

KIM'S FAILED LAUNCH P.14 | CHINA'S LUXURY BRAND AMBITIONS P.32

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IN YOUNG HANDS

Passing down the business
reins from parent
to child



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Time to Take Responsibility

They were born with a silver spoon in their mouths. Their parents are the first batch of private entrepreneurs who got rich after China started its reform and opening up in the late 1970s. Most of them were born in the 1980s, living a comfortable life, receiving a good education and having rich social resources. People like to call them “the second rich generation.”

Private businesses did not exist in China during the planned economy era, a period from 1949 when the People’s Republic of China was founded to the late 1970s. Thus, private businesses that have appeared since the 1980s are totally new. Only a small fraction of them can date back to the time before the opening up. So, most of the rich private entrepreneurs in China are pioneers of their family businesses and their wealth has not gone through two generations.

Although the second rich generation has huge wealth to inherit, their growth is mostly accompanied by the family businesses’ development, a process of becoming rich. Their special life experience and family background throw them into the limelight. The aura of wealth easily makes them the focus of attention.

Recently, a book titled *Survey Report on China’s Second Rich Generation* was published. It is said to be the first book on the real life of China’s second rich generation. The author made a survey on China’s second rich generation’s life, study, work, marriage and even assets inheritance based on 600 questionnaires and 110 in-depth interviews, hoping to present the true life of this group to the public.

Statistics based on the surveys show that the second rich generation in China is a comparatively young group, aged from 18 to 35, and males account for a majority. They are generally highly-educated people, with 43.5 percent of them having overseas education background and 64 percent choosing business management as their major. Around 46.4 percent of them established their own businesses. Some of them do so because they want to prove their own value or to accumulate business experience, or they are not interested in their parents’ businesses.

To start their own businesses or to inherit their parents’ businesses? This is a hard choice facing this young rich generation. Surveys show that 37.7 percent of them do not want to inherit. Some of them believe that the businesses their parents are running are out of date, some want to prove that they can do well by themselves and some think that managing a company is exhausting and thus are not interested in business. Of those who take over businesses from their parents, 39 percent said that their corporate management concepts conflict with their parents’. They mean to carry out reforms, but they feel frustrated. About one fifth of them feel that they are challenged by senior employees in their businesses.

Actually, whether this young rich generation will “fall” or “surge” does not lie in whether they inherit their parents’ businesses. What is important is that they are able to maintain level-headed in their affluent life, do what they want to do well and make contributions to society within their capacity. ■

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Endangered Species

A Yangtze finless porpoise plays with its caretaker at the White Fin Dolphin Zoo in Wuhan, central China's Hubei Province, on April 18. Seven Yangtze finless porpoises are raised in the zoo.

Since March 3, 10 corpses of Yangtze finless porpoise have been found near the Dongting Lake in central China's Hunan Province.

The Yangtze finless porpoise and white fin dolphin are the only two cetacean mammals in the Yangtze River and nearby fresh waters. Only a few thousand Yangtze finless porpoises still live in the Yangtze River, but are estimated to decrease by 5 to 10 percent every year.

Experts say that shipping, illegal fishing, sand excavation, climate change, river pollution, and competition from human beings for food, have all contributed to Yangtze finless porpoises' decline.

“The Huangyan Island is an integral part of Chinese territory. There is no basis for the Philippines’ claim to the island and China cannot accept this claim.”

Chinese Vice Foreign Minister Fu Ying, lodging a complaint over the harassment of Chinese fishermen by a Philippine naval ship near the Huangyan Island in the South China Sea with the charge d’affaires of the Philippine Embassy in China in Beijing on April 18

“Nobody has written down completely the changes Tibet has experienced in the past half a century. We are enjoying religious freedom. Our lives have been greatly improved. I want to tell readers our true feelings.”

Tibetan writer Cering Norbu, speaking about his new book on Tibet’s changes since the 1959 democratic reform at the London Book Fair on April 17

“China has done a lot to help ease disagreements between Sudan and South Sudan, and it will continue to work with the international community to push for reconciliation and talks.”

Foreign Ministry spokesman Liu Weimin, expressing concern over rising tensions between Sudan and South Sudan at a press conference in Beijing on April 19 after Sudanese President Omar al-Bashir declared war on South Sudan

“We are absolutely determined to make sure we have a safe and secure games and we put a lot of thought into how we can do that.”

