Ladies and Gentlemen,

It is a great honour to be speaking at the European Federation of Catering Equipment Manufacturers Conference for 2013; both for myself and for our company, China Manufacturing Solutions.

We are a young company, having been formed in 2007 but, in the last six years, we have built our business from a manufacturing base in Shandong province, China. In those years we have had a fascinating insight into China, its challenges and pitfalls and, of course, the opportunity that exists from one of the largest populations on Earth.

When, therefore, we were asked to discuss at the conference, 'China-a threat or an opportunity and how to utilise the development potential', I thought it would be helpful to firstly explain how and why we started our business. Secondly, to discuss the China export story, particularly to Europe and the US. Thirdly, to focus on the opportunity that we see within the China market, and lastly, to talk about the challenges and, indeed, the opportunities that we see for European and US operators.

CMS was founded by myself and Sir Anthony Jolliffe, as previously stated, in 2007. We bought our factories in 2008, started manufacturing at the end of first quarter of 2009, and here we are in June 2013 having just sold a majority of the company to a large Chinese investor and refrigeration company.

The logic behind forming CMS was quite simple. Sir Anthony, a former Lord Mayor of London in the 1980s, had gained valuable connections and, indeed, international trade advisory roles for two Chinese provinces, namely Shandong in north eastern China and Yunnan in the south west. He had also persuaded a NASDAQ listed company, TurboChef, to transfer part of its manufacturing, of one of its relatively sophisticated microwave/convection ovens, to a government-owned manufacturing plant in Jinan, the capital city of Shandong. That experience was not successful. There were quality control issues as well as a lack of management skills and accountability. TurboChef, having tried to manufacture the entire C3 unit in China retreated and just left the manufacturing of the cavity and related parts in China. The year was 2005.

That experience, however, lay the foundation of our company today. In 2005, the Chinese authorities changed the legislation whereby non-Chinese nationals could own assets in China directly as opposed to participating through joint ventures and third-party relationships.

We believed fundamentally in two key factors. Firstly, the attractive wage thresholds, particularly in the northern part of China, would ensure competitive manufacturing for the export market in commercial catering equipment for the foreseeable future. Owning our own factories and controlling the whole process from getting the order, through manufacture, the QC process and finally distribution, presented, we felt, interesting and exciting opportunities.

Secondly, we wanted to be a domestic manufacturer in China to participate in the development and opportunities that we saw in the domestic market in China over the coming decade. At that time, in 2007/2008, it was seldom focused on but we saw it as one of the great opportunities for our industry for a generation. More on this later.

I had had a career in investment banking spanning some 25 years, with Lazard Brothers, Warburg Securities, UBS and latterly the Dutch bank, ABN Amro, which, of course, somewhat infamously brought RBS to its knees in the financial crisis of 2007/2008. Throughout that time, I had travelled widely, running ABN's global equity business and, before I left in 2002, running their wholesale bank in the US. I then developed an advisory business for one of the major capital market regulators in the USA, advising emerging market governments, regulations, exchanges and investment banks on the importance of regulatory systems and controls.

China had been one of the areas of major focus and although the Chinese did not believe the US could teach them anything about regulatory structure or systems (an arrogance that I will refer to later!), we did quite a lot of work with the Chinese authorities in the area of education of regulators and other industry personnel.

I was not a regulator but did gain a valuable insight into the scale, size and opportunities that China presented. Sir Anthony persuaded me to leave the regulator and CMS was born.

Armed with the promise of contracts from TurboChef, we tried to raise money to fund the purchase of factories and equipment. Our timing was quite terrible. We started to try to raise money at the start of 2008. We found it virtually impossible, only managing to secure enough funding, courtesy of a large Middle-Eastern investor and myself, to buy two factories, re-equip them and begin the recruitment process. We finalised the purchase of the factories in September of 2008. In October, RBS went bust and had to be bailed out to the tune of £37 bn and the financial world changed forever.

We began manufacturing at the end of the third quarter of 2009 – the loneliest feeling in the world – 50 workers and a small contract from TurboChef – and nothing else!

