



Keio Business School

Kazuo Wada and Yaohan International

The Yaohan International Group, led by Mr. Kazuo Wada, Chairman, comprised as of 1994 approximately 370 stores in Japan, Hong Kong, China, Southeast Asia, North America, Central America, and Europe, employed 21,000 persons, and enjoyed total sales of about 350 billion yen. Yaohan's operations in China already include opening on an experimental basis a small shop in Shenzhen in Canton Province, a department store in Beijing, a test shop in Shanghai, and Yaohan's first supermarket store in Shanghai. At the end of 1994 Yaohan opened its Shanghai International Merchandise Mart, and at the end of 1995 will open a large shopping center in Pudong, Shanghai No. 1 Yaohan; the group has earnestly set out to implement its business strategy in China. In looking ahead to the 21st century Kazuo Wada has focused on the expanding Chinese marketplace in setting his global strategic targets.

Yaohan's Past and Present

Kazuo Wada graduated from Nihon University in 1951 and joined the Yaohan greengrocery store begun by his parents in Atami, Shizuoka Prefecture, in 1930; in 1962 he founded the Yaohan Department Store and became its president. Though no more than a local supermarket in Shizuoka Prefecture, Yaohan gave preference to overseas expansion over domestic expansion, moving into Brazil in 1971 and beginning operations in Singapore in 1974. Despite the addition of a new store each year, Yaohan Brazil with its four locations faced a serious financial crisis in 1975 following the oil crisis and was shut down in 1980. Yaohan Singapore, in the meanwhile, was a success, and in 1979 Yaohan further expanded into Costa Rica and Fresno, California in the U.S. In 1984, the company moved into Hong Kong, already set to be returned to China in 1997. Yaohan expanded into Brunei and Malaysia in 1987 and into Taiwan in 1988, and was also successful in opening a store in New York.

In 1989, 3 months after the Tiananmen Square Incident, Yaohan International was established in Hong Kong, and in May of 1990 Kazuo Wada moved there with his family. In 1991 he opened a store in Thailand and in 1992 a store in Beijing. In 1993 he opened up new stores in London and Vancouver, Canada. Until the move of Yaohan's head office to Hong Kong, the group's business had been limited to retail operations such as supermarkets and department stores, but after moving to Hong Kong, the group diversified its operations, acquiring Chinese restaurants, a ham manufacturing factory, amusement centers, shoe and handbag specialty stores, and cake shops. In addition to 9 suburban department stores, Yaohan operates 40 restaurants, 33 cake shops, 22 game centers, and 42 shoe/handbag shops in Hong Kong.

Yaohan actively listed the companies within the group on the Hong Kong Stock Exchange. In 1988 Yaohan's Hong Kong department store was listed, followed in 1990 by Yaohan International Caterers Ltd., a company acquired by Yaohan, and in 1992 another acquisition, Yaohan Food Processing & Trading Co. Ltd. Then in 1993 Yaohan International Holdings (incorporated in Bermuda), responsible for overseeing operations in Hong Kong and China, was listed on the Hong Kong Stock Exchange. Appendix 1 and Appendix

The case was prepared by Hideo Ishida of the Graduate School of Business Administration, Keio University for use as the basis for class discussion. The case is not intended to illustrate either effective or ineffective handling of administrative situation. Copyright to this case belong to the Keio Business School. Prepared in July 1994 and revised in May 1995.

2 show the ownership and organizational structure of the Yaohan Group, while the name list of directors of Yaohan International Holdings is shown in Appendix 3.

5 Of the Yaohan Group's gross sales of 350 billion yen, Japan accounted for 60%,
Hong Kong (including China and Macao) 23%, and the Overseas Group (Southeast Asia,
10 North and Central America, and Europe) 17%. Of the group's 21,000 employees, Japan has
30%, Hong Kong 43%, and the Overseas Group 27%. Growth rates in sales were 102% for
Japan, 117% for the Overseas Group, and 125% for the Hong Kong Group. The Japan
15 Group, which includes Yaohan Japan, operates a total of 150 stores; the total area of its
business locations and the numbers of employees in overseas supermarkets and department
stores is shown in Appendix 4. When Kazuo Wada moved Yaohan's headquarters to Hong
Kong, the responsibility for Yaohan's operations were divided among the Yaohan Japan
20 Group, the International Merchandise Mart (IMM) in Singapore and Overseas Group
(Southeast Asia, North/Central America, Europe), and the Hong Kong/China Group, based
in Japan, Singapore, and Hong Kong respectively. It was felt necessary later on, however, to
rectify the overemphasis on vertical structure in the organization and to improve horizontal
information exchange. Reorganization took place in June 1993, and Tokyo headquarters
was established. Mr. Hiroaki Kawai, Director Responsible for Finance & Accounting for
Yaohan International Holdings, said, "We have over a three year period followed the most
25 appropriate course, but at this point we will make a correction in that course, and Mr. Wada
will divide his time between Hong Kong and the Tokyo headquarters." It was far too
difficult to bring over to Hong Kong all of the people related with business of Yaohan Japan,
which handles the majority of Yaohan's business, and with Hong Kong considered no more
than a branch office in Yaohan's relations with Japanese banks, quite often important
negotiations and decisions took place in Tokyo.

Business development in Hong Kong and China was overseen from Hong Kong,
and in March 1993 Yaohan China Office Co. Ltd. was founded to serve as a liaison with
Japan for Yaohan's China operations. The headquarters of Yaohan International in Hong
30 Kong has a staff of about 40, 10 of whom are financial personnel, with the total being split
fairly evenly between personnel from Japan and Hong Kong. There are 30 people employed
in the Tokyo headquarters, and 20 people in the China Office.

At the end of May 1994, Yaohan announced that it had sold its head office and
35 guestroom (3000 m²) located on the 49th and 50th floors atop the Convention Centre
Building on Hong Kong Island for 565 million Hong Kong dollars (\$HK1 = approx. 14
yen). Real estate prices in Hong Kong had been climbing, and Yaohan planned to use the
HK\$312 million profit it made on the sale to invest in China. The Yaohan Group
40 maintained its headquarters in Hong Kong but made plans to move to a low-rent office.
After Kazuo Wada moved to Hong Kong, he purchased the mansion built on Hong Kong
Island's Victoria Peak from the chairman of the Hong Kong & Shanghai Bank and used it as
a resort home and a guest house; major redecoration made it into a reception hall, and Kazuo
Wada has decided now to make it his home and personal office.

Interview with Mr. Kazuo Wada

Impact of Transfer of Global Headquarter to Hong Kong

Case Writer (CW): Yaohan International was founded in Hong Kong in 1989 and Yaohan's headquarter moved to Hong Kong, and it has been four years since you yourself moved to Hong Kong in May 1990. Against the background of economic development in China, has the company's growth been faster than you foresaw when you moved to Hong Kong?

Wada: There have been three bases upon which Yaohan has built its strategic development over the past four years. First, opportunities abound throughout Asia for opening up stores. There have been remarkable rises in the income levels of Asian countries, accompanied by booms in consumption, and this has allowed us to actively set up shops and establish the number one network of stores in Asia. Thanks to the move to Hong Kong, we have gained direct access to information from numerous Asian countries. Overseas Chinese have become developers in Southeast Asia and we have constantly received inquiries about opening up Yaohan stores. Second, there is the issue of supplying products to support new shops in Asia; as Asia still lacks adequate wholesale channels, we opened an International Merchandise Mart (IMM) in Singapore 4 years ago. This is a new line of business in Southeast Asia and it will take time to be accepted; nevertheless, though at first only 10-20% of IMM was occupied by tenants, this has grown now to 98% and we are considering adding on to the already large 160,000 m² facility. Establishing a product supply base that includes distribution has made possible an efficient development of stores in Asia, and this has contributed to greater marketability.

Third, we have been extremely fortunate over these past four years to become the No. 1 distribution conglomerate in Hong Kong spanning a number of industries by taking advantage of the new business opportunities available in Hong Kong to engage in M&A and to develop a shopping center in Hong Kong. These three factors have come together and the time has come to reap the harvest.

CW: It appears your group's development has been faster than you forecasted in every respect, but are there any unforeseen circumstances or any difficulties that you face now?

