



**MEDIA EMBARGO UNTIL 1815 UK TIME ON 19-5-09**

**TESCO CHAIRMAN WILL URGE 200 YOUNG PEOPLE IN A SPEECH THAT THEY, “HAVE A HUGE AMOUNT TO GAIN BY UNDERSTANDING CHINA”**

David Reid, Tesco Chairman, in a 48 Group Club Young Icebreaker lecture 19<sup>th</sup> May, backs the Prime Minister’s statement made in January 2009 where Premier Gordon Brown wrote, *“If we are to make the most of our relationship with China, we need to understand China better, through our schools, universities, cultural institutions, our businesses and in Government. I am determined to do that”*.

David Reid said, *“I believe young people have a huge amount to gain by understanding China, fostering links and friendships with China and in seeing China for the opportunity it presents to us all. To my mind China represents one of the biggest opportunities in the Twenty-first Century.”*

Stephen Perry, Chairman of the 48 Group Club, said, *“Tesco’s are one of the visionary companies for doing business in China. They have a real commercial need for our education system to make China main stream in UK. Tesco also know the whole UK needs to become sensitised to China. I hope all university students will be given the means to spend a year in China so our homes are filled with a sense of Asia. Tesco’s lead the way in the UK , let the UK lead the way in fast educating our young people about China”*

Daniel Jacoel, Chairman of the 48 Group Club Young Icebreakers said, *“China is the great unknown for most young British people. I hardly learned anything about China in my 14 years at school, yet China is the centre of every major story today. I am so glad David Reid is giving a lead in the business community with a much need ‘wake up’ call.”*

**Note on the 48 Group Club the “Icebreakers”.** The “Cold War” gave the “Icebreakers” their name during which time China had been shunned in the “West”. However, in 1953 in the face of great adversity, the “Icebreaker” mission with 16 representatives of British companies, went to China. They paved the way for the 1954 mission by the 48 companies who later became known as the “48 Group”, so successfully establishing trade relations between the new People’s Republic of China and Great Britain. Over 50 years on and the 48 Group Club uses its unique links and understanding of China to continue its work. The focus of activities has shifted to pioneer new Sino-UK links neglected by others, but much needed in forging sustainable relations with China, such as in the fields of education, law and banking. The “Icebreaker” lectures feature high level leaders from both the UK and China.

**FULL SPEECH ATTACHED.**

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“China – Why Care?”

David Reid, Chairman of Tesco PLC  
19th May 2009

48 Group Club - Young Icebreakers' Lecture - RBS Conference Centre Auditorium,  
280 Bishopsgate, London EC2M 4RB

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Often the outside world views China with a mixture of awe and nervousness.

It sees China as an exporting powerhouse. It sees a low-cost, high volume competitor. A country brimming with the ambition, people and resources to challenge the existing world order.

Just look at the spectacle of last summer's Beijing Olympics. No-one can fail to have been impressed.

To some people China's development and growth appear unnerving. To others astounding. But to me, China is about opportunity.

Unlike some, I see China's growth as a good thing – it has been a brake on inflation, a competitiveness check and it is a huge potential market for our goods and services.

I see China as globalisation's success story and with a growing Chinese presence on the global stage and I believe Tesco, the UK more generally and young people in particular have an overriding interest in a successful China.

My first contact with China came when I was responsible in Tesco for Business Development and Strategy.

Our strategy was to use our strong UK base in retailing to develop future growth for the company through an international strategy focussed on the growth and developing markets in Central Europe and Asia.

As part of the early research I visited with one of our major suppliers - Proctor & Gamble - their operations in China. It was the early stages and their supply chain to the customer consisted of an executive going out with bicycles and baskets with their products.

Nevertheless it was during this visit that the excitement and potential of China dawned on me.

So, why does Tesco care about China?

Tesco has traded with China since the 1970's. Back then we established an office in Hong Kong dedicated to sourcing products from China, Hong Kong and Taiwan.

In many ways we were early to spot China's potential to become the workshop of the world. But in reality our interest was limited and we saw China principally as a source of low cost, simple products.

Today Tesco operates 64 hypermarkets in China, serving upwards of 4 million customers every week in modern shops that would not look out of place back home in the UK, or for that matter anywhere else in the world.

Our sourcing operations in China have also grown dramatically as China has become a trade power at the centre of the world economy.

For increasing numbers of products China has developed world-leading expertise as its factories turn out 80% of the world's toys; 80% of our luggage; 73% of all digital cameras and 40% of the stationary used around the world.

The Tesco sourcing office in Shanghai now employs 150 people and in conjunction with our office in Hong Kong – which has become the lead international sourcing hub for Tesco - supplies each year over £1.25 bn worth of high quality non-food products to our stores around the world.

This includes 60% of the clothing sold in our UK stores; 41% of white goods and electrical and a total of over 50,000 products.

What sparked our interest in China?

In one word, potential.

China today is one of the world's largest and most dynamic economies.

Growth has been nothing short of spectacular and looks set to remain so, even if it will be tempered by the slowing global economy.

Over the past 15 years China has lifted more people out of poverty more quickly than ever in human history.

