with assets of RMB198.5 billion in 2005. It ranked 8th in the Forbes Top 50 Asian Companies of 2006.

Mr. Fu pointed out that in the early 80s, CNOOC was still a very small company. Since then, CNOOC has developed into an integrated energy company with a complete value chain with oil and gas exploration and development as its core business. 'This was because we constantly improved our operations and did not complain about others who had more, but learned from our competitors. Our strategy is simply to do the same work with the same quality level, but faster.' Fu noted.

Michel Balestra, President,
Geneva Chamber of Comemerce,
with Frank-Jürgen Richter

The core reason for CNOOC's success is its ability to develop most of its oil fields in one to three years, whereas its competitors need three to five years - this translates into a big competitive advantage for CNOOC. For the future, CNOOC is looking into two areas. One is the development of environmentally friendly products. The other is to invest in renewable energy, which should become the major source of energy in future. In pursuit of this strategy, CNOOC is cooperating with European companies. Mr. Fu concluded that already today, China's growth would both impact and support the world economy. He foresees China competing with all the industries worldwide.

It is during this session that **Guo Wei** Vice Chairman, President and Chief Executive Officer of Digital China revealed some of the ingredients and competitive edges for his company's remarkable success. Digital China is China's largest IT products distributor and systems integrator. The company was listed on the main board of the Hong Kong Stock Exchange Limited on 1 June 2001.

Patricia Francis, Executive Director,
International Trade Centre, makes a point

According to Mr. Guo, the success of Digital China is mainly due to four elements:

- Market knowledge: Digital China was amongst of the first batch of enterprises established in the 80's at a time when China began to intensify economic reform. It has always been focussed on the Chinese market.
- Best quality products: The company sources from around the globe and introduces only high quality products that meet customer needs in China.
- Adding value to the supply and distribution chain: Digital China offers value-added services to its suppliers and resellers, thereby supporting them to effectively manage their business.
- Customized solutions: Based on a modern IT infrastructure, the company is proud to provide customized solutions and to formulate IT strategies for their clients.

Mr. Guo stressed that, a century ago, globalization turned Switzerland from a small agrarian society into one of the world's most successful economies with a strong service industry. In contrast, China's development has followed a different path.

Pierre Muller, Vice Mayor, City of Geneva

Xie Qihua, Chairwomen of Shanghai Baosteel Group Corporation then took the floor. Ms. Xie is one of the few female executives in China's steel industry. She became chairwoman of Baosteel in 2003.

Ms. Xie explained that Baosteel is following a premium product strategy and is aiming to become the prime research and development base for new processes, new technologies and new materials in China's iron and steel industry. Although Baosteel's main business activities take place in China, it has entered into strategic alliances abroad and operates joint ventures together with large international steelmakers. The company's global network also includes 20 overseas and domestic trading companies. Ms. Xie pointed out that its subsidiaries and trading activities in several European countries are indispensable because they provide Baosteel with a better understanding of the market needs and adaptation of new technologies. Ms. Xie concluded that to reach amiable business relations, mutual respect of each other's culture is indispensable.

Zhao Xizheng, Chairman of the Board of the China Electricity Council lined out China's strategy in the area of electricity generation, environmental protection and cooperation. China Electricity Council (CEC) is a consolidated organization of all China's power enterprises and institutions and currently has 1,440 members.

In 2005, China produced 2,060 million tons of primary energy from coal and consumed a total of 2,220 million tons of standard coal. According to forecasts, the national energy consumption will exceed 3,000 million tons of standard coal by the year 2020. However, judging from the present situation, power generation from coal are below world averages and loss of energy in the distribution channels is problematic. In order to address these shortcomings, as well as the energy shortage, China is now giving priority to the installation of energy-saving power distribution systems such as generators that use renewable energy, in an effort to increase the proportion of high-efficiency and clean energy in the power production and power supply.

Plenary session, with Fu Chengyu, Xie Qihua, GuoWei, Zhao Xizheng

In order to minimize environmental damage, Zhao informed us that China has set a number of targets for 2010: major pollutant emissions should be reduced by 10%, forest coverage increased by 20% and SO2 emissions from thermal generators should reach the levels of developed countries. Zhao is convinced that in order to further develop its electric power generation and to ensure its sustained development in the future China has to cooperate with power generating equipment manufacturers in the EU and the world. First rate power technologies will have a huge market in China.

At the same time, as the Chinese power industry is shifting from purely imports towards the emphasis on assimilation and raising the percentage of independent innovation, Chinese power enterprises will go abroad and take part in the global market competition.

Xie Qihua, Chairwomen, Baosteel, comments on the Chinese steel industry

Hans Christian Beltermann, Chairman of Fountain Capital AG, Switzerland continued the discussion from a European point of view. Mr. Beltermann thanked the organisers and facilitators for arranging such an excellent bridge-building opportunity between China and Europe and wished there were more occasions like this. Mr. Beltermann pointed out that mutual confidence in business relationships is essential. He therefore persuades Chinese and European companies to exchange resources, encourage them to learn from each other and to build trusting relationships. "The good and bad thing about China is that it is so big", joked Mr. Beltermann. This is also true in terms of investment opportunities.

Christoph Franz, Chief Executive Officer of Swiss International Airlines stressed that not so very long ago the world still had doubts about the strength of Chinese companies. By now, it is clear that China has taken on an international perspective. Its authorities and business circles are aware that investment abroad is necessary to further advance China's economy. "And the fundamentals for Chinese doing business in Switzerland are good: excellent transportation links already exist between China and Switzerland. China is going to become a top destination for Swiss flights."

Xu Kuangdi, Vice Chairman, CPPCC

Andreas Koopmann, Chief Executive Officer of Bobst Group praised the high skill level of young engineering graduating from Chinese universities, especially in Shanghai. He noted that the vibrant economic development had lead to a shortage of educated people in the labour market in Shanghai and this has lead to a sharp rise in wages for qualified personnel.

Bobst currently supplies machinery to many companies operating in China: from Kodak film containers over Nestlé coffee bags to instant noodles packages produced domestic companies. Mr. Koopmann notes that also the local packaging industry needs to import machines in order to meet the rising needs of the market needs. He criticized a recent Chinese policy that would hinder such imports.

Philippe Petit, Deputy Director General of the World Intellectual Property Rights Office (WIPO), Switzerland thanked Prof. Xu Kuangdi for visiting WIPO this morning. WIPO is a specialized agency of the United Nations dedicated to developing a balanced and accessible international intellectual property (IP) system, which rewards creativity, stimulates innovation and contributes to economic development while safeguarding the public interest.

Mr. Petit welcomed the fact that China now places increasingly more emphasis on intellectual property rights protection. The Chinese economy will profit from the protection of intellectual property rights, as it facilitates the building of lasting partnerships. Mr. Petit warns that in spite of the remarkable progress China has already made in this area, its image is far from perfect. He feels that there is a need to develop better contacts in this sector between China and Western countries.

Xu Kuangdi, Vice Chairman, CPPCC, converses with participants

Ralf C. Schlaepfer, Head of Management Advisory of PricewaterhouseCoopers, Switzerland summarized the session by proposing five possible - and provocative - standpoints to the discussion:

- First: nothing is needed: Sino-European Trade and Business Relations are just fine.
- Second: they are not fine; in particular investment into and out of China calls for improvement.
- Third: they are not fine; technical upgrading in the area of energy and natural resources is particularly pressing.
- Fourth: they are not fine; mutual trust in Sino-European trade and business relations calls for further enhancement.
- Fifth: they are not fine; mutual learning needs to be intensified.

Hans Christian Beltermann replied that the lessons he learned in China are that Westerners need patience and cultural understanding when dealing with Chinese. He tells the story of a German business delegation that lost a deal because they choose not to interrupt business negotiations for lunch. **Fu Chengyu** mentioned that when working together Chineses executives actively try to adapt themselves to a Western mode of doing business. In return, Westerners should also learn to interpret the meanings underlying the various intonations of Chinese saying "yes". Now the Chinese have to relearn again when going to other emerging markets.

Xu Kuangdi, Vice Chairman, CPPCC; Pierre-Francois Unger, President of Geneva; Frank-Jürgen Richter

Andreas Koopmann stated that Bobst was very lucky when they entered China. With the help of a Chinese student in Switzerland, the company was able to establish close ties with the Chinese counterparts. That Chinese student now heads the firm's operations in Greater China. **Christoph Franz** recommended that the risks and opportunities should be balanced on both sides. Many European investments have injected too much upfront investment into China and later discovered that the return fell short of their expectations. Chinese companies entering Europe may face the same challenges.

Philippe Petit asked what can be done to reinterpret so-called "bad stories". He encouraged the audience to value the enormous pace of change in China. China should be judged by comparing it with its past. For example, in Chinese culture copying the masters has been traditionally seen as something highly desirable. Now, China is slowly adapting a Western understanding of property rights and their protection. **Zhao Xizheng** recommended that Europe should replace those (people and processes) that hinder closer economic interaction between Chinese and Europeans, while **Guo Wei** stressed the power of positive thinking.

Fu Chengyu comments on the Chinese oil industry as Frank-Jürgen Richter looks on

The lively conversation continued into the evening with many more views (and business cards) exchanged for the mutual benefit of Sino-European trade and business relations…

Opening Reception

In his welcoming remarks, **Frank-Jürgen Richter**, President, Horasis, said that 'we are here to connect Europe with China'. Business opportunities are abundant for those Chinese and European firms who want to sincerely engage with each other, learning about different approaches towards management style, corporate governance and culture. China has become a magnet for European investment, attracting major funds and manufacturing facilities. Chinese firms, on the other hand, are setting sights on Europe, acquiring technology, brands and markets. Cooperation between Chinese and European firms constitutes a true win-win framework with benefits for both the public and private sector. Representatives of the Chinese co-hosting organizations argued in a similar fashion. Chen Feng, Chairman, HNA Group, represented the Kingdom Club; **Ding Liguo**, Chairman, Delong Iron-Steel; the All China Federation of Industry and Commerce; **Ren Hongbin**, President, China National Machinery Industry Corporation, the China-Europe Association for Technical and Economic Cooperation; **Ai Baojun**, President, Baoshan Iron and Steel, the China Entrepreneurs Forum; and **Wu Yijian**, Chairman, Ginwa Entreprise Group, the China Federation of Industrial Economics.

Fu Chengyu, CEO, CNOOC, making a point

Ding Liguo said that China's economic liberalization would continue to provide a vast array of opportunities for European investors. **Ren Hongbing** added that China's rise would be 'a great contribution to the stable growth of the world economy'. There is nothing to fear from a more open, more internationally prominent China averred in his opening remarks. 'We find ourselves moving toward the world in many ways', **Chen Feng** concluded.

Pierre-François Unger, President, State of Geneva, Switzerland and **Michel Pittet**, Minister of Economy, Canton of Fribourg, Switzerland concluded the welcome reception by highlighting the role of Switzerland for Chinese companies wishing to set up regional headquarters in Europe. Having a regional headquarter in Switzerland does not only allow Chinese groups to benefit from the stable economical and political environment, the effective banking institutions, the well-established infrastructure, the state of the art legal framework and the multilingual workforce, but also from the exceptionally competitive tax environment combined with a long lasting experience to host regional headquarters of global groups.

Strategic Dialoge among business leaders

Breakout sessions

China's policies and practices on trade, energy and geopolitics will increasingly shape the global agenda

Barbara Thomas Judge, Chairperson, United Kingdom Atomic Energy Authority, United Kingdom

Session Summaries

Rethinking Scenarios for China's Future

Chaired by Frank-Jürgen Richter, President, Horasis, Switzerland

China looms as the world's largest growth market. What does China's long-term future look like? The opening session began with an introduction of the panellists by **Frank-Jurgen Richter**, President of Horasis. The panellists for this session included the China Europe Business Meeting's co-chairs: **Ronnie C. Chan**, Chairman, Hang Lung Group, Hong Kong SAR, **Chen Feng**, Chairman, HNA Group, China, **Chen Wenchi**, Chief Executive Officer, Via Technologies, Taiwan, **Johan Eliasch**, Chairman, Head NV, United Kingdom, **Alan G. Hassenfeld**, Chairman, Hasbro, USA, **Narayama Murthy**, Chairman and Chief Mentor, Infosys, India and **Ren Hongbin**, China National Machinery Industry Corporation, China.

The panellists discussed the following issues:

Sustainability of economic growth in China

Ronnie C. Chan: Sustainability of economic growth in China should be good considering the proven stability of economic growth in Japan. China will experience both domestic and export growth. As labour skills are almost unlimited in China, a migration of factories into China's inner providences is expected. China has the capacity to become a quantitative and qualitative powerhouse in the world economy.

The only issues that could derail China's growth in the world economy are domestic ones, such as unsuitable economic policies or social unrest, but these are unlikely to occur. Healthy economic development will also mean political development for China. It appears almost impossible for China to fail. It is unrealistic to expect economic growth to be linear, as business growth is always cyclical. One possible scenario is a repeat of the economic situation that occurred in1998.

Chen Wenchi, Alan G. Hassenfeld, Chen Feng, Frank-Jürgen Richter, Narayana Murthy, Ronnie C. Chan, Ren Hongbing

China's future from a US perspective

Alan G. Hassenfeld: Western companies have learned a lot from the export and import business with Chinese industries. It is of concern that most businessmen do not consider environmental issues to be of importance.
The 2008 Olympic Games in Beijing will focus the world's attention on China. Increasingly more intellectual property and patents are coming out of China and the Chinese government will be paying increasing attention to intellectual property rights.

China's future from a Chinese government perspective

Ren Hongbin: In general, business will continue to benefit from the political stability and unity that China is currently enjoying. The country has a huge population and thus a huge market. Chinese government is planning to raise its people's income - especially in the rural areas – and to meet the consumption demand in China. Development in the areas of science and technology are strongly encouraged in China.

China Europe Business Meeting

In terms of human resources, the number of university and college students has risen sharply over the past few years and there are now approximately 5 million graduates every year. This will increase China's attractiveness for outsourcing industries. Numerous reform and 'open door' policies will be implemented, in particular in light of China's accession to the WTO. These will create more business opportunities in China.

Outsourcing

Narayan Murthy: China has moved people out of poverty, from agriculture to manufacturing - in a short time period; faster than any other country in history has ever done. Chinese people are among the most disciplined workers in the world. China has become more open in recent years and there is no doubt that democracy will influence political decisions. Environmental issues and oil consumption have become global concerns. Countries with huge populations such as China and India are particularly implicated.

Cultural background of China

Chen Feng: Talk about China's future always turns first and foremost to wealth and the country's position on the world stage. China's huge population is both a help and a hindrance. China works along the "Theory of Three Harmonies" principle, which promotes accord between the people and:

- nature
- society
- culture

Worldwide co-operation will bring opportunities and benefits for everyone and lead to mutual development.