Wada: Every single day of the past four years has brought something new, and we have had to build new bridges and moved ahead on a trial - and - error basis. The biggest problem for me in the midst of this has been the speed of the simultaneous progress in all three factors I mentioned before. It would be nice to be able to push ahead steadily with one at a time, but I have had to deal with them all at once since I have moved to Hong Kong. Our operations have grown substantially over a short time, and our debts have quickly ballooned. Dealing with this has become a major issue for us.

Establishment of the Tokyo Headquarters

CW: Have you been told by financial institutions that you've set your sights too high in China?

Wada: Yes, but we have been presented a golden opportunity, and we cannot just let it pass by. We will lose this chance if we do only as the banks say. There is no opportunity without risk. This coincided with the bursting of the bubble in the Japanese economy, and banks were extremely cautious; it may be said that trying to make profits in real estate was in many

ways wrong. We ran the course of business expansion over four years and reached a 'breather' stage. Our group will see very strong profits from this year. The most difficult part has been up to now. Even our main banks were somewhat worried that we might have gone too far too fast.

There are times when Japanese practices such as those seen in the 'main bank system' do not mesh very well with a company's rapid international expansion. When you do a variety of business throughout the world, there are frequently occasions when you need the quick and timely business decision-making for which the Overseas Chinese are renown.

In the Japanese way of doing things, it is very difficult to take quick actions when one must report back everything and wait on decisions. When I came to Hong Kong I was given a charter loan that I could use in any business, but our business operations grew so quickly that the promised loans were not enough and we needed more; this no doubt gave rise to some worry.

CW: In June of last year, Yaohan International set up a Tokyo headquarters; are the headquarters personnel support staff for your business operations in Japan?

Wada: They are now, but we originally set up the headquarters in line with our policy of bank relations. It was necessary to convey to our bankers the status of the Yaohan Group as a whole. To that end I myself spent about one third of each year in Japan, and I set up the Tokyo office in order to communicate with our banks and to explain that "we are doing so-and-so, and our total loans are used in such and such fashion." There are many incongruities between the way of doing things in Japanese financial institutions and the strategic needs of a global enterprise, and the bankers were no doubt worried because there were no precedents.

Multi-nationalization/diversification and Control

CW: Yaohan has become ever more multi-national and at the same time has diversified its business operations. It has branched out from retail into development and manufacture. How is management control handled for business operations that are diversifying geographically and across industries? How are you, Mr. Wada, as Chairman tackling your own heavy responsibilities?

Wada: Geographically, we have divided into three regions, and I supervise Hong Kong and China operations from Hong Kong. Japan is supervised by the President of Yaohan Japan, Terumasa Wada, while overseas operations other than Hong Kong and China (Southeast Asia, Europe, Central/South America) are overseen from Singapore by Mitsumasa Wada, President of IMM. My two brothers and myself, along with Zensuke Yamada, Managing Director of Yaohan International, and Shoichi Tajima, Vice President of Yaohan Japan, make up the "Group Executive Committee", which meets twice a month, usually once each in Hong Kong and Japan. Each meeting lasts two days, and thus we spend four days each month in these meetings. Depending on agenda, we might at times meet in Singapore instead of Japan.

The other four members of the Executive Committee report to me by telephone each and every morning, and at that time I give instructions on necessary matters. This takes place every weekday, Monday to Friday. In this way we have even more intense contact than when all five of us were working in Japan, and we are able to regularly share information spanning countries. I think this gives us all a good understanding of the big picture. Mr. Yamada was the first President of Yaohan Hong Kong and Mr. Tajima long held the post of President of Yaohan USA, and both of them have been with Yaohan from the start.

The number of matters taken up by the Executive Committee has grown considerably. Meetings held in Japan tend to concentrate on matters connected with Japan, while meetings held in Hong Kong tend to focus on Asian issues. The Executive Committee was held here in Atami the day before yesterday from 9 in the morning to 5:30 in the evening; on the second day a Group Management Meeting was held which included the next class of executives, and we discussed the final layout of our Shanghai project (Shanghai No. 1 Yaohan). We use a push-button voting system when important decisions have to be made. On important issues we do listen to reports by the persons in charge, but we pretty much leave operational details up to the responsible managers. In future we will make each subsidiary financially independent, having them make use of capital earned from listing the company stocks on the exchange rather than depending on funds sent from Hong Kong or Japan. If our subsidiaries can manage without credit guarantees from the head office, we tell them to go ahead with their own plans to open new stores. Our control system was rather chaotic for the first two or three years after moving to Hong Kong, but we were finally able to establish an appropriate system thanks to our banks' checking whether or not there were any potential worries. Banks at this time began shifting decision-making authority from branch offices to their head offices and, as we were driving ahead with our operations in Hong Kong, the Tokyo headquarters was given the responsibility of coordinating and assessing business activities in 16 countries around the world.

Integration through Management Philosophy

CW: As your company multi-nationalized and diversified, did you see any weakening in management philosophy or in cohesiveness of Yaohan group?

Wada: The problem that most worried me was that of the Yaohan Group losing its cohesiveness, especially because the employees of companies that we acquired through M&A did not understand Yaohan's management philosophy. That is why we established an in-company "Yaohan International Education Centre" in Hong Kong. In Hong Kong our group presently employs 10,000 people, and we decided to train managers and employees through a week-long and a three-day long course respectively, where they receive instruction on Yaohan's past and present, its management philosophy, its global strategy, and its vision for the future. In teaching our vision for the future, we focus especially on our China strategy. Many of our personnel want to work in China. We have been teaching our employees our management philosophy based on the philosophy of "Seicho no Ie", and we have achieved extremely good results.

CW: I have heard that on the occasion of opening Yaohan Department Store in Beijing Mrs. Katsu Wada, Supreme Advisor of Yaohan (mother of Mr. Kazuo Wada), herself taught Chinese employees; has Yaohan's management philosophy been accepted overseas as well?

Wada: We had no way of knowing whether or not the Yaohan management philosophy would be accepted in Beijing. In fact, we were quite surprised that our Chinese employees were so responsive and accepted it. Maybe this is because the spirit of Confucianism is part of their tradition. In China's 4000 years of history, the history of Communism in China is no more than a mere 40 to 50 years. I think that Yaohan's management philosophy will be accepted even overseas. In the teachings of "Seicho no Ie" there is the idea of "brightness" — if you look at the bright side of things, your own fate turns bright — and the idea that man has unlimited potentialities; these are ideas that are universal and accepted around the world. In 1965 I composed the Declaration of Yaohan Group — "By studying and practicing the truth of life's philosophies, the Yaohan Group of Companies strives to create a company which will render better service to people all over the world and in so doing, hopes to become a model for other companies." — and now that we've become an international corporation we have maintained the exact same philosophy.

CW: By promoting a management philosophy based on religion, haven't you narrowed the range of people you can employ in your company?

Wada: No, on the contrary, it has become a positive factor in widely attracting personnel. Among Western companies as well, there are companies such as J.C. Penney's that have prospered using a management philosophy based on Christian teachings. The teachings of "Seicho no Ie" include the idea of "all teachings are one", which regards Islam and Buddhism and Christianity all as wonderful. All religions are one in the sense that they seek to bring happiness to humanity, and so I think the concept will be accepted by people around the world. We have made the acceptance of Yaohan's management philosophy a condition of employment for new employees. We have given new employees a copy of "The Truth of Life" when they join the company and have them write their impressions after reading it. Those who oppose this philosophy tend to quit the company of their own accord. People are no longer quitting the company now. In the early days, we did have problems among employees with conflicts between the training in our Singapore store and the teachings of Islam, but most people feel now that "their own religion and Yaohan's philosophy are one and the same".

M&A and Strategic Alliance

CW: Yaohan's recent moves both overseas and domestically towards M&A and strategic alliances have been conspicuous. Do you have a policy of choosing companies with good business results as partners?

Wada: Yes. It is quite difficult to succeed in M&A in Japan, but overseas even good companies can be purchased. Another important condition is that the company has good managers; we have a policy of not dispatching full-time managers from Yaohan to acquired company. We conduct thorough studies of these companies in advance and we have had no failures thus far.