So here we are five years later. We have a profitable business, revenues in excess of $10 m, over 500 workers, including the workers at our new refrigeration partner, Santa Technology. Most importantly we have a growing client base based on our historic relationship with TurboChef where we now manufacture 5 of their main product lines, with ITW where we manufacture complete products for their Wolfe and Vulcan brands and particularly with the Irish-based company H&K. For H&K, we began by manufacturing sinks and tables in China for Subway in Europe. That has now dramatically expanded, particularly in China where, with H&K, we are one of two companies supplying McDonald's in China; the other being Franke.

In addition, our new partner is one of the largest commercial refrigeration manufacturers in China and we have a growing third-party sourcing business in related commercial catering equipment from other factories in China. We have amassed a wealth of experience and knowledge, a huge infrastructure of contacts and connections and, most importantly, we have an understanding of China, its culture and marketplace. We have survived and, indeed, prospered in one of the most turbulent periods in history for the global economy. We approach the next decade with enormous optimism.

Enough of our history. Let us now talk about the opportunities and challenges that China presents.

Let me talk briefly about the challenge facing exporters. Firstly, let me state quite clearly – China is the great economic success story of the past 30 years. Since the 'reform and opening up' policy was introduced in 1978, China has changed beyond recognition. A Soviet-styled planned economy has been transformed into a vibrant market-orientated economy and 400 million people have been lifted out of poverty.

In 2012, China became the world's biggest trading nation. It is already the largest exporter and it will soon be the largest importer. Do not, as I am sure you would not, underestimate China's economic influence in today's global environment. Its economic influence has also had a dramatic impact on its ability to compete on the international export stage. Yes, wage inflation is a reality. But it is too easy to generalise from a geographic standpoint. China is today the world's largest manufacturing power. It accounts for 1/5 of all global manufacturing. People talk about the era of cheap China drawing to a close.

Costs have undoubtedly risen, not just labour costs – which is, of course, the main factor, but also an increase in land prices, more stringent environmental and safety regulations, and taxes also play a part. Wage inflation in 2012 rose by an average of up to 20%; however in northern China, where we are based, there was a lower rate of increase, with wages on average 20% lower than that in the southern Shenzhen region of China. We are also coming from a low base and we believe our competitiveness will remain for some time.

Other factors are also worth bearing in mind. Firstly, and I will talk more about this later, although wages are rising, so is Chinese productivity. They are paid more, in part, because they produce more. In addition, the quality of workmanship is also improving. Over the years, we have had huge quality control issues which have, from time to time, seriously jeopardised key client relationships. Chinese managers and their workers assumed they knew what was good enough for western clients. More often than not they were wrong. That is now starting to change through greater rigor on our part, better training of personnel and a realisation that, whilst business may be hard won – it is far too easily lost in such a competitive marketplace if quality is inconsistent and, in some cases, frankly poor and unacceptable.

Secondly, Chinese manufacturing is close to the booming and huge Chinese domestic market and hence, as I will comment later, for those working to sell their goods in China, local manufacturing capability is, in many cases, going to be preferable.

Thirdly, China's labour pool is huge and flexible, probably more so than in any other part of the world.

Fourth, a factor to bear in mind is that China's supply chain is sophisticated and supple. Arguably the right way to measure manufacturing competitiveness is not by comparing labour costs alone, but by comparing entire supply chains. Even if labour costs elsewhere in the world are a quarter of those in China (and, of course, I exaggerate) to make a particular product, the unreliability and unavailability of many components may make it uneconomic to make things elsewhere.

So the bottom line from a China export perspective is, in our view, quite simple. Costs have gone up but, in our view, not in such a way as to effect competitiveness. The labour force is flexible and becoming more competitive and it is easier to source components. China is also moving up the value chain. Rather than just bolting together sophisticated products designed elsewhere, they are doing more design and innovation work themselves. They are making products with higher margins and offering services to complement them. Many bright, Chinese young people, educated elsewhere in the world, are returning home. Many of them have mixed with the world's best engineers at MIT and Stanford and other of the world's most prestigious universities.