Corporate culture - differences between mainstream western culture and Confucius-influenced China

Chen Wenchi: Twenty years ago the Chinese government was not up-to-date with business mores outside of China. It has caught up very quickly in recent years, however. There are many benefits to being present in and working in co-operation with China. Taiwan is like an experimental laboratory for Chinese economic development. For example, China is using the manufacturing industry in Taiwan to attract investment and the introduction of special economic zones by the Chinese government.

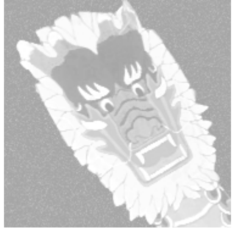
As regards technology, China currently works mainly in manufacturing, but will be a big contributor of ideas and designs to the e-tech industry in the future. It will be contributing on an intellectual as opposed to just a manufacturing level. Chinese officials are also becoming aware of environmental issues and setting up regulations. China is already helping other developing countries and sharing its economic growth.

The future of Europe

Europe should be able to sustain pressure from China by continuing to concentrate on education. It has always been able to successfully blend education and innovation. Funding for education in Europe has been declining however, unlike the US which contributes significant amounts of private funding to universities.

European politics should be resolved as soon as possible in order to keep up with economic developments in the US and Asia. 'Whilst Europe is developing socialistically, China is developing capitalistically', said **Johan Eliasch**, Chairman, Head NV, United Kingdom. Europe is under economic pressure from the world and would be advised to maintain certain advantages with a view to outweighing the disadvantages. Visas, for example, are an issue for foreign nationals wishing to work in Europe. Since the attacks of September 11, the US has only been thinking about war. Changes in its immigration policy have meant it losing potential students to other countries. European countries, like the US, do not make decisions quickly enough to benefit economically.

> ***Chinese firms must be ready to transform strategic foresight proactively into execution and growth.***
>
> *Guo Guangchang, Chairman, Fosun High Technology Group, China*



Investing in Europe

Chaired by Ralf Schläpfer, Eurofirms Strategy Advisory Leader, PricewaterhouseCoopers, Switzerland

Chinese firms increasingly seek M&A-opportunities in Europe as substantial component in their globalization strategy. What are the strategic options? **Guo Guangchang**, Chairman, Fosun High Technology Group, China, **Volker Hoff**, Minister of Hessen for Federal and European Affairs, Germany, **Carl Graf von Hohenthal**, Partner, Brunswick Group, Germany, **Li Zhiming**, Chairman, China Peace Investment Group, China, **Pierre Muller**, Vice Mayor, City of Geneva, Switzerland, **Ren Hongbin**, President, China National Machinery Industry Corporation, China, **Zhang Hai**, Chairman, Beijing Shengxingweiye Investment Company, China and **Zhang Zhengyu**, Chairman, Hi-Tech Wealth, China discussed the opportunities and challenges for Chinese companies to buy European firms.

Ralf Schläpfer opens the session with 5 statements:
- Long standing relations: Europe is China's #1 trade partner
- Growth outside China: As the fastest growing market in the world is their home market, is growth outside of China interesting for Chinese firms? Outbound money has risen from US $2.3 billion to US$5.7 billion over the last three years, which is still only 10% of the total inbound money flow.
- Energy / raw materials: The latest Five-Year Plan sets targets to control energy consumption, yet it remains an extremely challenging issue
- Cultural understanding: Mutual trust is key to doing business successfully
- M&A – a way to get closer: learning from each other

Guo Guangchang states that their main driver for buying a European company is to cut costs by finding a partner with highly developed technology. In return, they can provide access to the Chinese market for the products of the newly formed company.

Ren Hongbin points out that they rather look for a strategic alliance with European companies than for potential M&A opportunities. By doing so, they seek to improve Research and Development, as well as increase/expand their sales in Europe.

A few Swiss participants describe the investment opportunities in Switzerland, highlighting their knowledge and experience in the banking and finance sectors. They welcome closer ties with Chinese firms. One participant notes that some people may fear a loss of jobs to Chinese labourers, but overall he believes that win-win solutions can be reached, as long as different expectations and cultures are taken into account.

Carl von Hohenthal says that it is important for Chinese companies to integrate the European culture to some extent to be successful with M&A opportunities or strategic alliances. He believes that Chinese companies are mainly interested in buying brands, distribution networks or research capabilities. He finishes with the statement that European companies need the cooperation with Chinese firms.

Ralf Schläpfer moves the focus on to strategic alliances. Based on his experience, this rarely works well in Europe due to cultural differences. However, many Chinese firms do seek this type of cooperation. Ren Hongbin uses an example to illustrate how such deals work in China. Chinese firms are willing to adapt to the European culture and rules of business, though in some cases they may underestimate the challenge.

Guo Guangchang agrees with Mr Ren. In response to Ralf's question, he says that private companies are highly interested in investing in Europe, but they are mostly concerned about profitability. State-owned companies on the other hand have access to more financial means. They tend to be more concerned about economic and political aspects.

Joachim Reidiess, President, Dr. Wirth Group, Germany shares his experience of cooperating as an SME with Chinese firms. He says that trust is the key issue for strategic alliances. Quite often he sees that this issue is not sufficiently dealt with. He believes that share swapping is the best option to work around this issue for SMEs. This creates real partnerships with benefits on a long-term basis.

Three ways for cooperation discussed thus far:
- Strategic Alliances
- Merger & Acquisitions
- Share Swapping

This session concludes with mixed views on what Chinese companies are looking for when investing in Europe: merely assets (thus explaining why many acquisitions include insolvent targets); or are they more interested in acquiring brands, distribution networks and R&D capabilities?

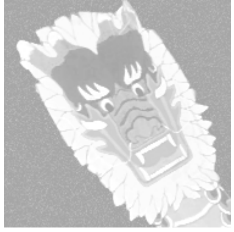
Volker Hoff is convinced that good knowledge of cultural, HR and business factors are key factors of any successful acquisition strategy and believes that many Chinese companies are currently trying to improve on those skills.

Summary:
- Learn from each other: Try to understand the other culture
- Trust: Build on positive experiences
- Work together: R&D as a likely area for potential collaboration in the future

The opening panel

Registration Desk

> *The China Europe Business Meeting will further promote win-win economic relations, stimulate innovation and provide business opportunities for corporations in China and the world.*
>
> ***Xu Kuangdi, Vice Chairman, CPPCC, China***



Riding the Next Wave of IT Outsourcing

Chaired by Steven Tze, Vice Chairman, Hina Group, China

Moderator **Steven Tze**, Vice Chairman, Hina Group, China.
Led panellists **Cyrill Eltschinger**, Chief Executive Officer, I.T. United, China, **Arvind Mehrotra**, Senior Vice President, NIIT Technologies, India, **Michael Miao**, Chief Executive Officer, Inter-Link International, China, **Carlos Moreira**, Chief Executive, Wisekey, Switzerland, **Narayana Murthy**, Chairman and Chief Mentor, Infosys, India, **Fan Wei**, Chairman, Shanghai Xinmi Computer Technology, China, **David M. Rowe**, Executive Vice President, Sungard, UK and **Zhang Yue**, Chairman, mWise Technology Company, China.

The session opens with a question to **Narayana Murthy**: what is the current state of IT outsourcing and what are its future challenges? He replies that the strategy of many companies is to maximise profit margins. Mr Murthy feels there will continue to be opportunities in the customized software business. This includes both software maintenance and software enhancement; the latter of which accounts for approximately 95% of the total business.

Presently, the outsourcing market in Europe is valued at US$730 billion, of which only 7% is allocated offshore. This percentage, however, is growing rapidly each year and there are tremendous opportunities for outsourcing software development.

Recruiting and creating brand recognition are important aspects of this business. Due to the fact that customers are required to share their data with you, trust is fundamental. Almost equally important are continuity innovation, a multi-cultural working environment and work productivity. Continuity innovation is important as a company needs to enhance the productivity of people, reduce risk perception and combine talents from across the globe into a single seamless enterprise.

With regards to human resources, Mr. Murthy points out that globally, retention in the IT sector hovers around 18%. Supply and demand will continue to have an impact on employee retention and private companies will most likely lead the pack in coming up with ideas to meet this challenge.

Arvind Mehrotra notes that smaller IT companies are faced with bringing in fresh talent and training them in-house because lateral hiring is often too expensive for them. It is a challenge to train employees and lift their skills to the required level.

Infrastructure management and outsourcing using remote management and security services are two new areas that allow companies to hire employees with lower skills. **Fan Wei** tells us that one advantage in China is the presence of many university graduates who are highly skilled in programming, mathematics and education – they form a vast source of HR for the outsourcing business. Unfortunately, English proficiency among these students is sometimes lacking. He feels that because of this, many outsourcing projects go to India or even Japan. Another drawback is the fact that most Chinese companies are quite small and therefore unable to take on large projects. He believes that China will continue to gain ground in outsourcing, but that growth will be relatively slow.

Cyrill Eltschinger points out that China, in addition to being known as a manufacturing hub, has recently been recognised as an outsourcing destination. And China's accession to the WTO has given it renewed recognition as a destination for investment and expansion. Annual output of computer science graduates in China has increased dramatically from 140,000 in 2003 to a forecasted 400,000 graduates by the end of 2006.

China has managed to establish extensive technology and telecommunication structures, thereby creating opportunities for other companies, as well. China ranks third in its number of internet users, not far behind the European Union and the US. Key concerns are revaluation of the Renmingbi (Yuan) and the language barrier in China, though the latter is of less concern given the fact that many IT graduates do have adequate knowledge of English to perform their jobs and there is little need for them to be perfectly fluent.

Steven Tze feels there are a number of reasons that companies are attracted to China:
- Perception of political issues in China, at this time relatively stable
- Many feel that creating jobs locally will facilitate their establishment in China
- China is highly competitive and experienced, especially in manufacturing and the mobile phone industry

David Rowe shares his concerns of going into China: language barrier and lack of IP rights protection. Companies do not want to lose control once they enter China. The outsourcing business requires a great deal of trust. He agrees with Mr. Murthy that China must recognize the importance of trust and dedicate itself to improving IP rights protection in order to reduce the discomfort among Western businesses.

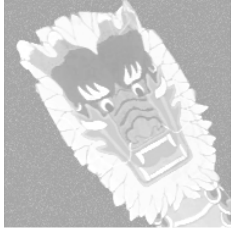
Cyrill Eltschinger finds that the risks of outsourcing technologies to China is almost equal to that of outsourcing to US or European companies; it all boils down to selecting trustworthy partners. **Carlos Moreira** points out that in the future it will be irrelevant which countries are selected for outsourcing. Cases of "reversed-outsourcing" can already be found in Switzerland… He does not feel that lack of proficiency in English is an issue because software engineers and programmers use mainly "programming language".

In Geneva and Europe, WIPO can help protect IP rights but legal protection in China is lacking and this causes much concern among businesses. Many companies just entering China often turn to already established enterprises for help in this area. Quality control standards are still inconsistent in China and India. Mr. Murthy argued against this misconception regarding low quality standards in India and China. He explains that it greatly depends on the processes that ensure adequate protection of customer data. Moreover, if a company is able to provide products that consistently perform and meet customer demands, mutual trust will be established.

In the future, it will not only be about trust in product quality but also confidence in corporate governance. From a customer perspective, it will be important that the services provided actually have value added to their products.

Particpants exchanging business cards

> ***We will compete heads-up with the Indian IT-outsourcing industry.***
> *Guo Wei, Chief Executive Officer, Digital China, China*



The Strategic Imperative of Human Resources

Chaired by Kelvin Thompson, CIO and Chief Strategy & Marketing Officer, Heidrick & Struggles, USA

It is a strategic imperative for Chinese firms to implement global HR strategies. What are the main human resource needs when entering overseas markets? **David Arkless**, Senior Vice President, Manpower, USA; **Chen Baijia**, Chief Executive Officer, Guangzhou CFT, China; **Jean-Michel Dhenain**, President, China, Sodexho Alliance, France; **Paul Judge**, Chairman, Royal Society of Arts, UK; **Roman E. Kainz**, Chairman, Euro China Group, Switzerland; **Leung Noong Kung**, Deputy Chief Executive, Phoenix Satellite TV, HK; **Sonia Li**, Deputy Secretary-General, China Foundation for International and Strategic Studies, China; **Lou Marinoff**, Professor, City College, USA; **Wang Bing**, Chairman, Ding Tian Asset Management, China; **Yang Fengmin**, Dalian Xinli Real Estate Development Company, China, were joined by a group of participants to learn and exchange views on this hot topic.

The moderator kicks off the session by reading the following quote: "Talent is the greatest obstacle facing MNCs. What makes the issue difficult is the level of distrust among Chinese students for western companies. They think western companies are a place to get trained, not a place to have a career. They think there are glass ceilings there and they won't accede to top management positions. They think these companies can't be trusted."

Thus said, the first discussion point focussed on how foreign companies are grappling with this issue of mistrust. Here, there were numerous ideas.

Harald Einsmann shared P&G's strategy of internal growth: all promotion comes from within the company, not from outside hires. The company culture makes clear that international experience is valued and appropriately rewarded. He emphasizes the importance of an environment that clearly allows for internal growth.

Others contribute that trust issues are not specific to China, nor any other country or culture. It is a human trait. And it can often be resolved through dialogue, in a non-threatening environment. Dialogue, however, leads to another issue: language. How can this difference in language be bridged?

For many, this topic involves education. The representatives from the educational institutions share with us the need and interest of many Chinese wanting to learn English. Chinese students are keen to improve their language skills as they realize that these will open more doors to job opportunities for them. There seems to be little "distrust" among students – they tend to be eager to bridge into foreign companies and cultures. There are also companies that offer language training to their employees.

In China, children are now beginning to learn English in school from a fairly young age (5-6) as also the government recognizes the value of this skill.

Participants at the China Europe Business Meeting

The discussion turns to what will be the dominant business language in China in the future. The three main thoughts on this point are:

- English will continue to play a fundamental role in the business environment
- English language skills will be important, but one must not forget that language is closely tied to the culture of a country and as culture evolves, so will the language
- English will remain an important global business language, but to do well at a local level, one should be bi-lingual. Without the local language, one will not be able to understand the local market well enough.

From language, we move on to culture. What are the challenges that arise from the differences between Chinese business culture and a foreign culture, and how can these be tackled?

Leung Noong Kung, shares with us his thoughts on the future. He foresees that this country with its 50-year, socialist past, and therefore does not recognize performance-related rewards; will gradually enter into a “transitional phase”. During this period, companies will begin to incorporate a more western-style model of “hiring-firing”, whereby career advancement and rewards will be tied to performance.