CW: I have met Mr. Glenn Chan, President of Yaohan International Caterers Ltd., an excellent company you acquired in Hong Kong, and he seems a profit-oriented person who is quite outspoken. Isn't this something that doesn't fit with your corporate philosophy?

Wada: It is not only Glenn Chan; all Chinese have the same ultimate objective of making a profit. We left him with a 20% share in the company and we have completely entrusted him with its management. We have a contract linking his yearly salary to the company's profits, and because the company is highly profitable, he receives a very high salary. Even if our opinions on management philosophy and techniques differ somewhat at times, there is not

particular problem with his viewpoint of stressing corporate profits, and we have left matters to him. He is a top-class expert on the restaurant business in Hong Kong and a truly professional manager. We have made it clear to him, though, that as a member of the Yaohan Group, his company must provide training on Yaohan's corporate philosophy.

CW: Yaohan's minority participation in joint venture with Mos Burgers, Hanamasa (*a yakiniku restaurant chain*), and Uniden has been conspicuous; are you aiming at the Chinese market?

Wada: Yes. This participation is limited to expansion into China, and we want to bring in the expertise of these partners. Our specialty areas are in coordinating authorization from the Chinese government and land acquisition, and as partners we make use of each other's strong points. Yaohan's business operations, including its joint ventures, are generally connected with distribution, and we are looking to become a "distribution conglomerate in the Greater China Economic Zone".

Multinationalization and Personnel Management

CW: Is on-the-job training the basis of your personnel development? Do you scout around?

Wada: The mainstream of our company's management is made up of those people who was in the top positions in Yaohan's overseas offices, and so on-the-job training is an important base. When it becomes necessary on occasion, however, we do scout around. Mr. Hashimoto, formerly Japan, ambassador to China, was hired as special advisor to Yaohan International Holdings. We have also had prominent Chinese, British, and Hong Kong figures join our company as outside directors and as advisors. In finance and other areas where we need to strengthen our professional expertises, we scout for people from Hong Kong or Japan. When employing financial or other professional personnel, we do not make too much of an issue of acceptance of Yaohan's management philosophy.

CW: What are the key points to keeping and motivating foreign personnel?

Wada: Our company's image changed quite dramatically with the move of our Yaohan headquarters to Hong Kong. We have earned a strong image of being an international corporation which emphasizes a China strategy, and we have received great numbers of applicants from among outstanding students at Hong Kong University and the Chinese University of Hong Kong. Some of these people have even become store general managers. The store is the very foundation of the retail business, and we stress when giving new employees their first training that they will be working in stores for the first three years they are with our company. At present, the top management of the Yaohan Hong Kong Department Store are all Japanese, but we will continue to promote locals. Mr. Chan, President of Yaohan International Caterers, has accepted a director's position in Yaohan International Holdings and we are giving due consideration to his opinions on circumstances in Hong Kong. The "Hong Kong effect" arising from our move to Hong Kong has surprised many in Japan, and we have had not only outstanding young Japanese people but also excellent Chinese students studying in Japan join our company.

Business of the Overseas Chinese

CW: In your book¹⁾, you stated that “Chinese society is family – centred, and our Yaohan is also a family company. In this sense, our values are in perfect accord with each other.”

5 What do you think about the business practices of the overseas Chinese? Are there any limitations to corporate growth stemming from family control?

Wada: Overseas Chinese do not seem able to trust people easily because they were driven from Chinese society with only the shirts on their backs. They tend to trust only people who are related by blood. I think there are limits to growth because of family control. I do not really know if their companies can become truly global companies. I do not believe there are still any companies run by overseas Chinese that have cast off family control. There have been cases of such companies employing outstanding British managers, but these managers are not afforded equal treatment with the top management. There are instances of trusted non – relatives who have worked with a company for a long time being brought into the “inner circle”, but it is not the same type of trusting relationship we have in Japan. These companies do pay high salaries and employ elite personnel, and they do attract more superior senior managers than do Japanese companies, but there is not much depth to their middle management, one of the strong points of Japanese companies.

20 **CW:** You and your brothers currently occupy the key posts at Yaohan, but is it possible for a person outside your family to be the top?

Wada: All of the employees of Yaohan have become like one big family. Even if not related by blood, they stand solidly together whenever emergencies arise. Yes, it is indeed possible for someone not from Wada family to be the top management at Yaohan. We have a holding company and owners and top management are not necessarily one and the same.

CW: Do you think it is possible to integrate the business practices of overseas Chinese with those of Yaohan to magnify the effects?

Wada: I see in the management of overseas Chinese many things we can learn, such as rapid top – down decision – making and profit – oriented management, but they do not know about Japanese corporations and, because they start from a distrust of others, they cannot totally entrust matters to other people, and it would be difficult for them to learn from Japan. Overseas Chinese do not have a home country, and so by their very nature transcend nationality. One might even say they have been globalized from the moment they were born. There are many things we can learn from them.

Business with China

CW: How do you view Chinese business?

Wada: The Chinese are different from the overseas Chinese, which have abandoned their homeland. Chinese students abroad are now studying very hard in a variety of fields in the West and in Japan. When circumstances in their country improve and they return home, I think China will change substantially. There are many highly qualified people among the Chinese, especially among higher management and the elite, and in terms of individual capabilities I think they are superior to their Japanese counterparts. There are many outstanding persons among the “princely faction”, as the children of elites are known, because they have grown up in a different environment from ordinary citizens and have received special education.

1) Kazuo Wada, *Yaohan's Global Strategy*, Capital Communications Corporation Ltd., Hong Kong, 1992.

CW: Have you had any failures or difficulties in your business dealings with China?

Wada: We have had quite a few embarrassments and failures. Speaking from my past experiences, Japanese and Chinese attitudes towards negotiation are extremely different. Japanese tend to think that “today is just a first meeting so let’s leave it at that”, or “it might be wrong to go as far as saying this”, but such an attitude will not work. It is important that the Japanese side at the very beginning say everything that it wants to say. The other side will be starting its own negotiating position from that point. In my experience, the Japanese style of negotiation has been an utter failure. In our second negotiation sessions, when I started off by saying so – and – so, the other side would reject this, replying, “but before you said such – and – such, didn’t you?”. We Japanese tend to think that setting out our position at the very beginning will only lead to arguments, and so we do not make our position known; this does not work.

With the experience of such failures in mind, when the Chinese government told us that they would like to build the largest department store in Asia in Pudong, Shanghai, we told ourselves that no disaster would befall us even if we did not win this contract or if we rejected the project, and we laid out before them all the conditions we wanted met. Just when we no longer cared if negotiations had come to an end, Chinese government accepted almost all of our conditions. There were some points on which the other side would just not give way, but on the whole they consented to our requests. The Chinese seem to have no problem fighting with one hand while offering a friendly handshake with the other, but the Japanese are not emotionally able to do this. A similarly ‘contradictory’ stance can be seen in Chinese negotiations with the U.S.. Confronting the other side from the beginning with the most you could want from them is, from my experience, essential. If we appear as easy marks in negotiations, we will be taken in and afterwards regret bitterly that “this isn’t what we had planned on”.

One more important thing is to take adequate time in choosing a partner. If you make a mistake here, it will not matter how much effort you make later on. The Chinese partner operates on a top – down basis, and it won’t matter how much effort those at the bottom make. We have had many bitter experiences where things do not improve no matter how many years pass. It is thus necessary to understand Chinese negotiation techniques, and for that purpose we hire Chinese advisors. We ask the advisor how he/she views a certain matter as a Chinese, and we use these advisors to check our tactics and positions. Because the Chinese are so good at selling themselves, you must make cautious evaluations when choosing people. With a whole society of people blowing their own trumpets, one should not expect to find modesty.

Overseas Chinese give more credence to oral agreements than to written contracts, but promises must absolutely be kept. If you join a network in which you are treated like a brother, then you can trust your partners, but you cannot if the relationship is not such. I have been able to join the overseas Chinese network in Hong Kong, and we learn more and more as we get to know them. They have taught us much, especially about attitudes towards investment in China, and I have access to first – hand information that I could never have learned if I had stayed in Japan. I was greatly shocked when the overseas Chinese in Hong Kong, who are adverse to risk, began investing in China, and this has greatly influenced my own decision – making towards China. The future of consumption and distribution in China can be seen in their attitudes towards investment.