China is changing and, with that change, brings a continued competitive edge to maintain their position as the world's largest trading nation.

Let me now focus on opportunities within China's catering sector. According to the China Venture Group, China's catering sector has enjoyed year-on-year growth of about 20% over the past thirty years. Sales totalled about 2 trillion RMB, $314 billion in 2011, and that figure is expected to double by 2015 to 4 trillion RMB, $628 billion.

This sector is vast but let me particularly focus on the QSR (quick service restaurants) or fast food sectors. I would also like to touch on the hotel sector as well to give you an overview. Between 2007 and 2012, the value of this QSR market doubled to 1 trillion RMB or approximately $160 billion in 2012. This is set to rise to a staggering 1.8 trillion RMB or close to $300 billion by 2017, up 80% in just over three years.

The main players are household names both here and in the States which you are all familiar with. Yum! Brands, KFC and Pizza Hut, McDonald’s, Burger King, Subway, Domino, Papa John, Starbucks and Costa Coffee. You may not be familiar with East Dawning and Little Sheep brands, these too are Yum! Brands; East Dawning being a fusion of the KFC business model with Chinese cuisine. Little Sheep is a Mongolian Hot Pot casual dining restaurant.

Yum! Brands have firmly nailed their colours to the Chinese mast. Yum! China, the Shanghai based business, currently has 5,700 restaurants in 850 cities in China. 4,200 of these are KFCs and they are currently opening at a rate of more than one KFC per day in China. Their long term target is to have 20,000 units in China.

Jane Jannaway, Vice President of Engineering at Yum! China, speaking at the recent Hotelex in Shanghai this April said, “We think that the math in China is amazing, there are more people here in the middle class than in the whole of the US”. In the US, there are 66 Yum! operated restaurants per one million people; in China, this is currently one per million people. “Our growth potential is exceptional” she added. It is estimated that by 2020, China will have a middle-class population of 600 million; almost double the population of the US, as I have already stated.

McDonald’s takes a more cautious approach to expansion in China. In a recent speech at Bernstein’s 2013 Strategic Decisions conference in New York, McDonald’s Corp’s CEO, Donald Thompson, was asked about his company’s strategy in China given the fact that it lags behind competitor Yum! Brands in both revenue and the number of outlets in the country.

He said “The headline I would say for us is – this is not about a race with any one competitor”. He goes on to say “When we grow and develop we will grow and develop in not only the BRIC’s of Brazil, Russia, India, China, we will also grow in the South Koreas of the world. We are also growing in the Malaysia’s of the world”. He goes onto to talk specifically about China, “today it represents 3% of our operating income. Will it grow in time? Yes, it will grow in time, but we do not have all our eggs in one basket”.

However we at CMS are in the process of manufacturing the stainless steel requirements for 150 new McDonald's stores in China this year; 30% of their total new store openings of 450, with a projection of 200 stores next year, 40% of new store openings of approximately 500, which in itself is a sizable growth story. We are also now manufacturing for McDonald's Japan which is McDonald's second biggest market behind the US.

I mentioned earlier some of the challenges of manufacturing in China, quality control being amongst them. As a company we have certainly tackled this head on. The fact that this is now our third year of producing for McDonald's suggests that we now have our quality control process where it needs to be. That is not saying we can rest on our laurels and we are constantly monitoring and improving this area, as well as building on our staff training programmes.

Although KFC and McDonald's are the giants in the fast food world, leaving the local opposition in their wake, there are 150 fast food chains in China with nearly 4 million stores. 70% of this fast food market is controlled by local brands such as Kung Fu, Da Niang Dumpling, Xiabu Xiabu and Yonghe King.

KFC and McDonald’s are very sophisticated and are experts at rolling out their brands not only in terms of their food offerings but also in their choices of commercial catering equipment and fabrication. With the vast increase of Chinese middle class, and their brand awareness, this will creep into the local fast food and casual dining brands with customers wanting the most recognised high-end brands. I will expand on this later.