Sonia Li shares a recent happening in China that exemplifies the cultural change already occurring in the workplace. The incident involves a young female secretary who was reprimanded by her boss. In this particular case, the secretary fiercely defended her actions and stood up to her “superior” – something that most likely no “subordinate” would have done a few years ago.

David Arkless gives us some hard figures from a survey commissioned by the city of Shanghai and conducted by his company recently in China. One of the results was that there is a severe turnover among companies. Those surveyed claimed that the model of enterprise management did not live up to their expectations. And the main reasons for this were:

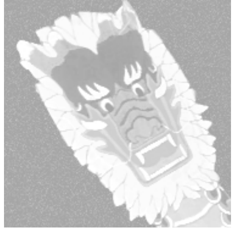
- they wanted to see a flatter organization
- need for more regular and more personal engagement
- a clearer career path needed to be set out
- reward model in company was not attractive: a higher level of compensation is not key

Conclusion

- The language gap remains an issue that needs to be bridged and investment in learning is fundamental. However, lack of language skills need not necessarily be a motive not to hire a specific individual. One must keep in mind that other skills (personal and technical) and motivation are of equal importance.
- Creating the perception of a trustworthy brand will have a positive influence on recruiting efforts. Creating an environment with clear growth opportunities will support retention.
- Cultural differences need to be acknowledged, both in and outside the workplace. And active measures should be put in place to bridge the gaps. Both East and West can learn from one another.

Chinese people are among the most disciplined workers in the world.

Narayama Murthy, Chairman and Chief Mentor, Infosys, India



Redesigning Financial Services

Chaired by David Liu, Chief Advisor, Greater China, Zurich Financial Services, China

China's finance industry is being liberalised at a fast pace to meet WTO commitments. What should domestic and foreign firms do to thrive in this strategic environment? **David Liu**, Chief Advisor, Greater China, Zurich Financial Services, China; **Edward Shum**, Partner, PricewaterhouseCoopers, China; **Miguel Frasquilho**, Board Member, Espírito Santo Research, Portugal; **Benjamin Lehmann**, Vice President, HSBC, Switzerland; **Lao Kuan**, Chairwoman, Benefit Sales Investment Corporation, China; **Li Yong**, Chairman, Huarong Jianxin Investment Group, China; **Volker Potthoff**, former Board Member, Deutsche Borse, Germany and **Jeffrey R. Shafer**, Vice Chairman, Citigroup, USA and **Donald H. Straszheim**, Vice Chairman, Roth Capital Partners, USA came together to discuss this topic.

David Liu led the discussion by stating that foreign and domestic firms need to understand the market opportunities and regulatory environment in China in order to thrive in this market. The sheer scale of the Chinese market continues to attract foreign businesses and this is increasingly true in the financial services sector, parts of which are relatively underdeveloped. For example, less than 4% of China's 1.3 billion population have insurance policies. As a result, it is expected that there will be an acceleration of business in this area and annual insurance premiums are expected to grow by between 11%-15% in the next 5 years. More and more licences are being issued to foreign companies which appear to have a competitive advantage in terms of existing brand awareness in the market. However, foreign investors need to be aware of entry restrictions to the market before doing business there.

Edward Shum observed that a number of years ago, an international newspaper stated that the Chinese financial services industry was "in the stone age" and commentators questioned the ability of the country to develop the Shanghai stock market. However, China has made significant headway since then, which is evidenced by the 70% growth in the Shanghai stock market.

Miguel Frasquilho noted that China has made a significant impact on the global economy and was of the view that a stable and successful Chinese financial sector would be crucial for achieving global economic growth on a sustained basis over the medium to short term. Miguel acknowledged that efforts have recently been made to bring about much needed reform, such as recapitalising the banking system and opening the country's markets to foreign banks. However, several challenges remain in place regarding the competitiveness of China's financial system which should be addressed as a priority, such as bringing about improvements to the corporate governance environment, modernising the banking sector, developing the equity and corporate bond markets and managing China's current exchange rate policy.

Benjamin Lehmann focused on the strengths of Chinese domestic banks which have proved to be adept at modifying their strategies and are now providing new services to the market. Benjamin does not expect to see a lot of big deals with foreign banks taking over domestic banks, but rather expects to see foreign banks continuing to take minority shareholdings in domestic banks. As domestic banks have a very strong cost base, foreign banks will have to find niche businesses in China. Benjamin expects that domestic banks will begin looking outwards to the global market with a view to acquiring foreign banks in the future.

Volker Potthoff advises caution with regard to capital allocation. The Chinese sector is undergoing a huge transition with capital moving from state owned enterprises (SOEs) to the private sector. This shift in capital is likely to be an ongoing process. Moreover, a significant amount of capital is tied up in bank deposits - approximately 72% of consumers hold cash on deposit. Volker stated that efficiency and simplicity are the keys to success as banks with simple products are the most profitable.

Jeffrey Shafer believes that foreign banks will be a positive force but will operate on the fringes of the Chinese market. This is due to the difficulties in building up a bank de novo. Jeffrey predicted that the key growth area is capital markets. He noted that insurance is key to the development of China's capital markets, as it should bring with it a pool of funds for investing in equity markets. As private equity develops, it will also play an important role in this area.

The following additional points were mentioned during the discussions:

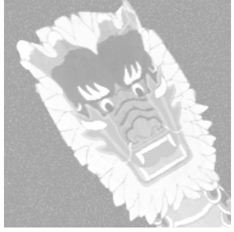
- Much of the financial services business may be done via Hong Kong, however, it is not possible to carry on a Chinese domestic banking business from outside of China. Hong Kong will continue as a financial centre and it will be difficult for other financial centres, such as Macau, to prove that they can operate at the same level as Hong Kong.
- A foreign asset management company is restricted to operating in China through a JV, but this is not the optimum entity from a commercial perspective. However, it is not envisaged that the government will permit foreign companies to invest by way of a wholly foreign owned enterprise (WFOE) in the next 5 years.

David Liu concluded the discussions by saying that to be successful in China, foreign companies should ensure they follow regulations, remain open and are socially responsible. The biggest challenge in the insurance sector is to provide medical insurance to the rural community. There are significant opportunities for both domestic and foreign insurance companies to enter the insurance sector. David expects to see many other products being offered in the future (for example, professional liability insurance etc) and believes that foreign companies have a very strong chance of success in China's financial services sector.

Supachai Panitchpakdi, Secretary General, UNCTAD, delivers his keynote address

Whilst Europe is developing socialistically, China is developing capitalistically.

Johan Eliasch, Chairman, Head NV, United Kingdom



Boosting Quality

Chaired by Jean-Luc de Buman, Executive Vice President, SGS, Switzerland

China's aspiring global firms are challenged to increase product quality to enhance competitiveness and to match their clients' demands. What are the practices that make a difference? This question was raised and discussed by panellists **Alan Bryden**, Secretary-General, ISO, Switzerland, **Alan G. Hassenfeld**, Chairman, Hasbro, USA, **Peter M. Mathews** CMG, Chairman, Black Country Metals, United Kingdom, **Robert Miller**, Chief Executive Officer, Phynova Group, United Kingdom, **Jan Oosterveld**, former Member of the Management Board, Philips, The Netherlands, **Pan Peicong**, President, Tingyu Group, China, **George Polk**, Chief Executive Officer, The Cloud Networks, United Kingdom, **Zhang Zhicheng**, Vice Chairman, Zhonglianxinye, China and an international group of participants.

Jean-Luc de Buman began by saying that the quality level of many Chinese firms is still a work in progress. Chinese manufacturers are certainly capable in terms of manufacturing good products. Many Multinational Companies buy Chinese products and the technical processes used to develop local products are world class. The question of quality of Chinese products is not so much if your products can be produced. They can. The questions is much more to find out which manufacturers are really technically capable to produce them; and secondly making sure that all purchased goods are of the same quality. SGS – as leading inspection, verification, testing and certification company - provides product quality analysis, corrective action and preventive action for China local suppliers. 'I personally observed how much progress Chinese manufacturers made quality-wise in recent years', added de Buman. **Bryden** emphasized that the Chinese are starting to participate more in international standards efforts – an endeavour that lead to generally higher quality standards.

Jan Oosterveld feels that the culture of doing business in China is very different from Europe and North America. This requires a different attitude and behavior. Quality and Quality awareness are different. Thus, a Multinational's approach to quality assurance and control has to be adapted. Timing and loyalties are different. 'So you have to plan your business in China well and at the same time be prepared to adjust schedules', said Oosterveld. 'Some European companies have lost a lot of money by not paying attention to the quality issue before and while ordering Chinese products', added **George Polk**.

Hasbro, the second-largest toy maker in the United States, began outsourcing toy manufacturing to companies in China a few years ago and has sourcing divisions in Shenzhen and in Hong Kong. China produces 70 percent of the toys in the world. **Alan G. Hassenfeld** said that Hasbro is almost a Chinese company when counting the value-added attained in China. And the Hasbro-story is a real win-win one - for clients, suppliers and workers involved in the US and China. The quality level of Hasbro toys manufactured in China has been a problem in the beginning. However, it improved a lot and 'made-in-China' is today congruent with products manufactured in other parts of the world. Hasbro invested a lot in the vocational training of its Chinese employees. Local inspectors have been assigned directly at the manufacturing plants - they control the products and accept them according to Hasbro's requirements. 'After a while when the first deliveries were good we reduced those inspections to a regular level', said Hassenfeld.

Alan Hassenfeld, Chairman, Hasbro gives his views on the future of the Chinese economy

Phynova develops Western pharmaceutical drugs protected by the China's own intellectual property. 'The Chinese have been using botanical medicines for thousands of years and over that time have built up a wealth of knowledge and expertise in the medicinal use of plants', said **Robert Miller**. 'We had to adopt our usual quality control systems to live up to the quality standards being characteristic to Traditional Chinese Medicine (TCM). 'And I can tell you the Chinese have a high benchmark'.

Pan Peicong and **Zhang Zhicheng** - quoting experiences from their own companies - held that many Chinese companies have successfully made the evolution from low quality to high quality manufacturing. They made the evolution through hard work and continuous improvement. 'Your need to expand your view of China', said Pan Peicong. 'from seeing it only as a manufacturing-hub for cheap and low-quality products to viewing it also as a base for high-quality products for global export.

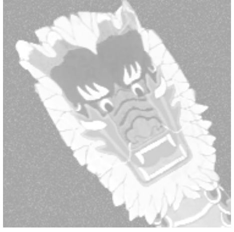
China places increasingly more emphasis on intellectual property rights protection.

Philippe Petit, Deputy Director General,
World Intellectual Property Rights Office (WIPO), Switzerland

As one of the world's oldest civilizations, China is today the globe's biggest emerging economy. Europe is an old continent with both traditions and innovations. The two should work well together, politically and economically. The only missing element is perhaps better understanding of each other. The China Europe Business Meeting should help in this regard.

Ronnie C. Chan, Chairman,
Hang Lung Group Limited, Hong Kong SAR

Guo Guangchang, Chairman, Fosun



Debating China's Rise

Chaired by Maria Livanos Cattaui, Vice Chair, International Crisis Group, Switzerland

China's rise will change the texture and dynamics of world politics and economics. How will China shape the global agenda and what is the perspective for business?

The moderator is joined by **Philip Bowring**, Columnist, International Herald Tribune, Hong Kong, **Wolfgang Hirn**, Correspondent, Manager Magazin, Germany, **Michael Johnson**, Member of Parliament, Australia, **Amol S. Chawathe**, CTO, Fountain Technologies, India, **Ben Leung**, CEO, Shandong Elewell, China, **Liu Jingui**, Deputy Director, Fujian Government, China, **Frank Lyn**, China Market Leader, PricewaterhouseCoopers, China, **Jason Ma**, CEO, JiSharp, China, **David Young**, Managing Director, Oxford Analytica, UK, and **Zhou Rong**, General Manager of Xiao Group, China, to discuss the above topic.

Maria Cattaui suggests focusing the discussion around the following themes:

- Social stability and welfare development in China's growth
- Should China's growth still be controlled by politics?
- Does China's growth depend on US growth?
- Should China go on to become global political power or a regional one?

Philip Bowring of the International Herald Tribune points out that there are a number of areas in China that require much attention: use of energy, water, and environmental protection. Though perhaps even more important are issues regarding social stability and welfare. The whole international community will be looking at what China decides to do.

Several of the Chinese businessmen present explain that business people are often too busy with commercial matters and therefore seldom have time to get involved in politics or social issues. Companies are taking advantage of this period of relative calm and trying to build successful businesses.

A number of panel members agree that China is becoming increasingly active in international politics and that it will play an important role in Asia regional growth.

Shuang Yuan, President of Adoxin, says that China is on the rise and Chinese entrepreneurs are ambitious. They want to enter the European market and purchase European companies, often without a clear strategy. She feels that European companies need a long time to think about their strategy before coming to the conclusion "no, we will not go to China, because they are so difficult". Culture is an important factor in communications.

In conclusion, **Maria Livanos Cattaui** says that trust in the political system is important. But silence does not mean trust. Chinese citizens should take a more active part in their political system as it accompanies the economic rise.

> ***To reach amiable business relations, mutual respect of each other's culture is indispensable.***
>
> ***Xie Qihua, Chairwomen, Shanghai Baosteel Group, China***

China's Role in Global Trade

Chaired by Frank-Jürgen Richter, President, Horasis, Switzerland

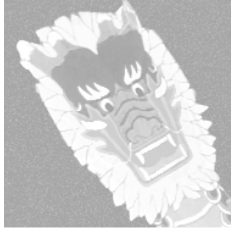
The lunch session was dedicated to China's role in global trade. China's rise and its rapid increase in cross-border trade has affected the global economic balance. Since the beginning of the 1990s, China's domestic demand and its imports have grown very strongly, and the country has played a vital role in global trade. Facilitated by the session chair **Frank-Jürgen Richter**, President, Horasis, the speakers tackled from different perspectives China's role in the next round of global trade talks.

At the start of his address, **Supachai Panitchpakdi**, Secretary-General, UNCTAD, Switzerland, stressed that the net effects of China playing an active role in global trade are beneficial for all of us. The country has made long-term efforts in building domestic capabilities, improving its infrastructure and strengthening human resources. China has set a brilliant example for other emerging economies. Still, imbalances continue to exist. Imbalances related to China's foreign exchange policies cannot be addressed by China alone and require an international effort. Adjustment must be across the board in a global management of the exchange rate system in a way that the adjustments have to be taken at the same time. Dr. Supachai also said future adjustments to China's currency should be gradual. And: 'We have to look for innovative ways to work with China. And we need flexibility at the international level'.