China's Economic Development

CW: You believe that China will continue to achieve steady development and eventually become an economic superpower ; please tell me about the basis for such an optimistic view.

Wada: Looking long-term, I think China will become an even greater economic superpower than Japan. The first reason I think so is the attitude of the overseas Chinese towards China. Of the US\$33 billion of foreign investment in China in 1993, 44% came from Hong Kong and 18% from Taiwan, together accounting for 62%, meaning that nearly two-thirds of foreign investment came from overseas Chinese. When a little while ago I dined with Mr. Li Ka-shing, a top leader in the overseas Chinese community in Hong Kong, and asked him if he would continue to invest in China, he replied clearly, "there is no better investment than China." When I asked how much he had invested, he told me that over a period of several years he had invested 500 billion yen. Already he had invested quite a bit, but he will be investing even more of his own capital in China.

I feel that the first mover's profits in China are being grabbed up by the overseas Chinese. When I asked Mr. Li Ka-shing what he was investing in, I was told that first he was building port container terminals. Because China will become a major importer and exporter, Mr. Li sees infrastructure as the area with the greatest potential growth. He cited power plants as second, and regional development after that. These are all areas that rightly should be developed by the government, but the overseas Chinese are taking on that responsibility and investing. Chancellor Kohl of Germany and other Western politicians are also bringing financiers with them to China to begin preparations for investment in China. The fact that Volkswagen of Germany has been able to become the top automobile manufacturer in China has been a result of such efforts. Not long ago Prime Minister Hosokawa went to China, but Japan is not following the lead of political and financial circles in the West. Western investment will start in earnest sometime in the near future, and investment in China by major Japanese corporations will bring up the rear. I see no reason that the steady flow of investment I just mentioned should not continue, and I believe there will be a revolution in distribution and a boom in consumption throughout China beginning from around the year 2000.

Secondly, the strong motivation to work of the Chinese has driven them to work extremely hard. They are not working out of loyalty to their companies, but rather out of a desire for more money. Construction work on our shopping center in Shanghai goes on around the clock, and many of the workers will volunteer for late-night shifts for the extra money. Although the aim may simply be to pocket more money, I think this attitude towards work will invigorate the Chinese economy. Motivation to work and a hunger for prosperity will spur on rapid economic growth.

Thirdly, one might consider China not as a single country but rather a collection of countries, with Shanghai and Canton Province qualifying as NIEs; Yaohan is beginning from there. Next, the Yangtze River Basin and North China are the country's "ASEAN", leaving the interior of the country as the "developing China". Yaohan has ample room to expand within China as regions progress up this ladder.

CW: Given that, do you think it is realistic to conceive developing a supermarket chain of 1,000 stores in China?

Wada: I think it is realistic to consider opening 1,000 stores just in Shanghai and the Yangtze River basin alone. Developing a system for that purpose — logistics centers and franchise stores — is necessary, and that may take four to five years, but the market is there

if only one can develop the system. By the year 2010, 1,000 shops can be established along the Yangtze River Basin from Shanghai to Nanjing to Chungching to Chengdu. The Yangtze River Basin from Shanghai to Nanjing resembles a metropolitan area, and the region's population is forecast to grow to 350 million by 2010. Calculating one store per 100,000 of population gives us a figure of 1,000 stores.

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The Future of Yaohan International

CW: I have heard that you plan in the future to live in Shanghai; is this true?

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Wada: Yes. Living in Shanghai is something I plan to do sometime after the year 2000. In 2010 half of Yaohan's total revenues will be from China, especially Shanghai and the Yangtze River Basin, and if that happens, it will become necessary for me to be in Shanghai.

CW: Then Yaohan's roots will no longer be in Japan?

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Wada: In 1997, three years from now, Hong Kong will become Chinese territory and Yaohan will in name and in fact become a Chinese enterprise. There will be problems, however, if we focus entirely on China and we do not get adequate returns on our investments. We will bring in a certain amount of capital for our stores. Our companies will be listed on the stock exchange in Shanghai to provide us with the capital for expansion, as there will not be an unlimited influx of funds from Japan. We will be utilizing Japanese management know-how and it is only natural that royalties will be sent on to Japan. Risk management requires that we see a return on investment as quickly as possible. The Shanghai department store project includes a 22-floor office building, and we have been able to sell the offices even before the building has been completed. This approach will hasten the returns on our investments.

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CW: Yaohan International Holdings, which oversees Hong Kong and China operations, has been listed on the Hong Kong Stock Exchange, with 10% of its shares held by CITIC, and 5% by CVIC Chinese state-owned enterprises. What is your objective here?

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Wada: CITIC is a state-run conglomerate and CVIC provides venture capital; the capital participation of both these companies helps us in obtaining a variety of information and in making valuable connections. With funding from enormous state-run enterprises, there are no worries whatsoever about restrictions on autonomy of management. The vice president of CITIC will attend Yaohan International Holding board meetings, but that company does not have much experience in distribution, and they will benefit from the experience of expanding the distribution industry in China. There is no possibility of their increasing their capital share in the venture nor of interfering in its operations and we have no concerns whatsoever.

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Interview with Yaohan Management

Mr. Yuji Sakuma, President, Yaohan Hong Kong Corporation Ltd.

Mr. Sakuma worked at Yaohan Singapore for 8 years, then became Merchandise Division Manager in Japan, and five years ago was assigned to Hong Kong. While managing department stores on the side, he was involved in the establishment of Yaohan International Holdings, later becoming vice president of that company.

Hong Kong is a perfect base for targeting the strategic Chinese market of 1.2 billion consumers. One can go anywhere in Asia in 3 hours and Hong Kong is a free territory. Indeed, by comparison, Japan's bureaucracy appears to be a communistic system. I often go to China and my impression is that Communist China is trying hard to learn from the free world. The number of department stores in Hong Kong has climbed to 9 (including Macao), and the biggest problem we face has been the sharp rise in wages and rents. In Hong Kong the landlord can unilaterally raise rents by giving notice. This does not make for a stable environment for business, and from its sixth Hong Kong store Yaohan moved from the traditional lease system to purchasing shopping centers. The purchasing power of Hong Kong is tremendous. Japanese department stores long ago set up shops in Hong Kong, but most of them have catered primarily to Japanese tourists. Yaohan's stores are all in the suburbs, and the customers are thus 99.5% local residents.

The residents of Hong Kong and 'mainland' Chinese are not at all alike. Things happen in China to boggle the imagination. The Chinese might, for example, after exchanging final contracts and toasting them with champagne, introduce amendments scribbled in with red ink; Mr. Wada told us, "You will just have to put up with things like this because they don't yet understand international business practices." A Yaohan mission to which I belonged was welcomed to a certain district and for about 2 days we were escorted around by two police cars; when we bid farewell at the airport, we were given bills for the banquets and the police cars! Given the bitterness of the Sino-Japanese War, there seems to be a prevalent feeling that there is nothing wrong with taking money from the Japanese, and Mr. Wada is always saying, "You are all flagbearers for Japan, so watch your behavior."

Mr. Wada is always pursuing his dreams. We are the ones who translate these dreams into concrete terms, and though it is interesting, it is also difficult work. I feel happiest when I have been given responsibility for a major task. Mr. Wada always insists on seeing sites for himself before making decisions on expansion, and his market research is very exacting. No matter how much data and other information we provide him, we will not OK any project until he has seen the site himself. He is also very good at listening to others' opinions. Mr. Wada's "willingness to learn" makes a favorable impression on others, even when making connections among overseas Chinese, and this prompts many people with projects in mind to bring their proposal first to Yaohan.

I came to Hong Kong two months before the Tiananmen Square Incident, and immediately after the incident the city was filled with mourning badges. Only three months later Mr. Wada transferred his headquarters to Hong Kong, and as the first VIP to move to Hong Kong after the incident, he enjoyed the confidence of not only the overseas Chinese in Hong Kong but also the Chinese government. In October 1990, five months after Mr. Wada had moved, he was welcomed to Beijing at the invitation of the government, and from that point Yaohan's China strategy gained momentum. The transfer of the head office to Hong Kong had been debated for two years prior to the actual move, and there were some executives strongly opposed to the idea. I thought that only the headquarters itself would be moved, and I was quite surprised to learn that Mr. Wada had made preparations to live in Hong Kong himself. Mr. Wada's intuition was behind the timing of the move, but I think that there were also careful calculations of how the move to Hong Kong would be gauged. Maybe the chairman had even given consideration to his own individual welfare, in terms of corporate taxes, income taxes, inheritance taxes, etc.

