

“SHOW ME THE MONEY”

A PRACTICAL GUIDE TO IDENTIFYING AND AVOIDING OBSTACLES WHEN ENTERING THE CHINA BUSINESS MARKET

Presentation

to

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- **Is there Money in China?**
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 - **The Results**
 - **Obstacles to China Market Entry**
 - **Top 10 Reasons for Business Failures in China**
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 - **What may need to change?**
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CHINA



Is the Money in China?

Country	Population (million)	GDP (billion US\$) 2006 (2205)	GDP at PPP (billion US\$) 2006 (2005)	GDP per capita (US\$) 2006 (2005)	GDP per capita at PPP (US\$) 2006 (2005)	Labor/costs/hour (day =8 h) gross (EUR) 2005	Big Mac Index 2005 (2004) (US\$)
USA	300.0	13,124 (12,490)	13,949 (12,360)	43,800 (42,101)	43,600 (41,800)	25 (200)	3.06 (2.90)
Japan	127.5	4,652 (4,664)	4,168 (4,012)	36,400 (35,787)	32,600 (31,500)	20 (160)	2.34 (2.33)
Germany	82.4	2,800 (2,730)	2,610 (2,498)	33,900 (33,922)	31,000 (30,400)	25 (200)	3.58 (3.55)
Hong Kong	6.0	182 (173)	241 (227)	25,900 (25,444)	33,900 (32,900)	10 (80)	1.54 (1.54)
China	1,300	2,172 (2,225)	8,877 (8,859)	1,700 (1,703)	6,800 (6,800)	0.5-2 (4-16)	1.27 (1.26)

Where does China really stand in 2006 : The Positives (1)

- Lower cost base
- Competitive suppliers & distributors
- Huge & expanding domestic market
- Efficient production lines
- Value added competition

Where does China really stand in 2006 : The Positives (2)

Key Political, Economic & Legal Changes:

- Post-Tiananmen Reforms
- Successful Handover of Hong Kong & Macau
- WTO requirements
- A Market Economy
- Efforts to deal with Competition
- Open Door Policy

The Results:

- Massive foreign investment
- Unprecedented economic growth
- Emergence of a Middle Class
- Rise in disposable income & consumerism
- Lowering of market entry barriers
- Greater bureaucratic transparency

Obstacles to China Market Entry

- Cultural differences
- Language barriers
- Different expectations/agendas
- Different concept of legal rights & the role of law in regulating business relationships
- Role of '*guanxi*' in business

Top 10 Reasons for Business Failures in China:

- Expectation that China should conform to US business models
- Failure to conduct proper research and due diligence
- Lack of effective exit strategy
- Miscommunication/breakdown of relationship
- Unrealistic expectations/aims for China operations
- Shift in Chinese partner's agenda
- Failure to adequately provide for the real cost of doing business
- Lack of effective controls/supervision in China
- Regulatory problems
- China operations cease to be profitable

The Standard US Business Model

- US Company
- Contract in English
- Payment Terms in US\$
- Contracts subject to US State law

What may need to change?

- Your mindset, so be adaptable!

Why do you need Hong Kong

- World-class 'soft' & 'hard' infrastructure
- Faster, easier entry to China
- Hong Kong Companies known in China
- Ease of Money flow
- Legal Cooperation
- Tax advantages