'China is pursuing a long-term restructuring plan designed to ensure its global competitiveness, **Xu Bingjin**, China's former Assistant Minister of Foreign Trade and Economic Cooperation, told participants at the lunch session. Part of this plan is a proactive role in global trade. Xu argued that China could become a catalyst for the establishment of a new international economic order. He reiterated China's support for the launch of a new round of global trade negotiations that will give special attention to the concerns of developing countries. 'The quality of China's economic growth is changing', Xu told participants. 'Growth is increasingly driven by improvements in efficiency, rather than by capital and investment inflows'. He added that part of the new growth dynamics is China's win-win perception of global trade. However, China will continue the restructuring plan at its own pace, and not necessarily according to the mainstream Anglo-Saxon model. 'Pragmatism will succeed', he concluded.

Volker Hoff, Minister of Hesse for Federal and European Affaires, Germany, highlighted the role of Chinese firms establishing European headquarters to stimulate positive trade relationships between China and Europe. Empirical evidence suggests that Chinese firms benefit from having own European assembly sites, research and developments centres and administration hubs to ensure closer relationship to customers, to get a better grip of the market trends, to overcome import restrictions and to resolve customs issues. Such regional headquarters are coordinating the European value chain and hence the European distribution and service network, but are typically not directly involved in the physical flow of the goods or the provision of services to end-customer. A regional headquarter is therefore often located at a central location of Europe that suits the respective co-ordination needs best. Frankfurt, Hesse's largest city and one of Europe's most vibrant financial centres is well suited to match the needs of Chinese firms in Europe. He added that Europe needs China to be a part of the world trading system. 'We have to brace for more competition, but it is positive for all of us'. Doubtless, the challenges for China's trading partners will be to figure out how to both cooperate and compete with this new economic powerhouse.

> ***China is the world's new engine of growth.***
> ***Frank-Jürgen Richter, President, Horasis, Switzerland***



Towards Competitive Logistics Management

Chaired by Scott Price, Chief Executive Officer Asia-Pacific, DHL Express, Singapore

What are the imperatives for a competitive logistics sector in China? What are the roadblocks to China's drive to become a global player in logistics management? During this session, moderator **Scott Price** initiated the discussion for a panel that included **Kieran Ring**, Chief Executive Officer, Global Institute of Logistics, USA, **Jim Dullum**, Vice President, EDS, United States, **Chen Feng**, Chairman, HNA Group, China, **Robert Deillon**, Director General, Geneva Airport, Switzerland, **Pierre Jaquier**, President, Geneva Economic Development Office, Switzerland, **Li Jiang**, President, Beijiing Xingqiao International Engineering Technology Company, China as well as a multi-national group of participants.

The moderator **Scott Price** opens the roundtable discussion by pointing out the important role China plays in respect to manufacturing, exporting and FDI. In terms of logistics in China, he focuses on four main topics:

- Cost: cost of logistics in China is very high; on average twice to three times as much as in many other developed countries.
- Infrastructure: infrastructure has not developed in a balanced way, with east coast development advancing more quickly than inland areas. They are now trying to shift focus to the west – there is still much work to do.
- Regulations: Chinese authorities are trying to meet WTO requirements, but it is not easy to balance that with a desire to implement regulations that protect some of the local companies and industries. The environment is gradually becoming more transparent, but certainly the regulatory situation can at times be a real challenge in the logistics industry.
- Role of the industry: there is still unawareness that outsourcing of logistics is a way to improve efficiency and lower costs. Chinese companies are reluctant to accept that the outsourcing of logistics is something that could be beneficial to them.

Kieran Ring predicted that in the future the best companies will be based on excellent logistics management, as it will allow them to have considerable cost savings, in addition to increased sales. The logistics market in China is heavily dominated by a fragmented road transportation network. For cross-country shipments, this means that goods must pass through numerous transporters before reaching their final destination – a highly costly procedure. China needs to identify ways to improve its transportation network.

Jim Dullum made the point that supply-chain management and the integration of different infrastructures with public local operators are equally important as cost and security issues. Most IT investments made by local Chinese companies go towards the maintenance of existing systems rather than into new modern systems that can perform a wider range of operations. Solutions should be provided to fix this problem.

Chen Feng describes a very competitive local environment whereby low domestic cargo prices hinder the development of alternative domestic services. Meanwhile, there is high demand for air cargo services, but the current level of service provided is very low. At present, there is a great imbalance as fully loaded ships travel from China to the west and return with mainly empty containers, thus resulting in high costs. Chinese domestic players earn some profit from international cargo services but loose money on domestic services. It will take domestic players 5 to 10 years to match international standards.

During the panel discussion, the pricing strategy and the consolidation of airport infrastructure in the coming ten years are discussed. It is pointed out that China may let cargo transportation take a backseat to passenger transportation. However, the debate is raised that China should not repeat the mistakes of India i.e. focus on passenger and neglect cargo. A strategy needs to be identified that balances both the passenger and cargo transportation, rather than place too much emphasis on one or the other.

From a logistics point of view, security is a necessary evil, whereby speed plays a critical role. The security industry needs to develop tools which can make container contents visible. The speed of the system will determine how quickly cargo can be handled: the faster, the better.

It is pointed out that any future breaches in security will trigger tighter security requirements. There is further discussion on which systems are necessary to ensure the same security for container shipments as for package shipments and how to translate the resulting costs.

Cheng Feng states that security is important, but that truly effective security will not work because it is too costly and time-consuming. Security depends not only on a system, but on the environment taken in its entirety. One has to carefully determine how much money should be invested in a security system.

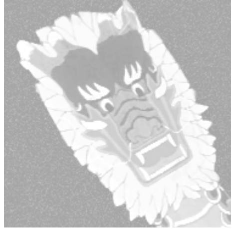
This session concludes with a discussion on the importance of investing in new technology which allows for transparency of the supply-chain process. Furthermore, a fully-integrated system between carriers, shippers and ports needs to be implemented in order to pave the way for speedier transportation.

Conclusion

- The logistics industry in China is still in its infancy
- Visibility and speed in logistics are key factors (supply-chain management/IT)
- Transportation/handling cost must be decreased and prices increased in the Chinese logistics industry in order to cope with rising costs for security in the future.

Discussion during a breakout session

> ***The trade and economic relationship between China and the world has extensive synergies and large potential, leading to a dynamic and - at the same time - balanced world economy.***
>
> ***Supachai Panitchpakdi, Secretary-General, UNCTAD, Switzerland***



Leadership in the Chinese Context

Chaired by Peter Lorange, President, IMD, Switzerland

Some believe Chinese leadership practices differ from "mainstream" theories and practices. What set of leadership skills will Chinese business leaders need to excel in, in the future? This was the question posed to the following panel members: **Mukesh Aghi**, Chief Executive Officer, U21, Singapore; **Marjan Bolmeijer**, Chief Executive Officer, Change Leaders, USA; **Ronnie C. Chan**, Chairman, Hang Lung Group Limited, Hong Kong SAR; **Carla Cico**, Former Chief Executive Officer, Brazil Telecom, Brazil; **Colin Hill**, Executive Chairman, Hill & Associates, Hong Kong SAR; **Narayana Murthy**, Chairman and Chief Mentor, Infosys, India; **Zhao Hengyu**, Chairman, HengSheng Group, China, **Zhu Yicai**, Chairman, China Yurun Group, China and **Peter Lorange**, President, IMD, Switzerland.

Mukesh Aghi commenced discussions by stating that Chinese business leadership has traditionally focused on market share rather than earnings. However, Chinese leadership is changing which is evidenced by Lenovo's recent acquisition of IBM's PC business. The headquarters and leadership of the newly acquired business has been maintained in New York rather than moved to China.

Marjan Bolmeijer took the view that the same leadership skills need to be developed across the world regardless of culture, race etc. Ronnie Chan, however, differed on this point and noted that leadership styles will vary depending on culture and systemic issues. **Ronnie C. Chan** noted that as the business world is dominated by the West, the Chinese will have to learn the Western business systems. However, good Chinese leadership qualities should be retained in this process.

Carla Cico agreed with both views and said that leadership style is determined by the situation in each country and in particular, by a company's human resources. She noted that 90% of failures arise from foreign companies not knowing how to deal with local human resources.

Colin Hill agreed that Chinese companies expanding abroad will have to adapt to the Western approach. For historic reasons, Chinese leadership styles tend to be more autocratic, however, these will have to become more open in order to sustain substantial growth.

As Chinese companies continue to expand globally over the next decade, they will begin to operate in varied markets and employ different people. According to **Narayana Murthy**, Chinese companies must enhance the trust of people in different cultures by following best principles of corporate governance. This will lead to harmony in every society Chinese companies operate in, in terms of maximising shareholder value, ensuring employee satisfaction and serving local markets well.

The following issues were also raised and discussed:

- Chinese companies expanding abroad need to be aware that the issues may be the same in each territory (for example, people, governance, management processes etc) but they may be approached differently. Moreover, these companies also need to become more transparent if they want to embrace the international workforce.
- An SME owner described how difficult it was to gain access to the Chinese market for the first time. However, he found a Chinese partner with whom he shared leadership of the operations and was able to access the market effectively in that way. His business in Shanghai is being run by a Chinese person and he stressed how important it is to trust local Chinese management.
- There was some criticism of the Lenovo acquisition of IBM, a loss-making, bureaucratic business. There was agreement on the difficulties of acquiring the existing culture of a company and assimilating it into a different structure. The most successful companies

acquire a brand but not the local culture/bureaucracy that goes with it (for example, Tetley tea). Chinese leadership can learn from companies which manage this process effectively.

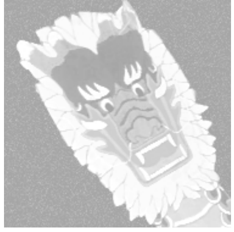
- The CEO of a Chinese technology company stated that his company will not undertake any global expansion until the company is ready for it. At the moment, his company is focusing entirely on the Chinese market and is spending a lot of time training employees so they think in an international manner. He noted that his employees are very open and want to know how the world works. He believes that, over time, his company will be ready to expand overseas.

- Chinese companies are very hierarchical with a top -down leadership style. There is no devolution of authority to one person which gives rise to issues, including the issue of remuneration. It is important to understand how the Chinese organisational model can become more participative.
- The way in which Chinese companies view ethics, corporate governance and anti-corruption principles differs considerably from the way in which these issues are viewed in the West. Chinese companies must admit to and work towards fairness, transparency and accountability (i.e. good corporate governance) and must be educated in the Western approach. The middle class has an important role to play in driving development in this area.
- Chinese companies need to review the criteria for performance. At the moment, they are very growth oriented, but perhaps they should think about pursuing a more balanced approach.
- The final discussion point related to international expansion by Chinese companies. Hard and soft issues have to be managed at the same time in any growth/expansion phase of a business. The hope was expressed that the mix of hard and soft issues facing Chinese companies in this time of expansion will not lead to paralysis.

Ronnie C. Chang, Chairman, Hang Lung Group

Narayana Murthy, Chairman and Chief Mentor, Infosys, during the opening panel

> ***Our strategy is simply to do the same work with the same quality level as our global competitors, but faster.***
> ***Fu Chengyu. Chief Executive Officer, CNOOC, China***



Building Chinese Brands

Chaired by Mike W. O. Garrett, Executive Vice President (retired), Nestlé, Switzerland

China is currently undergoing a change in values, social stratification, and consumer behaviour. What are the implications for multinationals and what are the ingredients of a successful branding strategy?

It is during this session that **Harald Einsmann**, Member of the Supervisory Board, Tesco, UK; **Johan Eliasch**, Chairman Head NV, UK; **Patrick Firmenisch**, CEO, Firmenich, Switzerland; **Alan G. Hassenfeld**, Chairman, Hasbro, USA; **Ralf Hirt**, Vice President, DoubleClick, USA; **Liu Jia**, Chairman, Jiamei Dental Medical Management Group, China: **Tang Jun**, Senior Vice President, The Walt Disney Company, USA and **Zhang Xinbo**, President, Vigorous Vision Advertisement, China gathered to share their experiences and views on building brands in China. Also present were a number of delegates representing companies from both Europe and Asia.

The session was opened by a short presentation given by **Harald Einsmann**, which described Procter & Gamble's perspective on China operations. The high level of success P&G has established with its brands in the China market has been accomplished by focussing on the following key factors:

- Recognition of client base diversity: research has revealed a 3-tier market. A High tier, that is small in volume, but high in value – and is currently in decline. The Mid tier is double in market size and leads in value. The Low tier is diminishing, as more join Mid tier ranks.
- Playing the Chinese market: this includes covering as much of the territory as possible, broadening the portfolio into all 3 market segments, targeting specific products and applying local design values and tastes based on local research results, lowering costs through integrated development process and developing local talent and rewarding them for success.
- Tackling the challenges and recognising the risks: these include how to deal with poor internal transportation, lack of industry standards, non-controlled environments, counterfeit products and improvement of supply chain.

Ralf Hirt is then given the floor, to discuss the experience of DoubleClick in China. He too emphasizes the fact that China is a very diverse, as well as dynamic market. The concept of branding is relatively new and for those who wish to establish their brands, much research will need to de done in order to better understand the local markets. He believes that Chinese companies are beginning to realize the importance of branding – not only at a local, but also at global level.

Mike Garrett comments that perhaps the absence of Chinese company representatives on the session signals that they are not at all worried about competition in their own backyard!

Tang Jun informs us that the market in the entertainment sector has been restricted for the past 20-30 years in China and that only recently has there been an increasing need for entertainment products. Subsequently, there is a great lack of knowledge in the management of this sector from a business perspective. There is an interest to open up this sector, and at the same time the government is concerned about how to best manage it. Disney's strategy can be summed up in fairly simple terms: 1) build up the brand through stories, 2) leverage brand strength (e.g. Disneyland Theme park in HK) and 3) drive revenue through consumer products. And keep the focus on content building. He sees the following risks/challenges:

- uncertainties regarding regulations
- the need to rely on local talent, both for the creation of content and management
- piracy, especially movies – and counterfeit products in the area of publishing.

Patrick Firmenich told us of an experience that is common among those who entered the market 25-20 years ago: they went in with high hopes and dreams, many of which are only now starting to be realized. He strongly agrees that the diversity of the market is immense and emphasizes the importance of understanding the different consumer wants and needs. He believes it would be a mistake to target only the top tier. In addition, one must gain insight in local distribution, as it is very fragmented. Firmenich offers the following suggestions:

- work with government and allow them time to develop legislation and regulation
- IP and environmental protection should play important role in company strategy

Johan Eliasch tells us that China is the second largest market for his company. However, it is extremely unfortunate that 80% of all tennis racquets sold is counterfeit! The problem they face is how to persuade the consumer that the original product is better than the counterfeit one. According to Eliasch, the product needs to be related to a big name in the sport. Also, trust and credibility play a major role, as they spur word-of-mouth advertising, which is fundamental. In addition to these factors, also knowledgeable sales people are key in the sales process.