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The residents of Hong Kong are passionate about business, they are not locked into preset ideas, and are without a doubt better at making money than the Japanese. We should thoroughly study the business methods of overseas Chinese businessmen and then try to introduce their ideas to Japan.

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Mr. Glenn Chan, President, Yaohan International Caterers Ltd.

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Mr. Glenn Chan started out in the restaurant business together with several partners in the 1970s, but worried about the reversion of Hong Kong to China in 1997, his partners moved overseas, and when Mr. Chan decided that he would like to reduce his share and diversify his investments, he was introduced to Yaohan through a third party. Mr. Kazuo Wada learned that in the wake of the Tiananmen Square Incident certain restaurant owners trying to sell his assets and move overseas, and with the idea of eventually managing 100 Chinese restaurants, he sought out further informations. The sale was arranged in January 1990, and in December of that year the company was listed on the Hong Kong exchange; Mr. Glenn Chan continued to serve as president, and with a 17% interest in the company, he was entrusted with the management of the company. The year after Yaohan International Caterers Ltd. was listed, Yaohan purchased the Saint Honore Cake Shop chain and brought it into the Yaohan Group. The number of restaurants and cake shops by this time had reached a total of 50.

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As part of the Yaohan Group, the company's operations have expanded, but there has been no change at all in my position as president, and management styles and policies have not changed. There is absolutely no interference from Yaohan. I do not discuss management philosophy with Mr. Kazuo Wada very much. There is a language barrier, of course, but I also think that Mr. Wada understands my way of managing the company. I believe it is wise not to interfere in management as long as the business results are good. I am familiar with every aspect of the catering industry from top to bottom, and I have a firm understanding of the business as a whole. It is an industry with thin profit margins, where if one is strict in controlling materials costs, management expenses, and personnel costs, one might come out with a 10% profit. I treat my employees as family and pay them above-market wages, so personnel turnover is relatively low and I believe employee loyalty is high.

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I hold an executive post (Senior Director) in Yaohan International, and Mr. Wada probably gave me this position as a bonus. Given the language problem and differences between Chinese and Japanese ways of thinking, I am in a delicate position as a board member and I take a passive rather than active role. Whenever I attend meetings, though, I am provided with an interpreter. I think internationalization is necessary for Yaohan, but it is not easy for me to contribute to this end. Yaohan is a family-style business, and Mr. Kazuo Wada runs it like a superman. Mr. Wada is an open-minded person, but his decisions are top-down. Even at the executive meetings, he will say "Let's buy so-and-so company" and then have his subordinates follow up on that.

I have been criticized by the Japanese executives under Mr. Wada for not taking a very active stance towards business expansion. However, department stores and restaurants are two entirely different businesses altogether. I emphasize profits, and I seek steady growth. In order to produce profits, one must be cautious about expanding. Growth should be based on a properly thought out long-term plan. Simply expanding sales is far easier than increasing profits. There has been talk of expanding our restaurants into Japan, but from a profit standpoint, the answer has to be negative. There is no particular pressure on me to change my thinking on this, but naturally I would have to quit if I could not maintain my management strategy. I do not know how Hong Kong's future will in the end turn out. My wife is one of those that fled from China and she has learned some bitter lessons. Changes in China depend on the thinking of those at the top and not on the law.

Mr. S.Y. Yan, Corporate Finance Advisor, Yaohan International Holdings

Mr. Yan was born in Hong Kong, graduated from an American university, moved to Canada and pursued graduate studies there, earned his Certified Public Accountant license, worked in a petroleum company before returning to Hong Kong, worked in an U.S.-affiliated petroleum company and a Hong Kong investment group thereafter, and in 1991 joined Yaohan.

The reasons I joined Yaohan were the strong impression I had of Mr. Wada's commitment to China and the dynamism of the Yaohan Group. Mr. Wada is different from a traditional Japanese. He is quite courageous in fearlessly taking risks in unexplored territory in China. Mr. Wada is a good listener, and he often accepts advice from people here in Hong Kong. He earned the respect of the local residents by moving to Hong Kong when he did, was accepted into the local network, and has built a reputation as a sincere man.

I learned after I joined Yaohan that Japanese companies do not pay high salaries to even their star employees. Furthermore, salaries in the retail business are lower than those in the financial sector. My salary is probably below the market average, but I place more emphasis on the challenges of my work than on money or titles. Yaohan provides me chances to take on challenging work, and the opportunities are especially plentiful in China. I may not be rewarded in the short term at Yaohan but in the long term I think it will be good for me. Should circumstances in Hong Kong change greatly after it is returned to China in 1997, I will retire, and once I retire, I will no longer live in Hong Kong. The Yaohan headquarters in Hong Kong is run for

all intents and purposes by Japanese, and though there are some people from Hong Kong in management, there are none in top management positions. It seems that the philosophy of “Seicho no Ie” is being practiced in the department stores, but it does not seem to have made much head way in at headquarters. Sometimes this philosophy is discussed, but it appears to be common sense rules for living.

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Mr. Takanobu Hikosaka, Acting General Manager, CVIC – Yaohan Shopping Center

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Yaohan holds a 19% interest in Hong Kong - based CVIC - Yaohan Management Company, which operates and directs this department store in Beijing, and though it has not invested directly in the department store, Yaohan receives 2% of sales as royalties and it receives payment of personnel expenses for the five Japanese personnel assigned there. This department store, which opened in December 1992 and is reputed to be the highest quality shop in Beijing, has 1,200 employees and both the Chinese side and the Japanese side have a general manager there. Mr. Hikosaka, after spending five years in Brunei to run Yaohan’s department store there, was shortly thereafter posted to Beijing, and later appointed general manager.

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Trying to put Japanese ways of thinking into practice in China just does not seem to work. We argue and debate a variety of matters with our Chinese partners. While operations have run smoothly thus far, there are problems ahead. CVIC holds a majority share, giving it control over operations, and Yaohan’s wishes are thus never considered more than food for thought. A contract system by floor has been implemented this year, and floor managers now have authority for everything from purchasing to operations. Department stores are an organic whole and policies must be applicable to the entire store, but the new system breaks these up by floor. The contract system stems from the agricultural production volume system of the government’s “reform and opening” policies, and my objection that it is mistaken to divide department stores into individual floor units goes unheeded. Annual sales targets are set for each floor, and a certain percentage of any revenues exceeding these targets is divided among the employees. Salary increases and bonuses are at the floor manager’s discretion, and employees thus tend to devote more of their attention to the floor manager.

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The first store of Shanghai Supermarket will be opened in May of this year. It is especially important in China to hold a majority interest in a company’s capital. China’s distribution industry in future will likely follow the same course that Japan has taken and there is little need for Japanese to worry about China reverting to its former ways. There are still many non-transparent areas in China, much more than in other countries. There is no transparency in China’s administrative frameworks such as laws and licensing. CVIC - Yaohan is a test case which provides a great opportunity to study the establishment of stores in China. Sufficient attention must be paid to checking joint venture agreements to insure that they contain no loopholes; a store bearing the Yaohan name cannot be allowed to fail.

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When I first came here, the disparities with Japan were just too great, and I was angry, shouting, and annoyed; looking at the results, though, I see that this served no purpose. The old adage “when in Rome, do as the Romans do”

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is applicable, but perhaps it is not right to “go completely native”. Mrs. Katsu Wada , Supreme Advisor, took charge herself of employee training when the Beijing store was opened, but if training is not continually repeated and reinforced, employees tend to revert to their former practices and the training does not take root.

Mr. Hiroshi Hashimoto, Special Advisor, Yaohan International Holdings Ltd.

Mr. Hiroshi Hashimoto has long been connected with China as a diplomat, retiring from government service after serving from 1989 to 1992 as Japan’s ambassador to China to join Yaohan International Holdings in 1993 as a special advisor.