Jeremy Hunt, British Secretary of State for Culture, Olympics, Media and Sport, saying that London is ready for the coming Olympic Games while attending a promotional activity for the games in Shanghai on April 18



DELICATE ART Visitors walk past a set of Chinese furniture during a preview of the Chinese Contemporary Arts & Crafts Biennale, which kicked off in Beijing on April 16

To the West

China plans to recruit 17,000 college graduates to live and work in the country's western regions in 2012, up from last year's quota of 10,000.

"The year 2012 is a key year to deepen and consolidate the country's western project. Local offices affiliated with the project should make more efforts to encourage graduates to work in places where they are most needed," said Zhou Changkui, a senior official with the Central Committee of the Communist Youth League of China (CYLC).

Zhou made the remark on April 17 at a meeting for the volunteer campaign.

According to a statement released after

the meeting, this year's volunteers can apply to work in such sectors as basic education, agricultural technology, health care, grass-roots youth work, social management and providing services in Xinjiang and Tibet autonomous regions.

About 10,000 of this year's volunteers will serve in the regions where ethnic minority groups inhabit, said the statement.

Students can apply for the program from April 17 to May 25.

Stricter Customs

China plans to impose harsher punishments on customs officials who are found to breach the customs rules, according to the latest

penalty rules published on the website of the Ministry of Supervision on April 17.

The new rules state that customs staff who participate in, shield or condone smuggling operations will immediately be discharged from office.

Under existing customs regulations, staff who shield smuggling operations aren't dismissed until the case becomes especially serious, for example, actively helping smugglers evade the law.

The new rules, jointly released by the General Administration of Customs, the Ministry of Supervision and the Ministry of Human Resource and Social Security, establishes 27 terms of disciplinary violations and corresponding punishments under 11 categories.

Staff members who impart information allowing smugglers to evade or get round customs checks will also be fired, according to the rules. The rules come into effect on May 1.

Occupational Diseases

The Ministry of Health (MOH) said on April 16 that it will upgrade its service network for the prevention and treatment of occupational diseases in line with a newly amended law.

China's top legislature adopted an amendment to the Law on Occupational Illness Prevention and Control on December 31, 2011, in order to better protect the legal rights of workers.

The amendment specifically requires governments at all levels to strengthen their ability to prevent and control work-related illnesses, as well as establish a comprehensive service system.

However, 44 percent of provincial jurisdictions have yet to comply with the initiative, according to a circular published recently on the ministry's website.

It also noted that 27 percent of prefecture-level regions lack the ability to diagnose and verify occupational diseases, while 43 percent of all counties cannot provide adequate occupational health evaluations.

In response, the MOH called for more financial and policy support from governments at multiple levels. China currently has 120 dedicated stations across the country to monitor occupational diseases. However, the data collected from the stations are often incomplete or untimely, the circular said.

Liaison Office

On April 16, the Beijing Municipal Public Security Bureau announced the establishment of a liaison office to handle international law enforcement cooperation and foreign-related cases.

The Beijing Liaison Office of the

Music Festival Ambassador

Lu Siqing, a renowned Chinese violinist, was chosen as ambassador for the annual May Music Festival at the National Center for the Performing Arts (NCPA) in Beijing.

Lu, 43, was born in Qingdao, east China's Shandong Province. He began to play the violin at the age of 4 and was admitted by the Central Conservatory of Music at the age of 8, becoming the youngest student there. Lu won the gold medal at the 34th Paganini Competition, one of the most important violin competitions worldwide, when he was 17. Lu's version of *Butterfly Lovers* is widely acknowledged the best one in the world.

The NCPA will usher in the new May Music Festival from May 9 to 26. Besides 15 concerts staged by famous music groups and masters, the festival will go to communities, schools, museums and other venues for the first time, hoping to benefit common people and increase the public welfare.



International Criminal Police Organization (INTERPOL) National Central Bureau of China is an institution of the Beijing Public Security Bureau. It will receive guidance from the INTERPOL National Central Bureau of China, communicate between China and INTERPOL frame nations, deal with foreign-related cases and collect criminal intelligence, according to the bureau.