Alan Hassenfeld describes the importance of working with government to secure ISO safety standards on a national level. By doing so, they hope to safeguard the market from dangerous products, often manufactured at extremely low costs. The government has now agreed to implement safety standards in mid 2007. An additional challenge for Hasbro is the cultural aspect: most "toys" in China have an educational aspect, so there is the need to spread the idea of "child's work = child's play". Hassenfeld admits that China is a difficult market for them and that they are analyzing ways to build their brand.

A short discussion on the battle against counterfeit goods concluded that:

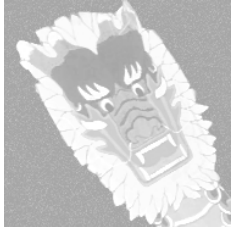
- there is still a lot of work to be done, and it often feels like an uphill battle
- one needs to win allies at all levels: government, retail and consumer. They need to understand that counterfeit goods will have a negative impact on foreign investment.

A final exchange focussed on Chinese brands. Most agreed that it is most likely only a matter of time that these will begin to make their mark. Not only the large companies, but also smaller ones in fields ranging from fashion to medicine are beginning to show their individual and creative colours.

Conclusion

- China consumer market is both diverse and dynamic: one needs to understand the different consumer tastes in order to create brand awareness at various levels.
- IP is an issue that needs to be dealt with in a pro-active manner.
- Chinese creativity is beginning to find its way to the surface in many sectors, though it is still limited.

> ***Even those Chinese companies with a domestically run business will have to stay up-to-date on what is happening globally in terms of management, human resources, sales and technology.***
>
> ***Chen Wenchi, Chief Executive Officer, Via Technologies, Taiwan***



The Lure of Private Equity

Chaired by Max Burger-Calderon, Managing Director, APAX, Hong Kong, SAR

Corporate China is gearing towards Western practices of financing growth. Is private equity the recipe for success? This issue was discussed by panellists **Jan Bomholt**, Partner, Brains to Ventures, Switzerland, **Chen Dawen**, President, Beijing Thousand Time Investment Company, China, **Peter Cornelius**, Global Head of Research, Alpinvest, The Netherlands, **Deng Wei**, Chairman, Bright Oceans Corporation, China, **Fu Zirong**, Chairman, Beijing Elto Board, China, **Mike Johnston**, Executive Vice President, Capital Group Companies, USA, **Walter Kuemmerle**, Professor, Harvard Business School, USA, **Hong Nguyen**, President, GC Millenium Group, Hong Kong SAR and **Winston Wen**, Member of the Investment Committee, New Horizon Fund, China SAR and other participants from Asia and Europe.

Max Burger-Calderon kicks-off the discussion by stating that private equity in China seems to be a hot topic at the moment and everybody is rushing into China and trying to find his way into this fast growing economy. He says that private equity and public equity markets are closely linked: when markets go private, debt markets develop. In Europe, debt markets have grown at an unforeseeable rate over the last seven to eight years. Currently, there is widespread debate on how China should reform its capital market: what structure should it take and in what way can it absorb the large amounts of capital, most held in the form of cash.

Mike Johnston says that one of the lessons of private equity is that "it is easier to get into than to come out of". The IPO market in China is good for large, state-owned banks. It is a different story for relatively small and unknown companies. Additionally, the lack of a corporate debt market makes refinancing equity in China very difficult. He says that a friend of his is one of the early private equity investors in China, who entered the market in 1994, raising about USD 300 million in the United States and invested it solely in automobile parts companies using the following criteria:

- Entire company would be purchased (no partnerships)
- The target had to have transparent finances

Since the purchase of these companies, they have gone through three phases of management. The initial management team knew how to produce under the state-directed communist system, but they were unaware of two important things: how to produce high quality products and how to make a profit. In time, he decided that it was not possible to teach these concepts to this group of managers, so he hired Western managers. These, however, could not relate to the Chinese workers. This then brought him into the third phase in which young Chinese managers were hired and trained to learn about profit making concepts and quality management – this worked. Lessons learned:

- it is difficult to find good deals in
- the existing management in many companies is inadequate to meet private equity company demands
- it is difficult to implement restructuring
- progress needs to be made in area of property rights
- judiciary system needs to be improved

One of the Chinese participants believes that this story might have happened in the past, but that the private equity environment has changed over the last few years. Recently, quite a few private equity deals have been made in China i.e. Baidu, QQ, etc., which show that there is growth and he believes that there will be increasingly more investment opportunities.

Peter Cornelius states that the market has remained relatively small, if compared to the global venture capital market. Since 2004, there has been enormous growth in private equity, especially in Asia. This is due to the fact that the US market has become very competitive - Americans have invested heavily in the European market (buyouts). There is also significant interest from Europeans investing in the United States, but not quite at the same level. Until recently, Asia has been left out. Last year global buyouts amounted to USD 270 billion. Given the pace seen in the first 8 months of 2006 it is expected to rise to approximately USD 550 billion. The increase will come mainly from the supply side. Last year, China absorbed USD 1.1 billion in venture capital, which makes it one of the most important countries for private equity investors. However, there must be more regulatory stability and transparency in order to maintain this level.

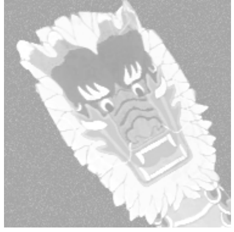
Conclusion
- Private equity in China is still in an initial stage of development and is making steady progress in the right direction
- The regulatory environment must become more stable for private equity investors
- A number of private equity deals have been made in the past and there will definitely be more deals made in the future

Coffee break

Li Lu, President, Himalaya Capital and Jerry Zhang, CEO, Neocomm Broadband

The China Europe Business Meeting will further promote win-win economic relations, stimulate innovation and provide business opportunities for corporations in China and the world.

Xu Kuangdi, Vice Chairman, CPPCC, China



Technology and Innovation: Outlook and Opportunities

Chaired by Daniel Muzyka, Dean, Sauder School of Business, Canada

China wants to move beyond a production-oriented technology sector to enable its companies to create intellectual property. How can Chinese companies boost their innovation capabilities? During this session, moderator **Daniel Muzyka** initiated the discussion for a panel that included **Steven Atkinson**, Chief Technology Officer, Monitise, United Kingdom, **Chen Wenchi**, Chief Executive Officer, Via Technologies, Taiwan, **Guo Guangchang**, Chairman, Fosun High Technology Group, China, **Travis Kalanick**, President, Redswoosh, USA, **Ervin Leibovici**, Chief Executive Officer, BitBand Technologies, Israel, **Reza Mahdavi**, Vice President, Cisco Systems, USA, **Zhang Chunguang**, Chairman, Beijing Zhongchuang Telecom Test Company, China and **Zhang Xiaohai**, Chief Executive Officer, Orinno Software, China.

The moderator opened the roundtable discussion by pointing out that China has joined the ranks of nations promoting economic growth through innovation and the proactive creation of intellectual property. China has acceded to the major international conventions on protection of Intellectual Property Rights (IPRs). Still, China is well known as problematic market for counterfeiting and abuse of intellectual property rights for Western companies. **Daniel Muzyka** put forward that creativity is North America's and Europe's comparative advantage and counterfeiting is a drain on competitiveness in the Chinese market.

According to **Reza Mahdavi**, the problem is not ignorance by the authorities – laws and regulations are existing and are in agreement with global frameworks – but enforcement: a lack of resources for dealing with the problem. For sure, carrying out enforcement of laws and regulations in a country as big as China, with inadequate infrastructure in some areas and with some degree of political decentralization, is a major challenge. Mahdavi called on China to toughen sanctions for IP violations and to lower the thresholds for prosecutable IP offences.

Guo Guangchang made the point that the motivation to protect intellectual property will need to come from a realization that doing so is in China's own interest. Guo quoted his own company – a leading private conglomerate in China. Guo and his co-founders have molded Fosun into a major force in the Chinese pharmaceutical, real estate, steel, and retail industries. Fosun also owns several other subsidiaries including a securities brokerage, a underwriting firm and gold mine. Fosun spends heavily on R&D and the company's vision is to become an innovation leader and global key player in every targeted business line. IPR is key as Fosun wants to protect itself from local and global competitors. Guo predicted that in the future the best companies are those that boost their own innovation capabilities and create intellectual property on their own right.

Chen Wenchi described the situation in his company's industrial segment, the IT industry. Chen showed how the IT industry is undergoing its fourth major revolution as it moves from the PC era to the age of Total Connectivity, providing a host of new challenges as well as new opportunities, bringing tremendous growth for the industry but requiring considerable innovation at both the silicon and system levels to satisfy a more diverse set of user demands. 'We are fast and can easily move around', said Chen. 'Innovation is at the core of our DNA. Me-too players will perish sooner or later'.

Monitise is best known for its mobile banking platform. **Steven Atkinson** considers innovation as a competitive advantage. He was personally responsible for the end-to-end design of the Monitise mobile banking platform and led the technical team through the research and development stage of the project. 'The digital economy, like any other, requires the foundations of viability. A 'Free for All' model can be as damaging as outright profiteering. Companies – from Europe, North America as well as from China – have to learn to continuously reinvent themselves'.

During the panel discussion, the speakers reflected on how Chinese companies can realize the potential of intellectual property. They agreed that Chinese companies need to leverage the country's good education system by hiring young and creative engineers and managers. **Daniel Muzyka** declared: 'Imagine what will happen when Chinese firms are able to drive innovation and own intellectual property rights'. 'This is the future of China', concluded **Guo Guangchang**.

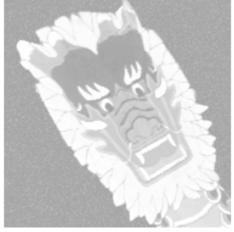
Conclusion

- IPR-Protection is still a problem in China
- The government and the corporate sector made huge progresses in fighting IPR-infringements
- The Chinese government is encourage enterprises, research institutes and universities to produce patented technologies and products
- China is going to be a world leader in research-intensive industries

Zhang Zhengyu, Chairman, Hi-Tech Wealth

The challenges for China's trading partners will be to figure out how to both cooperate and compete with this new economic powerhouse.

Volker Hoff,
Minister of Hesse for Federal and European Affaires, Germany



Sustainability – Shifting towards a 'Green GDP'

Chaired by Thomas Scheiwiller, Global Sustainability Leadership, PricewaterhouseCoopers, Switzerland and Björn Stigson, President, World Business Council for Sustainable Development, Switzerland

China's National People's Congress endorsed the 11th Five-Year Plan which focuses on sustainability-centred development policies. How can the corporate sector contribute to sustainable growth?

Tom Clough, Member of the Executive Committee, Holcim, Switzerland, **Bruno Lanvin**, Executive Director, Worldbank, USA, **Ren Hongbin**, President, China National Machinery Industry Corporation, China, **Daniel Stauffacher**, President, ICT for Peace, Switzerland, **Wu Yijian**, Chairman, Ginwa Enterprise Group, China, **Yuan Shuang**, President, Adoxin, China, **Zhang Zhonglin**, Vice Governor, Dongguan City, China shared their views on sustainable development in China at a panel discussion.

Tom Clough opens the session by stating that the "Three Harmonies" in China presented during the Opening session correspond amazingly well to the Western concept of the triple bottom line. For a company operating in China, he sees three options for contributing to sustainable development: a) individual actions, b) industry initiatives and c) national initiatives. As an example of industry initiatives, he describes the Cement Sustainability Initiative established by a group made up of 10 industry members, 4 of which currently operate in China. It is based on the following six pillars:
- climate protection
- fuels and raw materials use
- employee health and safety
- emissions reduction
- local impacts
- internal business processes (reporting and communications)

Tom also mentions a need for coordination and for more reliable measuring and monitoring of environmental and social performance, in order to secure sustainable growth.

Bruno Lanvin explains that there are safeguards regarding environment and corruption in place for all projects sponsored by the Worldbank and IFC. He points out that all initiatives in China have to be in accordance with Chinese development policies. These include a drive to rebalance growth within China, i.e. coastal vs backland areas, urban vs rural areas.

Daniel Stauffacher says that business is part of the problem, but that business is also increasingly becoming a part of the solution. According to a Vice-Director of the Chinese Office of Environment SEPA, environmental damage amounts to US$ 200 bln a year; equal to annual GDP growth. This offers business opportunities to companies.

Yuan Shuang raises concerns regarding the concept of a green GDP in China. He feels that this idea has not yet been implemented and remains at a concept stage. To some extent the reason for this may lie in the lack of measurement and measurability, but perhaps also in the Chinese culture of believing in and following the leader. He suggests that green GDP should not only include environmental aspects but also cover social issues such as unemployment, training, education, and the growing gap between the rich and the poor.

By summing up the issues raised so far, **Björn Stigson** discusses the core question: What is the value proposition of doing sustainable business in China? Due to its unique market structure the challenges in China are substantially different from those in Western countries. Björn shares his experience as a member of a taskforce that was asked to analyze how China could implement sustainability in its development. Based on sector-specific benchmarking, they realized that the average company was sub-critical in size and privately or community owned. Therefore, it is often not economical to upgrade existing plants – it would be better to close them down and build new infrastructure. This results in a more efficient structure whilst minimizing the impact on environment. This situation may suggest a different approach in answering the question regarding value proposition for doing sustainable business in China.

Juan Aguiriano notes that there are a huge number of work accidents and related costs. Based on his experience, self-respect and leadership are the only way to change this situation and influence people's behaviour. He concludes that at this stage, social issues may be a stronger driver for the value proposition than environmental aspects.

Tom Clough believes that there is a different value proposition for Chinese companies and Western companies operating in China. Holcim, for example, uses advanced technology and highly developed techniques which have a relatively low environmental impact. Chinese companies will instead be greatly influenced by the goals and indicators set out in the most recent Five-Year Plan.

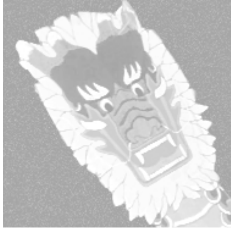
In response to Tom's statement **Björn Stigson** comments that the cultural difference may be smaller than it seems. If foreign executives were no longer measured and rewarded based on profits of the triple bottom line, their decisions would perhaps not differ all that much from local management. This is the first time that environmental performance has been included in the Five-Year plan and in the contracts with Chinese mayors and governors. Mr. Stigson expects this to have a considerable impact on the decision making process. He further believes that measurement will be a key factor to implementing sustainable development successfully.

Yuan Shuang reinforces statements from previous speakers that leadership is fundamental to influencing the behaviour of Chinese people. In China, they are familiar with the concept of model entrepreneurs. This is basically the same as what people in Western countries refer to as best practice.