I first assumed the position of advisor out of friendship for Mr. Kazuo Wada and I served as Mr. Wada’s personal advisor. I think Mr. Wada’s move to Hong Kong was a decision made solely on his part. I was dispatched as ambassador shortly after the Tiananmen Square Incident and I think that his moving to Hong Kong just as everyone else was losing confidence required courage. Mr. Wada felt deeply that he wanted to contribute to China through the distribution business. He also had the courage to realize that it would not matter even if the venture failed and went completely bust²⁾ ; no doubt his status as an owner – manager gave him this leeway. Up to this point his move to Hong Kong has turned out well and appears a truly wise decision, but we cannot make a final judgment until we see the development of operations in China from here on. China is a country full of risks and contradictions in the midst of great changes. Investment there is not for the timid and China is a country of high risks and high returns; if one succeeds, the rewards are great.

I participated in the planning for a negotiating for the restoration of diplomatic relations between Japan and China, and China, as a result of a magnanimous decision by its leaders, waived its rights for reparations from Japan. For its part, Japan would cooperate in the development of China, and the influx of technological cooperation and official loans from Japan has been overwhelmingly greater than that from other countries. In the private sector, Mr. Konosuke Matsushita as well as Mr. Inayama of Nippon Steel Corporation were favorably disposed toward China and extended a hand of cooperation without consideration of profit or loss. I have always believed, even at the time of the Tiananmen Square Incident, that China must not be isolated internationally. The more China develops, the more advantageous it is for Japan, and I think it is wrong to view China as a threat. It is fine for Japan to stay one step ahead of Asia and China in technology, and Japan’s economy will not crumble because of development in China and Asia.

It is doubtful that the Japanese have understood the Chinese very well from before WWII to the present. Before the war China was understood at the point of a bayonet, and after WWII Japan’s understanding of Asia and China suffered as Japan turned towards the West. The Japanese attitude towards the Chinese before the war was one of arrogance, and even after the war the attitude was an arrogant or mean – spirited one. Not only the Chinese but other Asians as well reacted sharply to such attitudes. The Japanese and

2) In his book Mr. Wada states the following: “...when I was still young, Mr. Masaharu Taniguchi, founder of the “Seicho no Ie” faith, taught me that “we must not forget the debt of gratitude we owe to China...even though China suffered so much in the war against Japan...Japan’s post – war prosperity is owed to the waiving of war reparations by China, which suffered the most...”, and I decided to establish myself in Hong Kong even if it came to naught. Even if, when Hong Kong reverts to Chinese control, China should adopt a policy against liberalizing its economy, I will give all of Yaohan’s property in Hong Kong to China.”

Chinese have been called people “of the same stock using the same script”, but there are major differences in their views on life and their values. Such simplistic groupings as “same stock, same script” or “members of the same Asia”, thus, are pointless.

Chinese can be said to be similar to Westerners in their approach towards negotiations, and it is the Japanese that are the exception. The Chinese have negotiated with different peoples for several thousands of years, and have had to tolerate being ruled by different races for centuries. The Japanese, thus, are no match for the Chinese in wily bargaining. When the Chinese negotiate, they do so wholeheartedly, and my advice is that you should make it clear up to what point you are willing to compromise, beyond which point you will concede nothing. The Chinese will trust you as long as they do not believe that you are a liar, and once you have established a relationship of trust, the Chinese will never betray you. Unlike some in other countries, the Chinese will not join you in committing some wrong, only to suddenly discover a sense of social justice and betray you. The Chinese find a sincere, straightforward party the toughest negotiation partner. Not once in my 40 years of negotiating with the Chinese government have I ever been deceived.

Hong Kong will be returned to China in 1997, and to be honest, I do not know what the future will bring. The most troubling scenario for China, however, would be to have the glowing lamp of the Hong Kong economy go out. This would make it very difficult to provide for the inhabitants of Hong Kong accustomed to capitalist luxuries. Controlling the residents of Hong Kong will not be an easy task for China. The Chinese recognize better than anyone else that the maintenance of Hong Kong’s prosperity is critical for the development of the Chinese economy. As far as economics are concerned, I think China will fully allow capitalism to continue in Hong Kong. I have my doubts, though, about China’s assurance that it will not interfere politically in Hong Kong. Even if China carries out major reforms in introducing a market economy, I do not think for the time being that there will be any move away from a one – party dictatorship. The West denounces China’s one – party dictatorship, but in reality one – party dictatorships are found throughout Asia as countries pursue rapid economic growth and not only in China. After all, even during Japan’s post – war economic development, there was a long – standing ‘one – party dictatorship’ by the Liberal Democratic Party. Having watched China for a long time, I have been surprised by the changes in China in the past several years. Important changes have been permitted not only in the economy, but in the political realm as well. Debates are freely conducted between leading members of the party and government and the lower echelons. Important decisions by the central government are no longer handed down without considering the opinions of the lower echelons and local governments, a major change from the China of old.

Kazuo Wada in some ways is no longer really Japanese and one might even say his thinking is closer to that of an overseas Chinese. Overseas Chinese and those of Chinese ancestry do not count on the protection of the state authority. Even in the countries of Southeast Asia, while the overseas Chinese there do respect the systems and laws of these countries, they do not rely on them, and they manage on their own wits. On this point I think Mr. Wada is very much like an overseas Chinese. Mr. Wada’s attitude towards the Chinese is neither arrogant nor mean – spirited. I also think that he is very

sincere when he conducts negotiations with the Chinese government or with overseas Chinese businessmen.

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Shanghai Project

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Six months after Mr. Kazuo Wada moved to Hong Kong, a Yaohan Group delegation under Mr. Wada visited Beijing at the invitation of the Chinese government and there he met with important government officials. The top Chinese government official in charge of Hong Kong and Macao said:

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the Chinese government thinks very highly of Mr. Wada's decision to transfer the Yaohan headquarters from Japan to Hong Kong and to move there himself with his family.

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After Mr. Wada expressed his desire to contribute to the modernization of China's distribution industry in order to repay the debt of gratitude owed by Japan to post-war China, the Chinese government offered unhesitatingly to cooperate as the Yaohan Group expanded its operations in China. In March 1991, Mr. Wada received a request from the Shanghai government:

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An important project is underway in Pudong, Shanghai in response to clear instructions from the central government. A trade/financial center as well as a commercial zone are also under construction, and we would like Yaohan to participate in these, and to construct the largest and finest shopping center in all of China.

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In April a business mission under Mr. Wada visited Shanghai, and immediately the decision was made to advance into Shanghai; after a total of 12 negotiating sessions and a feasibility study, a joint venture contract was concluded in September 1992 and a ground-breaking ceremony held. The shopping center is scheduled to open for business in late December 1995.

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The name of the new company will be Shanghai No. 1 Yaohan Co., Ltd. and it will have paid-in capital of US\$50 million (approximately 5.5 billion yen). The joint venture partners are China's leading department stores in sales, Shanghai No. 1 Department Store Company (1992 sales of 1.3 billion yuan, 3500 employees) with a 45% interest, Yaohan International with a 36% interest, and Yaohan Japan with a 19% interest; the Yaohan Group holds a total 55% interest. There will be five executives from the Japanese side and four from the Chinese side, with the Chairman chosen by the Chinese side and the Deputy Chairman and President by the Japanese side. With a total floor space of 112,000 m², this will be Asia's largest department store; sales personnel for directly managed areas will number 2,000 (15 of which will be dispatched from Japan) and tenants' employees will number 1,000, with sales for the first fiscal year forecast at 2.4 billion yuan. The store is scheduled to operate 358 days a year, from 9 in the morning to 9 in the evening; the store expects 300,000 shoppers on weekdays and 500,000 on Sundays and holidays. In April 1993 a small (600 m²) test shop was opened in the busy street of Nanjinglu.

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In response to requests from the Chinese side, Yaohan began planning the construction of joint venture International Merchandise Marts in Shanghai and Beijing. Mr. Kazuo Wada believes that wholesaling and logistics functions are absolutely essential for the modernization of distribution in China, and sees the need for an IMM in every province in future. Singapore's IMM is quite large at 170,000 m², and Shanghai's IMM is half that size.