With an increasing amount of cross-boarder travels and foreign exchange transactions, entry-exit points and international crimes, Beijing police are facing greater challenges in investigating cases, collecting evidence and pursuing transnational criminals, said Fu Zhenghua, head of the Beijing Municipal Public Security Bureau.

Statistics show that the number of people entering and exiting Beijing reached 18 million in 2011, while more than 120,000 foreigners reside permanently in Beijing.

Bird Flu

China's northwestern Ningxia Hui Autonomous Region reported an outbreak of the highly contagious H5N1 bird flu virus in poultry, the Ministry of Agriculture (MOA) announced on April 18.

More than 23,000 chickens on several farms in a village of Touying in the city of Guyuan in Ningxia showed symptoms of suspected avian flu on April 13 and the National Avian Influenza Reference Laboratory confirmed the epidemic was a H5N1 bird flu case after testing samples collected at those sites, according to the MOA.

The body said in a statement that a total of 95,000 chickens have been culled afterward.

"The epidemic is under control now," it said, as a team was dispatched to the quarantined area to guide epidemic prevention.

Bovine Colostrum Ban

The Ministry of Health issued a ban on April 18 on the use of bovine colostrum or dairy products made of the material in the production of baby formula.

The ban, published on the ministry's official website, is seen as a response to formula manufacturers who include the ingredient in their products in order to reap greater profits, as some customers believe bovine colostrum

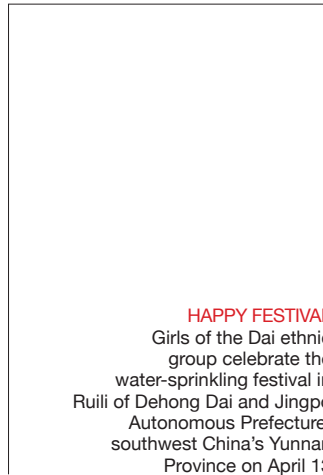
is beneficial for the health of their children.

Bovine colostrum is the milk produced by healthy cows during the first seven days after they give birth.

According to industry insiders, China is the world's largest bovine colostrum consumer, although the health benefits of formula made with the material have yet to be determined.

The stipulation will take effect on September 1. Prior to that, related products made or imported in accordance with laws and regulations can still be sold before they expire.

The statement urged manufacturers of bovine colostrum-based dairy products to manufacture their goods in accordance with national and industrial standards.



HAPPY FESTIVAL

Girls of the Dai ethnic group celebrate the water-sprinkling festival in Ruli of Dehong Dai and Jingpo Autonomous Prefecture, southwest China's Yunnan Province on April 13



AIMING HIGH Participants prepare to fly their kites during a competition in Weifang, east China's Shandong Province, on April 17

Boosting Green Cars

The State Council said on April 18 that the country will move faster to develop its energy-saving and new-energy vehicle industry to ease pressure on resources and the environment.

Prioritizing pure electricity-driven vehicles will be the major strategic route for China to transform the automobile industry. And the current focus is to promote the industrialization of pure electric cars and plug-in hybrid electric vehicles.

China's accumulative output of pure electric and plug-in hybrid electric vehicles is expected to be 500,000 by 2015 and 5 million by 2020.

The country will try to lower average fuel consumption of automobiles produced in 2015 to 0.069 liters per km and those produced in 2020 will see average consumption drop to 0.05 liters per km.

Home Prices Down

New home prices declined in most Chinese cities surveyed in March, said the National Bureau of Statistics (NBS).

In March, 46 of the statistical pool of 70 major cities saw drops in new home prices from February, while new home prices in 16 cities remained unchanged.

Eight cities, up from four in February, saw gains of less than 0.2 percent in new home prices.

On a year-on-year basis, 38 cities saw new home price declines in March, up from 27 in February.

Price declines were mainly because cash-strapped property developers chose to lower prices to work off their overloaded inventories and some commercial banks lowered mortgage rates for first-home buyers to boost sales, said Ma Xiaoming, a statistician from

the NBS.

Prices of second-hand homes stopped growing in 54 cities in March, compared with 59 cities in February.

Surging ODI

China's non-financial outbound direct investment (ODI) surged 94.5 percent year on year to \$16.55 billion in the first quarter, the Ministry of Commerce (MOFCOM) announced on April 17.