Summary and Conclusions

- Five-Year plan contains objectives for environmental aspects and the audience is confident that there will be a move towards them due to the performance indicators implemented
- There are different views as to whether the emphasis on environmental issues outweighs that of social issues
- There is a value proposition for Chinese companies as well as for Western companies to implement sustainable development
- To build awareness, technology and behaviour are required. Specific and suitable models to the Chinese market are crucial.
- Various approaches to measure effectiveness are in place but there is still a need for further development of them.

> ***China is pursuing a long-term restructuring plan designed to ensure its global competitiveness.***
>
> ***Xu Bingjin, former Assistant Minister of Foreign Trade and Economic Cooperation, China***



Preparing for China's Energy Needs

Chaired by Werner Kreuz, Managing Partner, A. T. Kearney, Germany

China's fast growing economy faces rising energy needs. How can China and its partners tackle political, economic and financial risks? **Juan Aguiriano**, President, EMEA, DuPont, Switzerland, **Clare Cowan**, CEO, Cahill International, Canada, **Ding Liguo**, Chairman, Delong Iron-Steel, China, **Robert W. Gee**, President, Gee Strategies Group, USA, **Barbara Thomas Judge**, Chairperson, United Kingdom Atomic Energy Authority, UK and **John J. Maresca**, Senior Vice President (retired), Unocal, USA discussed the challenging issue of China's energy future.

To open the session, **Barbara Thomas Judge** gives background information on China's electricity market. Currently, approximately 73% of the country's energy stems from coal, 23% from hydropower and roughly only 1% from nuclear power. The latter is expected to rise to 5% by 2020. To achieve this and meet growing energy demand, six nuclear reactors are currently under construction and plans for new projects are pending. In Barbara's opinion, China does not struggle with the same problems as Europe when it comes to new nuclear power plants (e.g. long lead time to build a new plant, objection by government and green NGOs, decommissioning nuclear waste). Due to its different culture and its vast landmass, China does not face the same degree of problems often present in Europe.

Clare Cowan shares her experience of doing business with China in the energy sector. She agrees that there is a massive demand in China and that many companies are interested in providing their services. However, she says that the international market is often put off by the lack of transparency, especially for long-term investments.

Juan Aguiriano agrees that China doesn't have the same understanding and history of transparency due to the structure of society and government. However, he believes that there have been significant improvements made in this area over the last couple of years, leading to more efficient working relationships. This statement was backed by Ding Liguo who quotes that 450 out of the 500 biggest companies worldwide do business in China. He sees this as proof that there is sufficient transparency for successful business.

John Maresca's had a similar experience in the oil and gas industry. It may take more time and patience for a Western company to do business in China, but once the project is started, he found that many people open up and show great interest.

Robert Gee moved the focus from transparency to energy efficiency. He points out that China has set quite aggressive goals in this area as they plan to quadruple GDP by 2020 but grow their energy demand by a factor of 2 only. Furthermore, **Ding Liguo** says that energy efficiency will be further implemented as the new Five-Year plan sets environmental performance goals for the first time.

> ***China's rise is a great contribution to the stable growth of the world economy.***
>
> ***Ren Hongbin, President,***
> ***China National Machinery Industry Corporation, China***

An active discussion follows on the potential of gas as an energy source for China and how reliable its supply from Russia might be. A specific challenge that emerged is the constant demand of gas in certain areas. This shifts the discussion to energy distribution within China. The panellists agreed that this might become a major issue for China in the years to come since hydropower is mainly produced in western China, whereas the greatest consumption takes place along the east coast.

Clare Cowan brings the discussion back to transparency. Despite her first statement, she said that she has also had many positive experiences. Still, she believes that China needs to set up policies in the area of transparency after becoming a developed country.

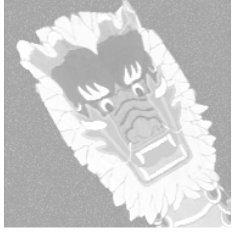
At the end of the session, **Werner Kreuz** asked the panellists two questions:
- When will the first mass-produced first fuel-cell car be manufactured – before or after 2015?
- What percentage of the political, economic and financial risks linked to the growing demand for energy do you expect the Chinese government to master?

There was no agreement among the audience regarding the first question. However, most said that between 60% and 70% of the issues linked to China's growing energy demand will be successfully resolved.

Ren Hongbing, President,
China National Machinery Industry Corp and
Frank-Jürgen Richter sharing a light moment

China has taken on an international perspective. The country's authorities and business circles are aware that investment abroad is necessary to further advance China's economy.

Christoph Franz, Chief Executive Officer,
Swiss International Airlines, Switzerland



Envisioning the Global Chinese Firm

Chaired by Simon Galpin, Director-General, InvestHK

Chinese firms are currently expanding overseas at an unprecedented pace. Mainland companies come to Hong Kong to raise capital, and mainland firms now account for about 40% of the market capitalization on the Hong Kong stock exchange. In turn, they are using Hong Kong subsidiaries to spearhead mergers, acquisitions and investments around the world. However, it will be interesting to see whether the expanding overseas model is sustainable. Will Hong Kong continue to play a role in facilitating those output investments for mainland China? What does the future of global Chinese firms look like?

The questions are raised and discussed by panellists **Simon Galpin**, Associate Director-General, InvestHK, Hong Kong SAR, **Ai Baojun**, President, Baoshan Iron and Steel, China, **Hans Christian Beltermann**, Chairman, Fountain Capital AG, Switzerland, **Hanson Cheah**, Managing Partner, Asiatech Ventures, Hong Kong SAR, **Chen Wenchi**, Chief Executive Officer, Via Technologies, Taiwan, **Gao Jingquan**, Chairman, GGE Group, China, **Katie Leung**, Managing Director, Elewell International Ltd, Hong Kong SAR, **George Yip**, Director of Research and Innovation, Capgemini, United Kingdom and an international group of participants.

Hanson Cheah begins by saying that the going global process of Chinese companies is still a work in progress. The first companies that have started to go global are state-backed companies in the banking and energy sectors. Many Chinese companies are interested in giving their brands international exposure. Often, they prefer to enter developing markets rather than developed markets, which are already highly competitive. He feels that Hong Kong is still the venture capital market in Asia. Increasingly more people invest in a Chinese company though the Hong Kong capital market and help them go global.

Hans Christian Beltermann offers examples of how Chinese companies become global players and how European companies can enter the Chinese market. One way is to create joint ventures between foreign companies and Chinese companies, through share swaps. European companies look to China not only as a manufacturing base but as a huge potential market. Success cases often call for joint venture partners to engage in cross-border training and knowledge-sharing, especially in the early stages of the partnership.

> ***The 2008 Beijing Olympics will be a great showcase to the world and allow us to see how much China has changed.***
>
> ***Alan G. Hassenfeld, Chairman, Hasbro, USA***

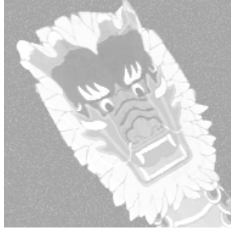
George Yip analyses the role of foreign acquisition and how that helps Chinese companies go global. He discusses the findings from a study that show:
- Chinese companies often buy obsolete companies and
- They do not always follow the "traditional" path of internationalisation, i.e. grow locally, and then build up overseas, through subsidiaries and then foreign acquisitions. Chinese companies tend to make foreign acquisitions before they even create a strong presence in their home market. The study analyses this and concludes that:
- Chinese companies want to gain capabilities which they could not obtain through the many joint ventures in the past, because partners were reluctant to give away core technology and market to the Chinese companies.
- Cross-border joint ventures manufacture predominantly foreign brands - very seldom Chinese brands. Chinese companies acquire foreign brands and seek to establish a sales channel for their products. Following this method of acquisition will expose Chinese companies to different challenges: market (loss of former customers), culture, financial and management risks.

A successful acquisition will depend greatly on up-front research and post-merger integration. In addition, the following opinions are raised and discussed during the panel:
- Acquisitions carried out by Chinese companies may have different drivers. They can be driven either by government strategies such as in the energy sector, or encouraged to create global firms, or they can be driven by business interests such as cost efficiencies.
- Research shows that Chinese CEOs are actually more concerned about domestic competition and protection of their IP rights than going abroad. They see tremendous opportunities in their own domestic markets.
- Due to the small size of many private companies, it is difficult for them to raise capital abroad. In order to gain more clout in the areas of finance and M&A, they have established a number of corporate member clubs, whereby each member is assigned a certain number of votes. As an alliance, they seek to win financing and make "collective" acquisitions with their joint buying power.
- Language plays a role in the understanding of other cultures. However, language skills alone will not lead automatically to an understanding of a foreign culture or people. In order to be successful, the use of local resources is a must.

Conclusion
- Chinese companies often choose to enter developing markets instead of developed markets because of less competition.
- Chinese companies need to identify their own way of going global rather than following in the footsteps of Western and Japanese companies. Their "Go Global" model will look different.
- Local human resources are fundamental for local success.

Ren Hongbing, meeting participants after the opening panel

> ***We find ourselves moving toward the world in many ways.***
> ***Chen Feng, Chairman, HNA Group, China***



Acquiring Companies in Europe: Strategic Legal Issues for Chinese Firms

Chaired by Thomas Gilles, Partner, Baker & McKenzie, Germany

Chinese companies are faced with a myriad of requirements and frameworks when acquiring companies in Europe. The strategic legal issues involved were discussed with panellists **Ronnie C. Chan**, Chairman, Hang Lung Group Limited, Hong Kong SAR, **Chen Ping**, Chairman, Manhattan Capital Group Holdings, China, **Frank Günther**, Managing Director, Günther & Partner, Germany, **J.P. Huang**, Chairman, JPI Group, China, **Christopher Klemm**, Managing Partner, Quadrum Partners, Switzerland, **Li Lu**, Founding General Partner, Himalaya Capital, USA, **Lin Xuefang**, Chairman, Zhengrun Weiye Investment Co., China, **Xu Bingjin**, Former Assistant Minister of Foreign Trade and Economic Cooperation, China, **Xu Gang**, Director, Beijing Jinde Law Firm, China as well as with other participants from Europe and Asia.

Thomas Gilles kicked off the discussion by raising two questions:

- Is the Chinese way of doing M&A transactions compatible with the European way?
- Is the European regulatory environment acceptable to Chinese investors or is it considered to be a major impediment?

Frank Günther states that based on his experience, the "usual transaction procedures are not well known to Chinese investors and that the decision-making process of the Chinese authorities is still slow. Therefore, it is still quite a difficult and time-consuming process. Mr. Günther also mentions that the language barrier often slows the process further and that Chinese companies are mainly interested in acquiring the assets and not the shares of European companies.

Ronnie C. Chan finds that Chinese investors are willing to overpay for European companies, depending on their need to buy a certain company which will allow them to expand their business into Europe. He says that problems arise due to the fact that buying a company is always easier than managing it. The Chinese will also have to learn more about the rules of acquisition and the consequences that can follow. He feels that it is easier for Chinese investors to buy a company in the US rather than in Europe, as the legal environment there is much easier to handle for them. He believes that unless there is no specific strategic reason for acquiring a certain target in Europe, many Chinese companies will not consider it to be a preferred investment location. Moreover, many companies are still focussed on the local market.

J.P. Huang states that especially with regard to the evaluation of assets it is difficult for Chinese investors to understand how much the assets of a European company are worth. He further points out that Chinese rather own than lease – so there is also a different approach in this regard.

Li Lu says that currently, the number of successful international Chinese companies is limited. Many Chinese companies would prefer to acquire companies rather than continue to accumulate cash. In the future, he believes that Chinese companies will become stronger, also at an international level, as they can no longer afford not to invest outside China. But he thinks that they will remain fairly passive investors.

Based on his experience, **Christopher Klemm** says it is crucial for the transaction to be strategically well motivated and that the key to a successful transaction is to have it prepared carefully.

Conclusion

- Outbound investment by Chinese companies into Europe will pick up in the future though the current legal environment in Europe is not preferential for Chinese investors.
- Chinese companies will most likely continue to be passive investors.
- It is crucial to have a sound strategic reason for a transaction – careful and thorough preparation is fundamental to a successful transaction.

Listing Chinese Firms

Chaired by Jonny Hon, Chairman, Global Group (Europe), UK

Panellists for this session were **Helder Bataglia**, Chief Executive Officer, Escom, Portugal, **Ulrich Becker**, Managing Director, Deutsche Börse, Germany, **Charlotte Crosswell**, President, NASDAQ International, UK, **Daniel Keist**, Member of the Board, SWX Swiss Exchange, Switzerland, **Madhu Kannan**, Managing Director International, NYSE, USA, **Oki Matsumoto**, Chief Executive Officer, Monex, Japan, **Xiao Kaining**, Chairman, Kaijia Investment Company, China, and **Zhao Min**, President, Sinotrust, China. Together, they discuss what it takes to successfully list emerging Chinese multinationals.

Jonny Hon opens this session with his colleague, Christoph Weber, both from Global Group, a venture capital company. They tell us that London is the market on which they have achieved most of their listings. As global opportunities to list and raise finance have increased, the decisions that need to be made by a company contemplating an IPO have also become more complex. Not all markets are identical and identifying the right one is essential.

Whilst major IPOs from the Chinese mainland in the last year or so have largely focused on Hong Kong, with perhaps an incursion into New York or London, (e. g. as was the case with the five big state-owned commercial banks), London has developed a particular appeal for smaller companies. As of summer 2006, there were 29 Chinese companies (including Hong Kong-based companies) listed on London's secondary AIM market. The business interests range from orange plantations to mobile telephones

They further describe aspects of London that make it an appealing environment, such as the light regulatory framework, cosmopolitan city with a large Chinese community and a gateway into Europe. China merchant banks are 265-times oversubscribed in the private sector and 35-times in terms of international demands. Chinese state banks are raising double-digits billions in US dollars. The reasons that China IPOs are not currently in favour are the lack of any alternative, as well as complacency, an outdated perspective and the political situation. Players should not jump onto the bandwagon and select just any listed company. Many candidates are not credible, although there are a few diamonds out there. It is important that thorough research is done.

Charlotte Crosswell says that Chinese companies will decide to come to the UK or the US based primarily on suggestions made by their advisors. Among the issues discussed were due diligence, junior markets and the fact that so far, not many Chinese companies have moved from China to the US.

Daniel Kiest notes that there are currently no Chinese companies listed on SWX. Companies should apply international accounting standards in order to break into the major international stock exchanges. There are also compliance issues and costs that are a burden for issuers without any value-added.

Some comment that listings in the Shanghai and Shenzhen stock exchanges are not credible and should not to be trusted until the fundamentals are reformed. Lack of transparency and corporate governance contribute to this poor image. Trustworthy Chinese companies should be listed elsewhere in the world. **Ulrich Becker** suggests that mid-size Chinese companies could benefit from listing in Germany. The compliance process is too rigid and complex.