I said a few moments ago I would also touch on the growing hotel market. The Chinese hotel industry has experienced huge growth, resulting in a $44 billion business in 2012 with 2.5 million hotel rooms. Some analysts are suggesting that the market is reaching saturation point, but when compared to more mature markets, the UK for example has 10 rooms per 1,000 capita, the US 20, and China has just 4. In a recent article ‘Rooms for Growth’ by A T Kearney it suggests there is still a lot of room for growth. “Over the next 10 years, hospitality will become a $100 billion industry with 6.3 million rooms and reach 8 rooms per 1,000 capita.’’

More and more high-end hotel management groups have launched their brands in China, including Aman, Marriott, Sheraton, Shangri La, Hilton, Westin, Intercontinental, The Ritz Carlton, Hyatt, Radisson, Le Meridien and Kempinski to name but a few. There are also plenty of moderate and budget chains too.

China also has its own high-end hotels. The luxury brand Wanda Hotels and Resorts, the hospitality arm of the Dalian Wanda Group, operates 38 five starred hotels across China. It has just announced it will be building a 160 room hotel at Nine Elms on London's South Bank, an area of London where the US Embassy is relocating to and the Chinese Embassy is also seriously considering relocating to as well. Also, as for anyone interested in luxury yachts it has acquired 92% of the British luxury yacht manufacturer Sunseeker.

Not to be outdone, there is an increase of high-end dining restaurants including five three-starred Michelin restaurants, 13 two-starred Michelin restaurants and fifty-one one starred Michelin restaurants.

China has the largest domestic market in the world and it continues to grow daily. As mentioned, China has a growing middle class who want high-end brands, from BMW, Mercedes, Audi and VW cars, to designer clothes and accessories, and high-end electrical goods. They are becoming home owners. These middle class and upper middle class groups are now key players in the work forces of fast food restaurants, casual dining restaurants and hotel groups. They are exposed to luxury brands in their personal life and are now looking for recognisable commercial brands that are high-end and energy saving for their work places, and they do not mind paying for the right brands.

We used to hear that China was a threat. We used to hear that all China could produce were cheap products. That might have been so 10 plus years ago but not anymore. Ask yourselves why are the world's best motor producers, the world's best electronic producers manufacturing and selling in China? Why are the best hotel groups, the world's best fast food groups there? The answer is because it is very productive and very profitable. Okay, you still need to know your way around China and it is not the easiest place to do business, and it still presents many challenges, but it has the biggest domestic market in the world. China is not a threat, it is an opportunity, and it is your opportunity.

In a recent speech, in March 2013 to the Ambassadors' Forum, hosted by the Institute of European Studies, Vice Foreign Minister Song Tao said "Europe is home to the largest number of developed countries and enjoys a high level of economic and social development. China, as it grows, will be in a greater need of European products, technologies and investment. There will be greater common interests and broader space for cooperation between the two sides." He continued "With its imports estimated to reach $10 trillion by 2015, China will become the biggest importer and consumer market in the world".

I strongly urge you to consider manufacturing in China and consider selling your brands in the Chinese market. As I have already said, it is the growth story of the next two decades.

Let me finally talk about the challenges facing European operators. There are challenges for European companies who want to access the Chinese market and these have to be overcome, but once they are, the opportunities are enormous. You will then have access to the world's biggest domestic market.

I will touch briefly on what we see as the main ones:

- Language;
- Culture;
- Understanding Western Values versus Chines Values;
- Management, control and quality assurance;
- Staff and retention of staff;
- Patience and commitment;
- How do I get into the market?

Language, as anywhere in the world, can be a barrier. If you cannot communicate effectively, misunderstandings and mistakes happen. When working across different time zones, cultures and languages the chances for misunderstandings are multiplied considerably.

There are two main languages in China, Mandarin and Cantonese. Mandarin being the main one, with Cantonese being spoken in parts of Southern China and, of course, in Hong Kong. It is essential that at meetings you have someone who is fluent in English and the particular Chinese language being spoken. If you, or a member of your staff, speak the language that is fine. If you do not speak the language yourself it is often wise to have your own interpreter who will give you an un-biased translation.