Of the total, \$6.2 billion of investment took the form of mergers and acquisitions, said Shen Danyang, MOFCOM spokesman.

As of the end of March, China's non-financial ODI had expanded to \$338.5 billion.

Shen said that a lack of liquidity and rising financing costs in European markets may give rise to a new round of global mergers and acquisitions.

Meanwhile, Chinese firms are increasingly motivated to internationalize their businesses due to pressures stemming from the rising costs of raw materials and labor at home, said Shen.

Shen said that China's non-financial ODI is highly likely to see a rapid growth rate this year, but he expected the full-year growth rate to rest below the 94.5-percent rate in the first quarter.

Active Chinese investments abroad came amid falling foreign direct investments (FDI) to China.

The country received \$29.48 billion of FDI in the first quarter, down 2.8 percent from a year earlier.

Loosening Rural Lending

The People's Bank of China, the central bank, cut the reserve requirement ratio for some county-level financial institutions by 1 percentage point, sources familiar with the matter said on April 13.

The favorable ratios, effective on April 1, will end on March 31, 2013.



NEW CONNECTION The bridge across Lhasa River in Lhasa, capital of west China's Tibet Autonomous Region, is under construction. The 1.28-km bridge, called the No.1 bridge in Lhasa, will be finished in October

Numbers

3 trillion yuan

China's fiscal revenue in the first quarter rose 14.7 percent year on year to hit nearly 3 trillion yuan (\$475.81 billion), said the Ministry of Finance (MOF).

9.1%

State-owned enterprises saw profits fall 9.1 percent year on year to 482.86 billion yuan (\$76.71 billion) in the first quarter, said the MOF.

The financial institutions were rewarded with the 1-percentage-point lower reserve requirements because they managed to lend a certain percentage of loans to local businesses last year.

The central bank has been implementing a differentiated reserve requirement policy for county-level lenders to help boost lending, support local economies and improve rural financial services.

The reserve requirement is the amount commercial banks must keep with the central bank.

Anti-Dumping Probe

The MOFCOM started to review the anti-dumping investigation concerning electrolytic capacitor paper imported from Japan on April 18.

The decision came following the Chinese electrolytic capacitor industry's request to continue to implement the five-year anti-dumping duties that expire on April 18.

The renewed investigation will decide whether to extend the existing anti-dumping duties on electrolytic capacitor paper imported from Japan due to damage inflicted on China's domestic paper industry.

Steelmaking Loss

Waning demand and rising production costs have brought China's steelmaking industry to face a quarterly profit loss for the first time in a decade, said China Iron and Steel Association (CISA).

Major large and medium-sized steelmakers saw a total loss of 1.034 billion yuan (\$164.1 million) in the first quarter, marking the first time they have seen a profit loss since 2000, said Zhang Changfu, Deputy Director of the CISA.

But Zhang said their monthly profits were picking up as they gained 2.08 billion yuan (\$330.16 million) in March. The industry is struggling to return to a profitable level in the first half, he said.



INTERNATIONAL OPPORTUNITY Spanish designers join the Products Design Center at the 111th Canton Fair opened in Guangzhou, capital of south China's Guangdong Province, on April 15

Charity Pioneer

An online campaign to provide free lunches to impoverished students was selected the Most Influential Charity Program at the Seventh China Charity Award. **Deng Fei**, a reporter from *Phoenix Weekly* magazine, is one of the founders of the program.

Deng, 34, graduated from Hunan University with a major in journalism in 2000. Since then Deng has written over 100 investigative reports, uncovering the dark side of society and winning countless awards as a reporter. He is also actively engaged in social welfare work.

The free lunch program had managed to provide free lunches for about 15,000 children across China from April to December in 2011. Launched on the Internet, the program was joined by more than 500 reporters in China and had received about 18 million yuan (\$2.86 million) in donations by the end of 2011. It is now operated under the China Social Welfare Foundation.

The program has used an unusual fundraising method, running an online shop on China's most popular online shopping site Taobao. People can easily donate by buying a virtual charity product for 3 yuan (\$0.48) or actual T-shirts or pins produced by the program. With these funds, the program distributed money to 129 schools to provide free lunches to needy students. In a bid to improve transparency, each school sponsored by the program is asked to set up a micro-blog to publicize the funds it receives and how the money is spent, while a volunteer is assigned to monitor the micro-blog records of a school.