Oki Matsumoto says Chinese companies should consider listing on the Japanese stock exchange. Recently, China has overtaken the US as Japan's biggest trading partner. There are huge markets in Japan compared with Hong Kong. Chinese companies should be encouraged to advertise on the Japanese stock exchange, where they can benefit from the time zone factor. It might not be practical for China to launch IPOs but it is a credible future possibility.

In general, other Asian countries have been seen to build up their listings and domestic markets, and to let foreigners into the domestic market and help them with corporate governance issues. China, however, seems to be doing the opposite: good companies are encouraged to list in overseas markets, with the hope that listing experience will flow back to China and allow it to build up its own expertise. There are currently less than fifty companies listed outside China.

Would companies listed on the HK stock exchange like to be double-listed in China as well? The HK stock exchange has a long list of companies waiting to be listed. It has a sizeable educational burden as well as due diligence issues. In general, investors also prefer liquid open markets but they do not like spreading equity across the globe as it is difficult to swap shares.

Although China is not yet mature enough for a capital market, it has an established stock exchange that is within the same time zone: the Hong Kong stock exchange. The HK stock exchange is relatively mature and complies with the Western model of corporate governance. It has been sharing this knowledge with the Chinese government. A listing on the HK stock exchange can be used as a health check for Chinese companies, although it would be a burden for the HK stock exchange.

The market in China is about raising capital funds, but also about visibility, valuation and corporate governance. These soft factors are often brought up by foreign companies when working in cooperation with companies in China. Being listed on a foreign market gives credibility to a Chinese company.

A discussion follows on the development of capital markets in China. On one hand, it is pointed out that the Chinese government is aware of the need for change and it seems to be receptive to ideas from abroad. It also understands the importance of providing stability in the business environment and having a debt market that will allow for floating interest rates. On the other hand, some wonder to what extent the West's approach to corporate governance should be adopted.

China's rapid development is promising. It is learning from the established Western concept of corporate governance and if given the chance, will develop and take steps to develop its own concept of corporate governance. However, the learning progress will not be completed overnight: it is thought that China will have moved to Western corporate governance standards within the next 10-20 years, and maybe better and much faster. It should also be remembered that scandals have hit even the West's corporate governance environment.

In conclusion, China's knowledge of corporate governance is still in its infancy, but if given the chance, China will make great strides in developing this area. This learning progress will not take place overnight: it is thought that China will have reached Western corporate governance standards within the next 10-20 years. It should be remembered that scandal has hit even the West's corporate governance environment.

To reach amiable business relations, mutual respect of each other's culture is indispensable.

Xie Qihua, Chairwomen, Shanghai Baosteel Group, China

Facilitating Investments through Strategic Communications

Chaired by Jere Sullivan, Vice Chairman, Edelman, Belgium

Our moderator for this session was joined by panellists **Stefan Baron**, Managing Editor, WirtschaftsWoche, Germany, **François Carrard**, Special Commissioner for the Olympic Games 2008, IOC, Switzerland, **Chen Xiaofeng**, Chief Executive Officer, Inception, China, **Claudia Gutiérrez**, Director, Association of European Journalists, Spain, **Lu Xingdong**, Chairman, Tanglong International Media Company, China, **Mao Yonghong**, Chairman, Baibuting Group, China, **Ikram ul-Majeed Sehgal**, Chairman, Pathfinder Group of Companies, Pakistan, **Shi Yuzhu**, Chairman, Giant Investment, China, to discuss this topic.

The thoughts shared during this session focussed mainly on the differences between Chinese and western business styles, and how these can be bridged through communications.

One could tackle these differences at both a macro and micro level. From a macro perspective, Europe and the US need to address concerns felt at national level i.e. the perceived threat of a Chinese capital and product "invasion".

- Associations, Chambers of Commerce, consultants etc. will play a vital role in allaying popular fears and should be able to assist investors in achieving their business goals. This holds true for their counterpart organizations, as well.
- Chinese companies will have to learn how to deal with a potential public backlash of their perceived intentions. They will need to explain how lower costs bring both greater perceived wealth to westerners in the form of low prices and low inflation. Additionally, they will gradually help raise living standards in China by creating jobs and raising per capita GDP.
- All of this indicates the importance of a well designed communications strategy which will rally support at grassroots level.

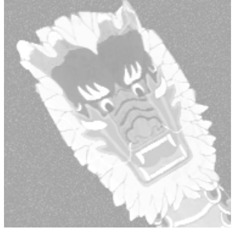
Ronnie C. Chang discussing with participants

At a micro – i.e. company – level, there are a number of legal/cultural/language/experience barriers that make communications that much more important. Often, the same word or concept has a totally different meaning in one region or the other. It is thus vital for businessmen to ensure that they have the right support and advisors to assist them in avoiding serious mistakes which are often simply due to minor misunderstandings.

Choice of resources is fundamental. One needs to create a balanced team of both local and imported resources, thereby gaining the best of both worlds. Everyone realizes that this is easier said then done, as it forces people to let go of certain embedded practices – basically taking people out of their comfort zone.

Finally, it is important to identify which local practices allow your company to be efficient and which should be modified or perhaps even dropped all together. Both internal and external communications will influence the selection of these.

Narayana Murthy talks about global outsourcing



Manufacturing, Sourcing and Supply Chain Management

Chaired by Harald Kayser, Leader China Business Group, PricewaterhouseCoopers, Germany

China has become the 'factory to the world' and multinational corporations are increasing their endeavours to source from China. What models of cooperation will prevail? Are there enough sourcing companies within China to meet demand? Is the infrastructure in China sufficiently developed to meet sourcing requirements? These were some of the questions debated by panel members **Bob Bishop**, Vice Chairman, Silicon Graphics, USA; **Paul W. Bradley**, President, Arshhiya Technologies International, India; **Sach Chandaria**, President, Comcraft, Singapore; **Johan Eliasch**, Chairman, Head NV, United Kingdom; **Joachim Reidiess**, President, Dr. Wirth Group, Germany; **Jean Rosanvallon**, President, Falcon Jet, France; **Sun Jianhu**, President, Xiamen King Long Motor Company, China; **Jerry Zhang**, Chief Executive Officer, Neocomm Broadband, China.

Harald Kayser led the discussion by stating that according to a recent PwC CEO report, CEOs want to double sourcing within China in the next 2 to 3 years. This reflects the fact that it is not sufficient for Western companies to concentrate on being innovative, they must also make an effort to reduce costs. **Bob Bishop** acknowledged that China is regarded as having an unlimited source of labour and raw materials. However, there are a number of risks associated with relying solely on the Chinese market for sourcing raw materials/labour, for example, currency exchange risks, the ability of the country to make the transition from hardware to software, political and regional instability.

Jerry Zhang noted that there is no single model that works in China. For example, Jerry has found that incentive schemes which remunerate employees at each stage of production have been very successful in his business. However, such schemes are still very unusual in China. **Jean Rosanvallon** commented that China is still developing aviation-related technologies. As a result, it is his view that it will take a long time for China to become a competitor in this field.

Sach Chandaria spoke about his experiences in the Indian and Chinese markets. From a historical perspective, software development was generally outsourced to India while hardware-related work was outsourced to China. Sach has noticed a marked change in the last 2 to 3 years with more software-related work going to China. While India still has some advantages over China, it is only a matter of time before these are addressed (for example, in the area of language skills). From a manufacturing perspective, India has to deal with some serious challenges as the infrastructure is very poor and it cannot integrate itself into the supply chain.

Paul Bradley made the point that there has been a huge transition in China over the last 10 years. A large amount of FDI flowing into China has been invested in infrastructure while countries in the West are allowing their infrastructure to weaken which has a negative impact on the supply chain. Infrastructure in China is the best in the emerging markets. In addition, as the Chinese consumer market becomes more affluent, Chinese companies can reduce their costs notwithstanding increasing labour costs.

Joachim Reidiess said that conditions for doing business in China can change from day to day, particularly for small companies. As a result, companies operating in China need to be extremely flexible. For example, a big issue for a company importing into/exporting from China is the level of cooperation from Customs authorities, which can change in a very short time period. He noted that the government is trying to slow down an overheated economy, which is giving rise to a great deal of uncertainty for foreign companies trying to do business there. For example, recent changes to property laws are making it more difficult for foreign investors to acquire property in China; Chinese companies with foreign partners are being challenged as to whether they need a foreign partner rather than a local one. In all, the country is becoming more national following concerns at local level that certain assets were sold to foreigners too cheaply.

The following points were also raised and discussed:

- There are also Western political issues which are impacting global businesses. It was noted that the West is becoming overly regulated (for example with regards to container checking) which gives rise to significant delays in the supply chain. Poor infrastructure in the West is also causing delays.
- The US obtains a significant amount of debt funding from China in order to keep its interest rates low. This was identified as a major risk factor for the West and it was noted that the US should try to achieve a balance between debt requirements and funding.
- Companies based in the West need to be more creative when trying to keep costs low. For example, Swatch very successfully used micro robotics to counter the low-cost movement. Europe needs to consider this area more and perhaps should use Eastern European territories to do low-cost manufacturing for it.
- The final issue identified was a world-wide one, relating to how companies are going to deal with environmental issues going forward.

Ren Hongbing makes a comment to Ronnie C. Chan

> ***Firms operating in China will need patience as achieving long term profitability may be a more realistic target than short term gains***
>
> ***Jeffrey R. Shafer, Vice Chairman, Citibank, USA***

Chinese Business Leader of the Year

An initiative by Horasis and PricewaterhouseCoopers

With the help of an international jury of esteemed business executives and respected academics, Chairman **Chen Feng** of HNA Group was selected as China Business Leader of the Year.

Chairman Chen has shown outstanding contributions in the field of Leadership by combining aspects of traditional Chinese culture and modern management concepts in a balanced and appropriate way.

Chen Feng and three others started Hainan Airlines in China during a historic transformation and privatization of the civil aviation industry. From a small loan from the local province in 1992, Chairman Chen built the company into a conglomerate that currently ranks as the fourth-largest aviation group in terms of sales. It employs almost 3000 people, including over 600 pilots. The Group further includes hotels, airports, travel agencies, an insurance company, and a department store.

Chairman Chen believes in a strong company culture and strives to ensure that all HNA employees feel part of this culture. He makes time to meet with all new employees in order to share with them his view on upright behaviors and how they create, when put into practice, a positive effect on business.

Chairman Chen exemplifies a modern-day leader: he strives to learn from others, puts the best of that learning into practice, and creates a vision that others can understand and follow.

Chen Feng during his acceptance speech

Chinese Business Leader of the Year
- Chen Feng, Chairman, Hainan Airlines

Chen Feng admiring his Baccarat crystal cup

During the gala dinner

Key Insights on How to Do Business in Europe

Roundtable Discussion with Partners of PricewaterhouseCoopers

It is a strategic imperative for Chinese firms to enter overseas markets. What are the winning market entry strategies, the indispensable ingredients for successful deals, the appropriate legal and tax structures and the most promising industries for Chinese investors in Europe?

Chinese investors discussed these topics in a private meeting with experts from PricewaterhouseCoopers. After presenting specifics on the business environment of various European countries, experts provided advice on specific investment opportunities and industry topics in the filed of automotive, life science, banking, etc.

The Chinese participants at this session confirmed that many Chinese companies were extremely eager to enter the European market, but were often not familiar with all the rules and regulations of the individual territories. Whereas state-owned enterprises often establish R&D centres to conduct market research, private companies need the support of domestic think-tanks and professional advisors to carry out research on consumer preference, market competitiveness and investment opportunities. Because labour laws, taxation and the general business environment differ greatly among European countries, there was a broad consensus that it would be necessary to seek the assistance of local experts.

When given the choice of 'building or buying', Chinese investors seem to prefer purchasing established companies. The most sought after sectors for investment include technology in the field of machinery, energy generation, environmental protection equipment and textile manufacturing, as well as established brands (fashion, consumer goods).

Mid-sized, family-owned companies are of particular interest. This type of company is the driving force behind much of Europe's economy and many of them are beginning to face problems due to cheaper exports from abroad. Traditionally, the owners of such companies are reluctant to admit outside investors, especially foreigners. This hurdle could be overcome by forming contractual alliances without equity investment.

Chinese companies are also attracted to forming joint ventures in Europe. Some expressed that this form of partnership has much potential for mutual benefit, but is also prone to conflicts. Even those Chinese investors who were comfortable with their knowledge of how to do business in Europe struggled to form strategic alliances with European companies. They felt that it was very difficult for them to overcome feelings of distrust.

Equity swaps between Chinese and European companies would be yet another option. The rational for equity swaps is that, when a company is effectually acquired by another, there are no 'winners and losers' of a takeover, only partners.

Conversation during the gala dinner

> ***Chinese power enterprises will go abroad and take part in the global market competition.***
>
> ***Zhao Xizheng, Chairman, China Electricity Council, China***

Interviews

Interview with Chen Wenchi,
President and CEO, VIA Technologies, Inc. Taiwan

Interviewed by Bernard Gainnier, Leader of PricewaterhouseCoopers Eurofirms China Business Group

Chen Wenchi,
Chief Executive Officer, Via Technologies

Wenchi Chen has been president and CEO of VIA Technologies, Inc. since 1992 and has guided its transformation from chipset designer to leading developer of silicon chip technologies and PC platform solutions. Under his leadership, VIA has become the world's leading developer of PC core logic chipsets. With a comprehensive portfolio of key building block technologies now in place, VIA now provides customers with complete platforms for building a full range of PCs, servers, notebooks, and personal electronic devices.

Bernard Gainnier: During the panel this morning, you and other participants have already raised the question: what are the challenges for Chinese companies expanding into Europe? Is it necessary for Chinese companies to invest in Europe? And if so, what is the recipe for Chinese companies to successfully manage their business in Europe?

Chen Wenchi: Around the world, many companies are going global. Going global is inevitable for Chinese companies, too. And whoever wants to go outside China must be globally minded. Even those companies with a domestically run business will have to stay up-to-date on what is happening globally in terms of management, human resources, sales and technology. Those who do not go global will have disadvantages.

BG: Let's turn the question around: How and what should Westerners learn from China and its culture and what are the key elements of Chinese culture that can benefit their business?

CW: Basically the same that the Chinese have learned or should learn from the West. Western companies should learn to appreciate Chinese culture and establish partnerships and friendships with Chinese. We all need overcome clichés and learn to work more closely with each other. In the end, we are all human beings and must try to understand each other.

BG: So, trust is essential …

CW: … trust and appreciation.

BG: From a business point of view, how do you achieve this? As a CEO or senior manager, how do you actively push your company to become global? How do you teach your people to appreciate and trust each other?