How to Proceed – the Building Blocks

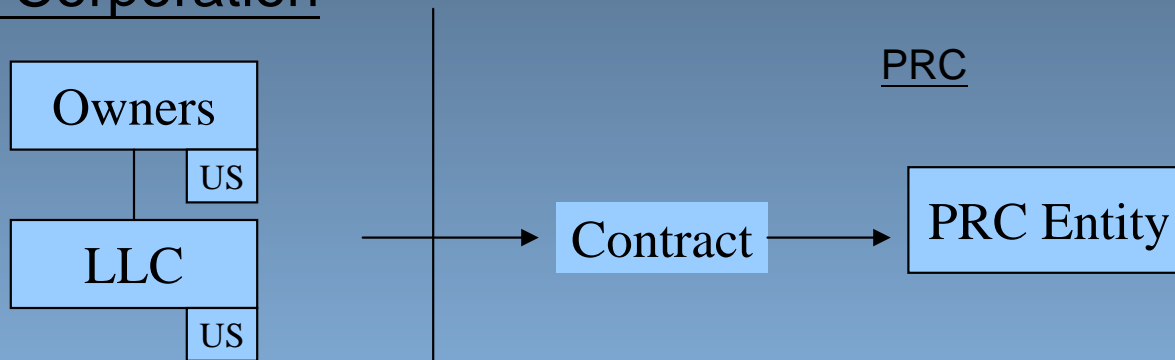
- Understand differences & how things are done in China
- Be aware of China's countless paradoxes & challenges
- Keep an open mind but...
- Avoid any course of action that would be manifestly imprudent/illogical elsewhere

Practical Protection

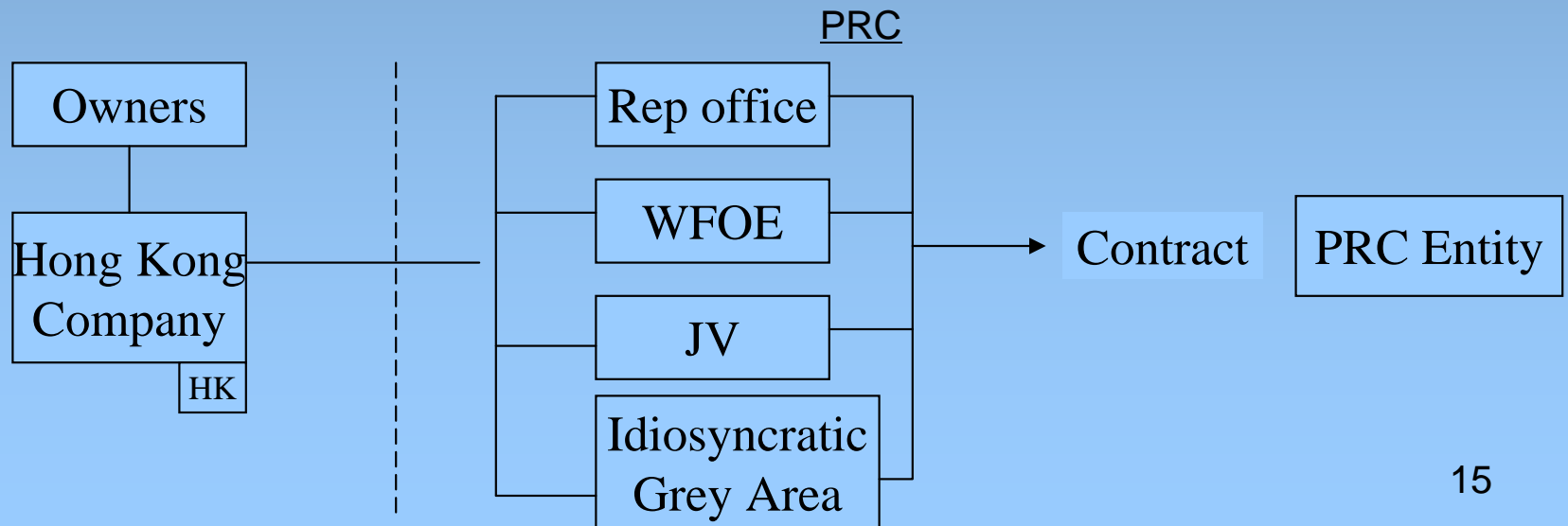
- Ensure you get paid!
- Where do I litigate?
- How to protect my IP
- How to protect my employees

Case Studies

(1) US Corporation



(2) HK Corporation



Conclusion

- Identify likely Obstacles
- Decide on a Strategy
- Be prepared to Adapt and Learn!

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