4.93 trillion yuan

Retail sales of consumer goods grew 14.8 percent year on year to 4.93 trillion yuan (\$770.6 billion) in the first quarter, according to the National Bureau of Statistics (NBS).

4.79 trillion yuan

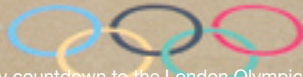
Urban fixed-asset investment rose 20.9 percent year on year to 4.79 trillion yuan (\$761.22 billion) in the first quarter, according to the NBS.

THIS WEEK WORLD



BRITAIN

The Royal Horse Guards perform on April 16 to mark the 100-day countdown to the London Olympic Games



XINHUA



Students vandalize the outer wall of the U.S. Embassy in Manila on April 16 to protest the 12-day 2012 Balikatan exercises, a joint Philippine-U.S. military drill scheduled to take place simultaneously in several parts of the Philippines

THE PHILIPPINES

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EGYPT

Egyptians take part in a demonstration in the Tahrir Square in Cairo on April 13, demanding former regime members be barred from public office



Guests walk on the tarmac after watching the space shuttle *Discovery* and NASA's Boeing 747 shuttle carrier aircraft land at an airport near Washington, D.C. on April 17. The shuttle will go on permanent display at the Smithsonian National Air and Space Museum's Steven F. Udvar-Hazy Center in Chantilly, Virginia

THE UNITED STATES




SUDAN

Sudanese President Omar al-Bashir (center) greets a crowd at the headquarters of the ruling National Congress Party in Khartoum on April 18. While addressing a rally there, he declared war on South Sudan at a time of escalating border clashes between the two countries



A zoo keeper feeds a Mangabey monkey on April 18, at the Jardin des Plantes botanical garden zoo in Paris. The baby was born in the zoo in March, and then rejected by his mother, forcing zoo staff to care for the tiny primate

FRANCE



FATHER AND DAUGHTER: Zong Qinghou, Chairman of Wahaha Group, attends the Zhejiang Entrepreneurs Awarding Ceremony with his daughter Zong Fuli on January 12

COVER STORY

WHO'S NEXT?

China's private entrepreneurs struggle to hand their companies over to the second generation
By Yuan Yuan

This is the second time Zuo Ying has been called back to China to help with her father's business, Zongshen Industrial Group based in Chongqing in southwest China.

With more than 13,000 employees and total assets exceeding 4 billion yuan (\$635 million), Zongshen Industrial Group is China's leading private enterprise manufacturing products related to motorcycles. Zuo Ying's father Zuo Zongshen is the founder and chairman of the company. Starting from scratch as a motorcycle repairman in the

1980s, Zuo Zongshen worked extremely hard and eventually turned his motorcycle repair stand into a multi-million-dollar company.

Zuo Ying was born in 1982. From a young age, she was told she would take over her father's position and that the livelihood of the company's employees would depend on her.

"It is a lot of pressure for a 10-year-old girl and I felt more stress than excitement," said Zuo Ying, who attended the University of Miami in the United States after she graduated from an exclusive high school in Chongqing.

Zuo Zongshen made this education plan after consulting experts' opinion on how to educate his daughter so she could successfully take over his position in the future.

However, this well thought-out education plan didn't quite achieve the desired results. Unlike her father, who prefers to stay in Chongqing and is generally serious and conservative, Zuo Ying travels around the world and posts sexy pictures of herself on China's popular micro-blogging site Weibo.com.

In 2007, when the daughter graduated with a bachelor's degree in business admin-



istration in the United States, the father asked her to come back to China to help with the business. Zuo Ying was keen to stay in Miami but she finally agreed to come back under considerable pressure from her father. On her return, she was appointed his assistant.

In the following year, the duo found many differences between them. The father's office was filled with reports, and he often shuffled back and forth between meetings. The daughter struggled to understand why her father had to deal with every little problem by himself while the father failed to understand why his daughter

spent most of the day staring at the computer screen.

"For him, staring at the computer screen is a waste of time," said Zuo Ying. "But how can a modern business run without the Internet and computers?"