In May 1994, Yaohan opened the first “Bainong” supermarket as a joint venture with the Shanghai Lian Nong Co., Ltd. (50% Yaohan, 50% Shanghai Lian Nong). Joint venture supermarkets with Lian Nong could now be opened in any region in China. This was the first joint venture supermarket licensed to develop a nationwide chain in China, and there are plans for 50 stores by 1997. The Chinese government has set out a policy of granting licenses for nationwide development of supermarkets to one or two foreign companies; American and French companies have applied for licenses, but these have not yet been granted. Beginning with Pudong, Shanghai, there are also plans to develop 5 large shopping centers along the lower reaches of the Yangtze River Basin down to Nanjing.

Mr. Masayoshi Nozue, President, Shanghai No. 1 Yaohan Co., Ltd.

Mr. Nozue worked for 5 years in Singapore when the Singapore store was established, and from 1991 he served as the Vice President of Yaohan International in Hong Kong, and is now in Shanghai in charge of the Shanghai project.

The Beijing department store is a Yaohan franchise, and then, unlike other joint ventures, there are quite a few problems in running it. The franchise system used in Beijing, however, was not adopted for the Shanghai store. 15 persons each from Yaohan and No. 1 Department Store will be dispatched as executives, but the management and operation will be given over to Yaohan side. The Chinese are salesmen through and through, but they are flexible and I think they have a strong desire to learn from us. In China as well as in Singapore and Malaysia, an emphasis on the individual is common, and one might say that this attitude is similar to that in the West. One should not expect the same company loyalty that Japanese have, and appealing to duty and humanity do not work here. A system is needed that would offer stronger financial incentives through personnel evaluation and salaries. The management must also accept the philosophy and policies of Yaohan. The teachings of “Seicho no Ie” are essentially everyday ethics, stressing love for one’s parents and regarding the customer as important because ultimately it is the customer who pays one’s salary. However, the beliefs of “Seicho no Ie” are not forced upon our employees. Nothing is mentioned about “Seicho no Ie” in the employment interviews, and of course, we employ persons of other faiths.

Prospects for the China Project

Mr. Shoichi Tajima, who oversees Yaohan’s China operations from Tokyo, is Vice President of Yaohan Japan, and in 1993 he was appointed President of the newly – established Yaohan China Office Co., Ltd.. Mr. Tajima was also a Director in Yaohan International Holdings and was a member of the Group Executive Committee. Mr. Tajima stayed for a long time in the U.S. serving as President of Yaohan USA, during which time he made the New York store successful and was in charge of planning for the opening of stores in London and Vancouver. The Yaohan China Office makes use of Yaohan’s unique network and know – how, and was established to provide advice on real estate development and on investment in China, to arrange joint ventures and introduce clients to joint venture partners, to provide for the dispatch of personnel to China and to offer local managerial guidance, and in general to conduct a variety of activities (e.g., finding tenants for the Shanghai No. 1 Yaohan) that will help make Yaohan’s China strategy successful. The China Office is located in the Tokyo headquarters in Kanda, Tokyo, and has a staff of 20.

Mr. Shoichi Tajima, President, Yaohan China Office

5 Though difficult enough in Japan, we are trying in China to directly link
production, wholesale and logistics, and retail in the upstream, midstream,
10 and downstream of distribution flow. We have been forming upstream
groups in conjunction with Japanese manufacturers of toilet paper, cosmetics,
bakery goods, shirts, packaging, etc. In the area of culture, we have formed
an multinational women's professional volleyball team, and we are working
with Sony and Yoshimoto Kogyo to gain experience in the entertainment
industry. The Shanghai IMM will be needed for the Shanghai department
store that will be opened at the end of next year.

15 Cooperation with our joint venture partner Shanghai Lian Nong is going
well in the Bailian supermarket that opened a short time ago, and we have
been able to set up the store's operations as we intended. Each floor of the No.
1 Yaohan is 12,000 m² in area. The directly managed areas accounts for one-
20 third of the total, while two-thirds are for tenants. We are just now starting to
look for tenants, and we are planning to bring in a total of 150 companies:
50 - 60 Japanese companies, 60 - 70 Hong Kong companies, and other
companies from China, Taiwan, the U.S., etc. Rents in Shanghai have
skyrocketed, but the rents in our shopping center (Nextage Shanghai) are
quite reasonable. With such a large number of shoppers coming to the
Nextage Shanghai, it will serve an important function as a showroom for
domestic market development in China.

25 Yaohan has a grand scheme for a chain of 1,000 supermarkets, and the
plan is for 70% of these to be franchises and 30% directly owned. As there is
no such thing as a franchise system in China at the moment, it is necessary
even to explain thoroughly the necessity for payment of fees for know-how.
30 In the first supermarket store, a total of 28 Chinese employees under a store
manager run a store of 150 tsubo (approximately 500 m²); total sales on
opening day were 130,000 yuan. With personnel costs for Japanese personnel
so high, we are trying to operate without Japanese personnel. The efficiency
of operating a store in China is obvious. Although the official exchange rate
35 of the Chinese yuan is 13 yen to a yuan, I think that the actual purchasing
power is closer to 100 yen to a yuan.

40 Yaohan in 1994 has opened new stores not only in China but also in Southeast Asia:
in Bangkok (No. 2), Hong Kong (No. 9), and in Taiwan (Taoyuan Store).

45 In a public speech in Tokyo in June 1994, Mr. Wada made it clear that he thought
the current focus of business expansion in China was the Yangtze River basin from
Shanghai to Nanjing, and that we should undertake to build a supermarket chain and five
department stores there. Mr. Wada added that Yaohan's business expansion in China would
50 require US\$500 million by the year 2000, and that Yaohan's share of that burden would be
60%, or US\$300 million. For the time being, new projects will concentrate on China, and
the capital for these projects will as a rule come from the local subsidiaries themselves as far
as possible. Mr. Wada stated that he would like to proceed by selling some of Yaohan's
quality real estate holdings and by listing Group companies on the stock exchange. On the
risks of business in China, Mr. Wada mentioned that in the short term there was the
possibility of social problems stemming from advancing inflation and the widening disparity
in income levels, and that China's legal system was still not properly established in the eyes
of foreign companies. However, in the long term, he said, the money and technology for

China to continue economic growth would pour in from around the world, and Mr. Wada concluded that both China and its distribution industry have bright futures.