CW: People need to work together on projects. You need to identify the strengths (and weaknesses) within the company and then combine these forces to create strong teams with people that complement each other.

BG: So in practice this means that you determine joint projects and then identify which are the best resources to work on it?

CW: Right, it means you need to view people as a global resource. And as such, you strive to bring the best talents together to ensure the best possible project results. It means to create a learning organization which continuously offers new knowledge and experiences, thereby creating smarter people and better teams.

BG: What are the key elements that the Chinese can bring to a project? Compared with Western people or Indians, do you feel there are habits or traits of Chinese culture that are particularly positive?

CW: I do not see any characteristics fundamentally unique to any people. Some people say Chinese work hard, but I've also seen Americans and Europeans who work hard.
We are all human beings.

China, however, does have two advantages: one is its huge workforce. Not only low cost labour, but also, for example, a large number of engineers. The other advantage is, generally speaking, the Chinese tend to know China better.

BG: What would your advice be to Chinese companies that have made unsuccessful investments in Europe or in the U.S.?

CW: "Keep doing it, and keep learning from it."

BG: Most of the European workforce does not want to work more than 35 or 37 hours per week. How do Chinese companies handle this labour issue?

CW: The same way European companies handle it. Right now, many Chinese companies would not be able to cope with this situation, but they will learn that Europe's business environment, in general, is different. "When in Europe, do as the Europeans do."

BG: For a company coming to France or Germany, how do you manage European business and investment? Is somebody responsible to bridge the cultural differences in the new business environment?

CW: This will depend on the type of organisation and the specific activity. If it is an activity that involves government relations, marketing or sales, they would do best to appoint someone very familiar with the local laws and conditions. On the other hand, if there is a need to maintain contact with the Chinese headquarters, the responsibility should go to someone who has the right connections and is well respected in the home office.

BG: So it mainly depends on the business drivers. You are in the IT-business where intellectual property rights are a big issue. How do you think China's attitude towards intellectual property rights protection will change in the next 18 months?

CW: There will be gradual change and improvement, but how much can be achieved short-term is not clear. In the early stages of growth, Japan and even the U.S. also copied a lot; this attitude is common among latecomers. But, as China business develops, there will be much more intellectual property to protect and more willingness to protect foreign intellectual property.

BG: What is your approach intellectual property right protection?

CW: This takes years and much effort. The people currently involved with this are individuals and small entities. Investing more effort and money will make copying more difficult, although I have to say that it is not easy to make copies of chips.

BG: I have been discussing this with a French electronics company: Chinese can copy many of their products, but the chip is the key element of their assets. Are you using this approach as well?

CW: We do not think that our products can be easily copied because it needs many years of R&D and therefore usually also a big organization. However, since copying of intellectual property cannot be prevented it is necessary to always stay at the forefront of innovation.

Interview with Narayana Murthy,

Chairman and Chief Mentor, Infosys, India

Interviewed by Bernard Gainnier, Leader of PricewaterhouseCoopers Eurofirms China Business Group

Narayana Murthy,
Chairman and Chief Mentor, Infosys

Bernard Gainnier: Chairman Murthy, in 1981, you and six other software professionals founded Infosys Technologies Limited with a capital of US $250. Under your guidance and only 25 years later, Infosys Technologies Limited became one of India's largest IT companies with over 58,000 employees word-wide and annual revenues exceeding US $2.15 billion in 2006. What has been the recipe for this success?

Narayana Murthy: Infosys – one of the biggest companies in the IT industry – is a child of globalization: we are producing in places that are the most cost effective and are selling where the markets are. This success has been based on certain principles.

First: we embraced the principle of globalization. There is a difference between "globalized corporations" such as Unilever, which sells goods where it produces them; and "multinational corporations" such as Nike. The latter produce goods in Asia and sell them in Europe and the Americas. The same holds true for Infosys: we produce in India, but sell worldwide.

Second: we benchmarked our business with the best global practices, human resources, sales, software technology, finance etc. For example, we were the first company listed on NASDAQ to reformulate its balance sheet and income statement so that it would conform with the GAAP of eight countries (USA, UK, India, Canada, France, Germany, Japan, Spain). We were also among the first companies in the world to fully comply with the Sarbanes-Oxley Act.

Third: we are one of very few companies in the world that gives 35% of all equity to their employees – very few other companies would do so.

Fourth: we are also one of the first companies to embrace a global delivery model. We are deeply engaged with our customers and strive to meet their needs by interviewing them, understanding their requirements, installing the appropriate software and then providing customer training. Our back office follows up with customer services that are less interactive. Work relating to detailed technical design, architecture and database design, program testing, documentation and long-term warranty are carried out in process driven, talent-rich, scalable and cost competitive development centres in mainly India or China.

BG: You said India or China. Are there differences to implement this strategy in India and China?

NM: There are a few differences. Chinese work very hard and Chinese entrepreneurs are smart. However, the key differences are:

First: The people of India understand English, which is the language of business.

Second: Thanks to 25 years of experience with large project management, Indian companies and professionals have much more experience with project management, especially with such crucial elements such as dealing with customers (who often are foreigners), dividing large projects into thousands of sub-tasks, reviewing the progress, making sure the important sub-tasks are on the critical path and communicating progress to customers.

Third: India has a mixed economy: 78% of GDI is earned by the private sector; therefore Indians understand a wider range of business concepts.

Fourth: India respects intellectual property to a larger degree than China; the rule of law is much more developed in India than in China. The reason is that people understand the concept and value of intellectual property, because now many Indian companies produce and own IP. In another five to ten years, Chinese companies will also protect intellectual property rights.

BG: What can China do to succeed in the outsourcing market and compete with the leading Indian companies?

NM: In the year 2005, Infosys had revenues of US$2.15 billion. At the beginning of this year we projected a growth rate of 30%, but after the first quarter we adjusted our growth projection to 42%. Why are we growing at this rate? Because our customers know that we are respecting and protecting their intellectual property rights. In order to compete with India in the outsourcing market, the Chinese have to improve in four areas:

First: China has to work hard to stop infringements of intellectual property.

Second: China must also improve a better regulatory system for its service industry. India is 15 years ahead in this area. In China, for example, a service company must obtain approval from the central bank for every single contract. If I want to start an office in Beijing, new registration is required.

Third: China must develop English speaking talent. Labour in China is still 40% more expensive than in India and it therefore faces a huge cost disadvantage.

Fourth: China must teach abstract Western models of business at all universities. Originally, Chinese lack this ability because of the nature of their language that is based on idiograms. India's history lacks an industrial revolution and that is why Indians are so good with abstract ideas. This is also another reason for India's dominance in the IT industry.

BG: Do you see deficits in the rule of law in China?

NM: China's laws and their execution must become more transparent and consistent.

BG: Once these issues have been resolved, will China be a threat to Indian software and outsourcing companies?

NM: China exports about US $900 billion worth of manufactured goods and that is almost six times more than India (US $140 billion). If all the aforementioned changes are implemented, China will follow India's steps in software development and I think they will do well. Customers will be the true beneficiaries from the competition between India and China.

BG: What are the key elements in Indian culture that can guide business strategy and make a difference?

NM: Buddhism derived from Hinduism and glorifies some of the same principles: means and processes are very important. Hinduism and Buddhism never fought in religious wars against each other because Hinduism is the oldest religion in the world; hence it does not recognize any other religions. India's and China's cultures share common aspects: they are both family-oriented and have a rich tradition of giving and sharing, as well as absorbing good things from outsiders. The greater degree of aggressiveness among Chinese – when compared to the average Indian – may be a more recent phenomenon.

BG: Thank you for the interview, Chairman Murthy.

Interview with Alan Hassenfeld,

Chairman of the Board of Hasbro, Inc., USA

Interviewed by Bernard Gainnier, Leader of PricewaterhouseCoopers Eurofirms China Business Group

Alan G. Hassenfeld, Chairman, Hasbro

Hasbro is a worldwide leader in children's and family leisure time entertainment with US$2.9 billion in revenues and an impressive blue-chip portfolio of familiar and popular brand names such as PLAYSKOOL, TONKA, MILTON BRADLEY and PARKER BROTHERS. Hassenfeld began his career at Hasbro in 1970. Mr. Hassenfeld was appointed to Vice President of Marketing and Sales in 1978 and became President of the company in 1984. In 1989 he took on the roles of Chairman and CEO. Three years ago, he relinquished his responsibilities of CEO in order to fully concentrate on his position as Chairman.

Bernard Gainnier: Alan, Hasbro has been in China for quite some time. Over the years, the business environment in the toy industry has changed a lot in terms of regulation, compliance, market pressure…

Alan Hassenfeld: Do we have 3 to 4 hours? In a nutshell: Hasbro started to buy in Hong Kong in the late 60's from factories located in the Territories and run by mainland Chinese. We worked with many of those toy-makers who later became the real estate tycoons of today.

In the 80s many of these partners moved production to their home village in China. You know, the Chinese are very patriotic people. Today, 75-80% of these factories that were set up then are still active. Following suit, I set up buying operations there. As a consequence, 75-80% of our goods are produced in China.

Over time, our partners have become more sophisticated; nowadays an engineer in China is just as sophisticated as his/her American or European counterpart. Even innovation is coming out of China e.g. in the field of educational materials and electronics.

Actually, one of our first moves into mainland China was to buy out a distributor partnership as it was unlikely to turn a profit. It was a joint venture with a store located on a main street in Shanghai. But – like other good pioneers – we were a little bit too early.

We choose to have partnerships with Chinese distributors and do not want to enter the retailing sector. We help our partners by providing support in marketing and management.

BG: What are the main trends in China's toy business today?

AH: Number one: there are still a great number of intellectual property rights infringements, mostly being produced at very low-quality factories. The Chinese government has agreed to implement ISO standards that will become effective in June 2007. These will require higher quality products that cause no threat to children's health and will drive out the cheaper, non-conforming factories because it costs money to produce quality goods.

Number two is in the area of logistics and distribution. We face the problem of high logistics costs and double custom duties due to reshipment to and from Hong Kong. This issue should be resolved by relocating to certain special zones.

Number three: young children in China's one-child families are showered with presents by their parents and grandparents but the also have the great burden of becoming high achievers at school – they are slaves of the educational system.

In addition, most of their parents lived through the Cultural Revolution, when toys were forbidden. Therefore, in China, we find ourselves trying to re-educate people on the "culture of toys". The Chinese must learn again to stimulate their children's imagination and allow them to just play, "a child's work is its play".

Number four is retailing in China. Carrefour and Wal-Mart are already present with their superstores. Retailing is entering the market but it still lacks critical mass due to the fact that advertising is very expensive. Let's say, Toys 'R Us sets up a store. It's a great store but advertising it costs them millions of dollars. Instead, they decided to open16 stores around the city. By doing so, the costs of advertising in the local newspaper can be spread across all 16 locations, resulting in a cost of about US$60.000 per store.

So – don't expect to make a profit from the toy business in China in the short run, but as Gandhi said, "The future depends on what you do today".

BG: Companies such as Unilever and Proctor & Gamble have gone through this phase already …

AH: That's because they invented smart strategies. At a certain point in India, for example, they understood that there were customers willing, yet unable to purchase a specific brand. So they came up with a new single-dose packaging which sold for two cents instead of 2 dollars. It sold incredibly well.

BG: Do you think companies investing in China now can follow that strategy or should they take into account the changing conditions and consider other options?

AH: First of all, they should make products which are culturally acceptable. For example, Hasbro now sells trading cards and play dolls such as "Transformers". We are very fortunate to have a lovely Chinese translation of our company's name: "Haizibao" means "children's treasure". Secondly, one needs to have good partners in China. I'd suggest sending Western managers to train the locals.

BG: Along with other challenges, Hasbro has also been confronted with the ethical behaviour of its partners. Labour conditions in China did, and sometimes still do not meet the expectations of Western industry standards. How do you deal with this?

AH: Every time around Christmas, stories of blood, sweat and tears come up in Western newspapers about toys produced by slave labour, especially in South China.

Within our industry, ethical guidelines are already in place. The problem is that they are not uniform, although the various codes are about 90 percent identical.

One toy company told us that they had 40 different audits performed by retail store chains. There was clearly a huge need to create a single code of ethics. Our industry is now working to establish a code of global social responsibility that in turn will create one set of global ethical standards according to which children's toys will be produced. It will unify brands, retailers and manufacturers. We are focussing only on China, since 80 percent of world's toy production is in China.

With our audits we ensure that our manufacturers pay the proper wages, pay overtime and will not allow child labour.

This initiative will level the playing field in the industry and get rid of some of the bad factories that are spoiling the reputation of all the good things we have done already.

BG: What would you recommend to newcomers to China?

AH: In 1978, I was invited by the Chinese government to go to Beijing and Shanghai to talk to representatives of China's light industrial industry. After a few drinks, my conversation partners mentioned that Mao Zedong had instructed them to learn from the West where it benefits China. Since then, China has changed greatly.

The 2008 Beijing Olympics will be a great showcase to the world and teach the world how much China has changed. Nevertheless, China also faces serious environmental problems. It is drawing heavily on its natural resources. It is also a massive coal burner and each day thousands of new cars enter into circulation. Cities are expanding into farming land and farmers receive only very little compensation for their land. As the disparity in income, education and health care is rising, social unrest will, too. In 2005 there were 87,000 demonstrations in China versus 8,000 in the mid-nineties. Today, the authorities are taking risks when organizing conferences on CSR and corruption.

Yet China is very much like America: the provinces do not like to listen to the central government.

BG: In your company, how do you bridge the gap between the headquarters and the satellites?

AH: You have to have enlightened management and someone who walks you through the minefields, like PricewaterhouseCoopers.

A lot of handholding is necessary: it takes good local people who can mentor our managers. And it is all about trust. Chinese trust you if you have been introduced by a Chinese. Chinese are also "relationship-astute": in Chinese society relationships are very important and even very distant relations are utilized. Therefore the Chinese partners should to be responsible for "guanxi" [relationship building/networking].

Anselm Stolte: I read through Hasbro's fascinating story and came across the take-over battles with Martel. I was wondering, could this happen again, with a Chinese toy company?

AH: In some areas where we could divert further deals of such size will depend on whether the authorities, for example the European trade commission, would give consent. As for the Martel deal, it wasn't that it did not make sense – it simply would not be doable. We had three outside law firms advising the board on whether this deal could get done. Their estimates ranged from zero to 10 percent likelihood. The deal would probably have required the divestiture of one of the companies and also greatly impact many people.

Right now, there are no Chinese companies on the red screen.

Instead, we plan to build "Haizibao" into a brand name in China. The question then is: how do you play our content to work for us? Hasbro is therefore entering new fields. On July 4th, 2007 the US$145 million movie "Transformers" will be released.

BG: Thank you for the interview, Alan.

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