Zuo Ying's spontaneous and unguarded speech in front of political officials was also seen as inappropriate by her father. "These interpersonal relationships are so complicated and there is a lot of guesswork in communication," complained Zuo Ying, who decided to go back to Miami after one year on the

pretext that she couldn't bear Chongqing's cold winters.

In 2009, as the Zongshen Group suffered from the financial crisis and witnessed a sharp fall in the export volume of its motorcycles, the father called the daughter back and asked her to take over Zongshen Import & Export Corp., the subsidiary company that was suffering the most.

This time the father-daughter partnership worked out better. Zuo Ying expanded the scope of the business and Zuo Zongshen began investing in other industries such as real estate to cater to his daughter's interests, and also encouraged her to invest in projects separate from the Zongshen Group. In 2011, Zuo Ying invested 350 million yuan (\$55 million) in a BMW 4S store. She had succeeded in expanding the export volumes of the subsidiary by 50 percent by the end of 2011. Finally, the father felt the daughter had become more mature.

But Zuo Ying still flies back to Miami every few months to get away from Chang's climate and pollution. "I have more friends in Miami," she said. Her ideal life is said to be traveling around the world with her American husband and making money by trading stocks. However, she is obliged to help her father run his business.

Zuo Zongshen once tried to introduce professional managers to his company, but "since the system of professional managers has not developed to an ideal level in China, it is still not the best way to deal with it," he said.

Zuo Ying prefers to discuss business with her father and uncles instead of the managers employed by her father. "People from the same family are more reliable," she said.

Between east and west

Zong Fuli, also born in 1982, has a lot in common with Zuo Ying. As the only child of Zong Qinghou, China's richest man in 2010 and the chairman of beverage giant Wahaha Group, Zong Fuli spent several years in the United States receiving her high school and university education before joining her father's company in 2005 as an assistant to a mid-level manager.

When she first joined the company, she had difficulties in communicating with some of the staff at Wahaha. "I tend to use the straight-forward business methods of the West, but it is more common in Chinese culture to be less direct," she said.

She also had different ideas on how the com- ▶▶

pany should be run. “If I ask employees what is the spirit of Wahaha, many people would reply my father’s name Zong Qinghou,” she said. “It is not the style of a modern company, which should focus more on the name of the brand, not the founder.”

Zong Fuli focuses on expanding the overseas market as she feels her generation and her father’s generations have “different missions.”

“I want to do something to improve the image of China’s food as recent scandals have affected the country’s reputation internationally,” she said. She is now in charge of about one third of the company’s production capacity as well as the import and export arm. “Basically, my father takes care of operations for the domestic market and I run the international part,” said the daughter. She developed an iced tea drink specifically for export.

The father and daughter also have different management styles. Zong Qinghou tends to give orders for people to execute, while Zong Fuli prefers employees to have their own ideas and their own sense of commitment.

In 2011, Wahaha had a total revenue of 67.8 billion yuan (\$10.8 billion), making it one of the largest food and beverage companies in the world. Zong Fuli, as the apparent



STEPPING IN: Li Zhaohui, who took over his father’s position as the chairman of Shanxi Haixin Iron & Steel Group in 2003, developed the company into an industry leader within three years



PASSING ON: Mao Zhongqun talks about his experience of taking over his father’s position during a TV interview in Shanghai on January 17, 2008

successor, usually keeps a low profile and seldom appears in the media.

“I think anyone who wants to pass a business on to the next generation or implement a change should first look at what is the desired direction of the business and then decide who should be the one to take over,” she said. “I definitely don’t want to take over the work just because I am his daughter.”

Given a strong sense of family ties in China in almost every private company, the founder’s children are the first in line to take over from their parents. The children of these business people, however, generally don’t regard taking over the company as their first choice.

Shanghai Jiaotong University Professor Yu Mingyang conducted a survey in 2011 on 182 large private companies in China. The founders of all the companies were in their 50s or 60s. In the next decade all these businesses will have to transfer leadership. The results of the survey showed that 82 percent of the founders’ children didn’t want to take over.

“Most of the children got degrees in foreign countries and have wider views. Compared with their parents, they don’t have the experience of starting a company from

scratch. Even when they decided to take over the business, they start from being the vice chairman or somebody in charge and not suffering a lot like their parents did,” said Yu.