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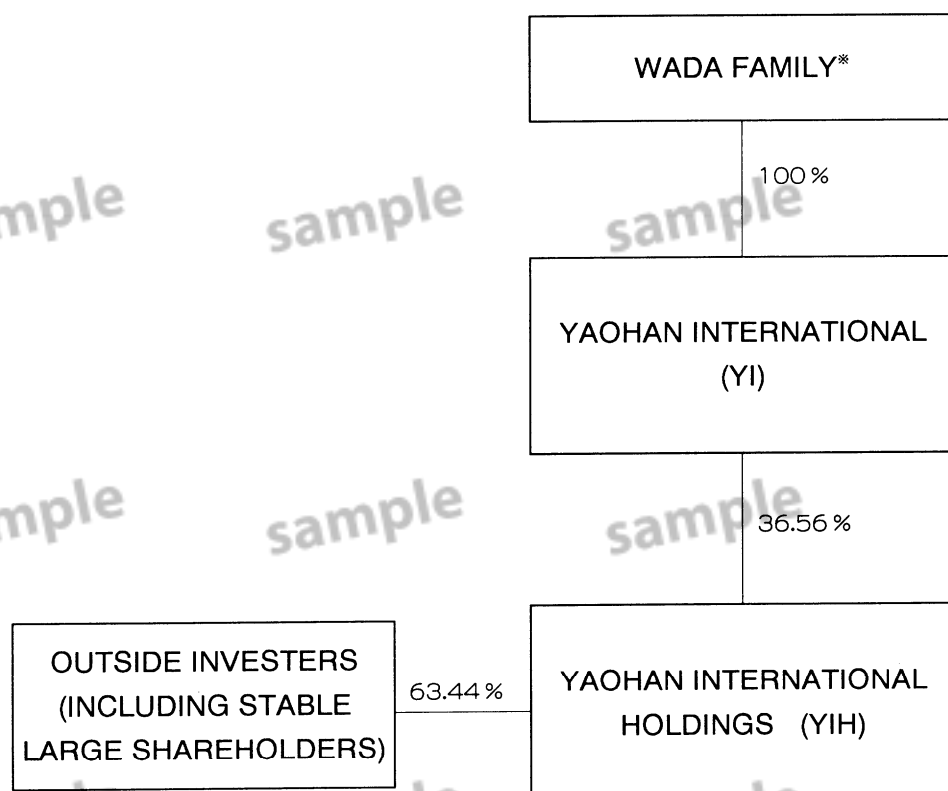
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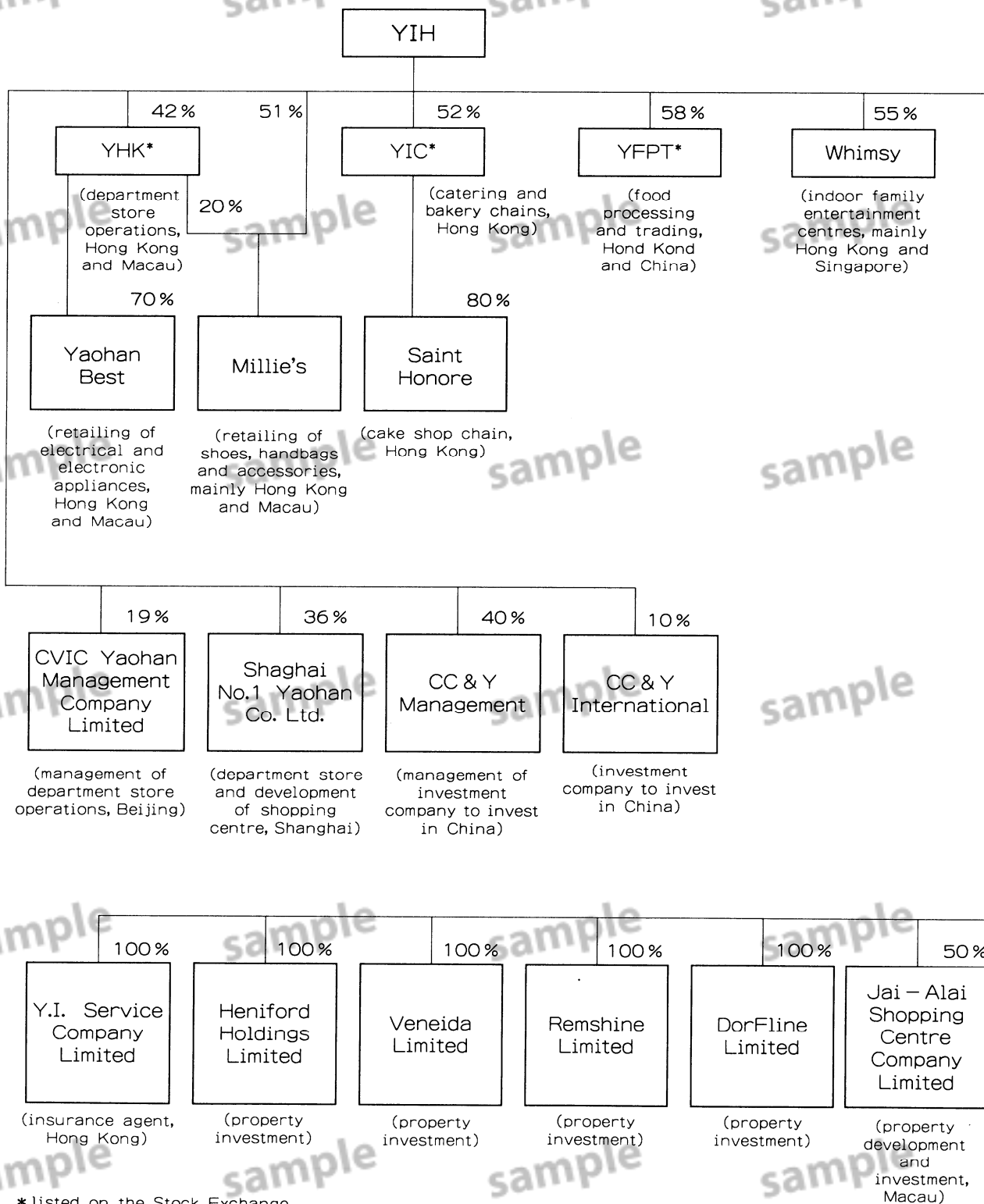
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**Appendix 1 OWNERSHIP STRUCTURE OF
YAOHAN INTERNATIONAL GROUP**



※ The late Mrs. Katsu Wada and the 4 Wada brothers

Appendix 2 CORPORATE STRUCTURE OF THE YAOHAN GROUP



Appendix 3 BOARD MEMBERS OF YAOHAN INTERNATIONAL HOLDINGS

Chairman	Kazuo Wada*	
Vice – Chairman	Terumasa Wada*	(non – executive)
Managing Director	Zensuke Yamada*	
Deputy Managing Director	Masayoshi Nozue	
Deputy Managing Director	Yuji Sakuma	
Senior Director	Glenn Wai Cheung Chan	(Canadian)
Director	Tomomi Takeda	
Director	Hajime Nakayama	
Director	Hideichi Tokuhisa	
Director	Hiroaki Kawai	
Director	Mitsumasa Wada*	(non – executive)
Director	Shoichi Tajima*	(non – executive)
Director	Yoshimasa Yamanishi	(Chairman of Izumi) (non – executive)
Director	Qin Xiao	(Director of CITIC) (non – executive)(Chinese)
Director	Shen Jueren	(Chairman of China Resources Holdings Company Ltd.) (non – executive) (Chinese)
Director	Francis Tin Fan Yuen	(Managing Director of Seapower International Holdings Ltd.) (non – executive) (English)
Director	Robert John Richard Owen	(the former chairman of Securities and Futures Commission, the Deputy Chairman of European Capital Company Ltd.) (non – executive) (English)
Special Adviser	Hiroshi Hashimoto	(the former Ambassador of Japan to the PRC) (non – executive)

※ Members of the Group Executive Committee

**Appendix 4 SUMMARY OF YAOHAN'S
OVERSEAS SHOPPING CENTERS**

Country	Store Name	year of opening	Floor Space (m ²)	Number of Employees	
				Japanese	Locals
United States	Little Tokyo	1985	5,250	30	683
	San Jose	1988	1,900		
	New York	1988	6,680		
	Costa Mesa	1989	2,670		
	San Gabriel	1991	520		
	Chicago	1991	2,920		
	New Torrance	1992	3,830		
	Santa Monica	1992	1,630		
	San Diego	1993	1,800		
Singapore	Orchard	1974	13,671	27	1,773
	Thomson	1979	8,844		
	Buki Tiwah	1981	3,759		
	New Katong	1983	7,255		
	I M M	1992	172,300		
Hong Kong	Shatin	1984	10,838	70	6,387
	Tuen Mun	1987	22,197		
	Hong Hom	1988	13,859		
	Tsuen Wan	1991	12,576		
	Yuen Long	1992	4,000		
	Lan Tin	1992	10,219		
	Tin Shui Wai	1993	4,180		
	Tseung Kwan	1994	4,650		
Macau	Macau	1992	18,000	3	450
China	Shenzhen	1991	894	17	91
	Beijin	1992	19,082		
	Shanghai	1995 (plan)	122,000		
Malaysia	Mall	1987	19,300	10	1,935
	O U G	1987	7,400		
	Penang	1988	10,100		
	B P C	1988	13,000		
	Kota Kinabalu	1990	12,848		
Costa Rica	San Jose	1979	2,130	3	103
Brunei	Brunnei	1987	5,525	6	451
	Gadon	1993	4,738		
Thailand	Bangkok	1991	30,000	15	700
	Bankee	1993	24,000		
Canada	Van Couver	1993	2,508	3	60
England	London	1993	6,300	9	150
Indonesia	Seguitegasenen	1992	11,636	3	450
Taiwan	Tao Yuen	1994	39,689	4	580

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不許複製

慶應義塾大学ビジネス・スクール

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