The Culture in China is very different to ours; in fact, I sometimes think we are polar opposites. Most things there are done differently. Relationship building is essential, and little or no knowledge, or understanding, is a dangerous thing. As westerners, we normally approach a business transaction head on, getting down to the nitty gritty of negotiations straight away. After which a business relationship will blossom depending on whether your negotiations have been successful or not. However, in China, they believe that a prospective business partner should build a relationship first and, if successful, commercial transactions will follow. Once good relationships have been developed, you can expect a good robust business approach similar to what you would expect when doing business in the UK.

In China, there is an expression Guanxi – meaning essentially a social and business connection based on mutual interest and respect. Like in any business dealing, it must be regarded as a two way relationship so each party is in a win-

win situation. Companies working in China, and with Chinese companies, often attribute their success to good Guanxi.

You understand western values when doing business, so get to know their values. They often approach a business opportunity from the opposite starting point of how many units will you be placing on your first order and how many units will you be ordering in the first year, when they have not even designed the required unit to your specification. Frustrating but a fact of life.

When exporting from China it is important to ensure that they understand what a western company expects. It is equally important that when importing into China, or manufacturing for the domestic market you also understand things from a Chinese perspective.

Management in China is very hierarchical from the top down. It is essential you are dealing with the decision makers, because if you are not, an agreement you think is done can often be undone by someone more senior. Also, never assume that the decision makers understand English; in many cases, they often do not!

Control and quality assurance are key, as mentioned earlier. It is important to have a member of your team seconded to the management team of the company you are working with. This is a big commitment and not one to be taken lightly but will pay dividends in the end as they can oversee the control process and quality assurance. For example, we have a full-time H&K McDonald's employee working in our factory in Weifang continuously overseeing the production for McDonald's and, obviously, the quality control process.

The labour market in China is very fickle and in most cases very money orientated. I suppose we all are as well, to a certain extent, but the Chinese wear it on their sleeves. Retaining good staff is paramount. After training staff to your required standards, the last thing you want is for them to be poached. So make sure you look after them and reward them fairly for their efforts. Remember if you are selling into the local domestic market you will also need a sales team!

Above all you must have a great deal of patience. Things always take a lot longer than you expect in China. The devil is in the detail so make sure you dot the I's and cross the T's or else it will come back to bite you. If you are committed to China, and prepared to work hard to make it work, you will be rewarded with long and very fruitful business relationships.

So how do you get into the Chinese Market? There are many ways, buy your own manufacturing plant – expensive. We did it and learnt the hard way. Then there are joint ventures; we have a number of these now and have an expertise in third party sourcing. There are many varied ways of accessing this staggering and growing market and I am happy to discuss these with you if you would like to explore further the opportunities which China presents.

Ask yourself, how I'm going to expand into Europe; the market is already near saturation point. The Chinese market is not, so ask yourselves what can I bring to the Chinese market that will give you the opportunities my company needs? You bring innovation, technology, energy saving products and value added products. You bring products that are CE and NSF approved, with good energy ratings, and you bring products that the Chinese commercial sector is now looking for and demanding. You bring products that can be manufactured there.

Ladies and Gentlemen, the rise of China represents one of the greatest opportunities, for both individuals and companies, that I have seen in my lifetime. In a meeting I attended recently in Seoul with the Australian Deputy Prime Minister and Treasurer, Wayne Swan, he presented some fascinating statistics. He stated that we are in the century of Asia. By 2050, Asia will count for 1/3 of total global output and that the economies of Asia would be 50% bigger than today, and that they would be bigger than the economies of the USA and Europe combined. China is obviously, by far and away, the biggest factor within that.

We must look at the way our industries, companies and institutions compete and go about their business, particularly in the various segments of our own industry. We must seek to rigorously prepare people in this country through training and education, and we must urge as many people as possible, particularly young people, to look at the opportunities in the east by visiting China and the region. It is only by truly understanding the size and scale of the opportunity that we will be able to participate in this global change.

We must not fear it, we must embrace it, we must seek to understand it and its challenges, and we must change and adapt to seize this opportunity at such a momentous time.