“Just because we didn’t suffer that much doesn’t mean we are worse at business,” said Zuo Ying, who has proved to be a talented investor, she pocketed enough money from real estate investments to pay her own tuition while she was in college. She began purchasing stocks in the United States in 2007, and dumped all of them just before the financial crisis. In 2009, she snapped up shares of large firms, including Apple Inc., at bargain prices.

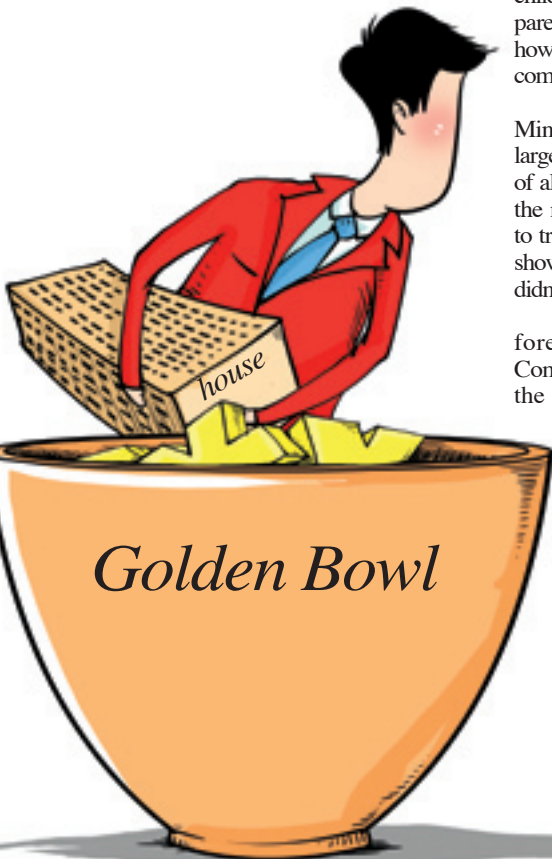
“I think the overseas experience has offered us some advantages that the first generation did not have,” said Zong Fuli. “We have more international views and rely more on information technology.”

Well-prepared handover

Compared to Zuo Zongshen and Zong Qinghou, Mao Lixiang spent a lot more time preparing to hand over his company to his children. Instead of sending his kids overseas for further study, he dragged his son Mao Zhongqun, who wanted to go to the United States for further study, back to the family company.

“In the middle of 1990s, my company, which was named Flying Group, was suffering from a dilemma. Although we were the biggest producer of lighters in the world, we had no special technologies or patents and we were facing fierce competition,” said the father.

The son, who had just graduated from Shanghai Jiaotong University in 1995, was called back to help with the business. The father devised a nine-year handover plan—in the first three years, the son assisted the father, during the next three years the father ceded some control to the son and assisted the son in the business, and in the last three years, the son got all the power





RICH AND YOUNG: At the Global Entrepreneurs Summit hosted by *Global Entrepreneur* magazine in Beijing on December 1, 2010, rich second-generation entrepreneurs discuss the life and career of those born with silver spoon

and worked independently while the father played the role of a supervisor.

“Actually, it didn’t take nine years, we finish the process quicker,” said the father. Mao Zhongqun changed the name of the company to Fotile Kitchen Ware Co. Ltd., and switched the business from lighters to kitchen facilities. Now, it has developed into the leading kitchen facility production company in China.

The handover was one of the most successful in Chinese corporate history and Mao Lixiang, after retiring from the company now often gets invited to give lectures on his successful experience. In 2007, he set up a training school on handing over to the second generation in his hometown Cixi in eastern Zhejiang Province.

Having witnessed some private companies’ disappearance during the handover process, Mao Lixiang feels the training of the second generation is crucial. “The following decade will see many more handovers and I would say more than 50 percent of them will fail unless they are well prepared,” he said.

The courses in the school are not limited to the second generation. It is also for the first one as communication between the two generations is vital.

Training schools for heirs of Chinese fortunes and businesses have been gaining popularity from 2006. Some schools offer courses such as horse riding, swordsmanship, golf and wine tasting in addition to running a business. Some of the training programs even include pilgrimages to revolutionary sites and visits to the U.S. Military Academy at West Point. The tuition fees at these schools are typically very high. In 2009, such a training class at Wuxi in eastern Jiangsu Province, offered 12 weeks of tuition for 668,000 yuan (\$105,530).

In Beijing, there are at least three well-known training classes for future business leaders, including programs at Peking

University, Tsinghua University and Beijing Huashang Institute of Management, a training body mainly for private enterprises.

No easy way

In March, a netizen who claimed to be one of the second-generation entrepreneurs posted pictures of a class online. In the picture, more than 50 percent of the students are asleep in the class and the few who are awake are either playing games on their iPhones or chatting with other students.

“For the students, to set up a social network with their classmates is more important than the content of the courses,” said Qu Jun, a director of the second-generation entrepreneur training program at Peking University. “Many of them don’t care what the teachers say in class.”

“Almost all the private companies would like to hand the business over to the children even if they know the children might not be qualified to run the business,” said Yang Guoan, a professor from China Europe International Business School (CEIBS). “So they rely on such training schools or overseas education to give their children more qualifications.”

In Yang’s opinion, courses such as horse riding or wine tasting are not that important for business. “Of course you need to know something about these things on certain occasions, but this kind of knowledge is easy to get access to as long as you have the money,” said Yang. “It is quite superficial.”

Li Xiujuan, another professor from the CEIBS echoed Yang. “Some parents are just too busy to take care of the children until they realize it is the time for the handover,” said Yang. “But it is not an easy task as the two generations can sometimes barely talk to each other due to a long-standing lack of communication.”

“Rome was not built in a day,” said Li. “Family education is more important than training classes. To talk more with the chil-

dren and let them experience and know more about the business from the time they are young would be more useful for a handover.”

Wu Chaoji, born in 1984, is the son of the owner of Dawangye Electric Co. in Zhongshan, southern Guangdong Province. While he studied in a college in Zhejiang Province, Wu had a part-time job as a salesman of office facilities.

“I had to knock the doors of every office in the office buildings and promote our products. Usually they didn’t even open their doors for me, not mention to talk to me,” said Wu, who believed he benefited a lot from the experience. “It was a precious experience and I learnt how difficult it is to do marketing.”

After graduation, Wu worked in Nanjing and Guangzhou as a salesman for several years until he was called back by his father to help with the company. At first, Wu helped deliver the goods from the company to customers. “I got up before 6 a.m. every day and no customers knew I was the son of the company owner,” said Wu.

In 2009, Wu made major changes to the sales model of the company. He expanded the market significantly in 2010, and the company’s sales volume increased 75 percent compared to 2009.

Wu’s experience isn’t the only example of a second-generation heir successfully expanding a business. Li Zhaohui, who was born in 1981, took over his father’s position as the chairman of Shanxi Haixin Iron & Steel Group in 2003.

In January 2003, Li Zhaohui’s father was shot and he had to quit his school in Australia to come back to take over the company.

“I was in deep sorrow at my dad’s sudden death and couldn’t recover for a while,” said Li Zhaohui. “As a 22-year-old man who had no experience at all, I didn’t think I could ever fulfill this position.”

But the board decided to give the young man the position and it proved to be the right decision. Within three years, Haixin Iron & Steel Group developed to be one of China’s biggest private steel manufacturers and its total assets surpassed \$1.2 billion in 2010.

“My father has long been my idol. He always taught me to be a responsible man and worked very hard,” said Li Zhaohui. “He had a huge influence on me and I tell myself all the time to work extremely hard to fulfill his expectations.”

“This is the result of the family education and influence on the children during the handover,” said Professor Li Xiujuan. “Parents should show them more about the pain and efforts of running a business and let them know it is not an easy job.” ■

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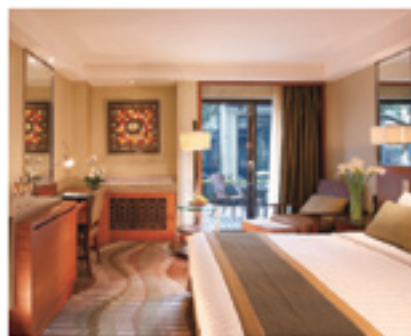


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