And as anyone who has ever had the privilege of spending time in Beijing, Shanghai, Guangzhou or Shenyang will tell you, you can almost feel the dynamism in the air around you.

Household incomes have more than doubled since 2000 and they are projected to double again over the next 5 years.

Urbanization is taking place at a pace the world has never seen. Even in the times of global economic slowdown, China is still aiming to deliver 8% growth this year.

By 2025, China will have added 350 million urban residents to its population (more than the entire population of the U.S.). It is also predicted to have over 200 cities with more than 1 million residents each, including 8 cities with a population of more than 10 million.

All of this is music to the ears of a retailer with ambition.

So what has Tesco learnt in China?

Firstly, we've learnt that to really understand China, you have to put in the time and the effort to build long term relationships.

Before we decided to open Tesco shops in China we spent almost 5 years researching - understanding how Chinese people live; how they shop; how they prepare and store food; how they transport food home; who shops; and when.

We also spent time searching for strong local partners, with a real understanding of China, the Chinese people, Chinese customs and Chinese culture.

Everyone told us that we were too slow, taking too long and being too choosy.

I thought it was important not to rush, to learn from the mistakes of others and to find the right local partner.

Taking our time also meant that we could seek out a partner whose approach fitted well with the Tesco Values of treating people how you like to be treated and ensuring that no-one tries harder for customers.

After much press interest and anticipation we announced the establishment of a 50:50 joint venture in 2004 with a local partner - Ting Hsin - which operated 25 Hymall stores in China.

Since then we have increased our share of the business to 90% to enable us to accelerate investment in stores and infrastructure as part of a long term strategy to become market leader.

Without local partners and strong relationships we simply couldn't have achieved so much in what was for Tesco such a foreign land.

You also have to be prepared to go the extra mile to build rounded, long-term relationships.

That's why in my role as Tesco Chairman I contribute to a number of bodies designed to promote dialogue, share experience and contribute to China's success, such as the China Development Forum where I sit with other international business leaders advising the Chinese government on strategies for sustainable economic growth. It is also why I have joined the International Business Leaders Advisory Council which advises the Mayor of Shanghai on the economic, social and environmental development of Shanghai as one of the world's greatest cities.

In my view China works like a good club.

You need to be introduced or sponsored.

You need to demonstrate your credentials.

You need to understand the written and unwritten rules. You need to establish trust and build relationships.

And you need to contribute to their agenda as well as your own.

Surprise, surprise you may well exceed your expectations and in doing so also exceed theirs.

Secondly, we've learnt that to get on in China you need to be flexible.

Simply reproducing what works in the UK will get you nowhere.

At first sight Chinese customers appear to want the same things as their counterparts in the UK. But scratch the surface and you'll actually find Chinese customers to be very different.

The top five selling items in our Chinese business are rice, loose eggs, cooking oil, fresh pork and leafy vegetables.

In the UK its fresh milk, bananas, cucumbers, tomatoes and granulated sugar.

Chinese customers shop little, but often. The majority get to the store on foot, bike or by the shuttle buses we provide. They live in small apartments, with little room to store food.

Price is crucial everywhere, but in China even the smallest of price reductions has a big impact, with a few Yuan off, leading immediately to queues almost out of nowhere.

And we've learnt as we have gone along.

In most places where we operate, big bulk buy promotions, stacked on pallets at the front of the store generate excitement and interest. In China, they work less well.

One of our competitors decided to run a bulk buy promotion on beer in huge 48 bottle packs. The price was great, the product fine. But the majority of Chinese customers simply couldn't get the crate home, and if they could they probably wouldn't have enough cupboard space in their small apartment.

Thirdly, the hunger of the Chinese people to learn and their ambition never fails to impress me.

As part of our commitment to develop a world-class leadership team of Chinese managers we run a unique Chinese graduate recruitment programme.

As a result, every year we recruit 10 Chinese graduates studying at UK universities, who spend nine months with Tesco in the UK learning about the Tesco way of doing things, before moving back to China to complete their fast-track scheme.

We also have a hugely popular local graduate programme, providing a structured development programme for 42 graduates from Chinese universities and 5 MBA graduates, and we are in the process of opening a Tesco Academy in Asia which will further increase opportunities for our Chinese team to benefit from world-class training and development.

We're absolutely committed to recruiting, developing and retaining a world-class team of Chinese managers to run our local business.

All 64 Tesco China hypermarkets are managed by local Directors.

An increasing number of Tesco China board directors and senior managers are Chinese.

And we work with an increasingly sophisticated pool of Chinese suppliers, all of whom are committed to ever improving standards, to meet the increasing expectations of our Chinese customers.

In this context Tesco also belongs to the China Executive Learning Programme at Cambridge University whereby leading British Companies like Tesco, HSBC, Shell, Anglo America etc. host and contribute to shared learning programmes over two to three weeks with the leaders of the large Chinese state owned corporations. This is unique and a very highly regarded contribution by British companies.

It's this hunger to learn that will make China a major player on the world stage in almost all walks of life.

Fourthly, we've learnt that although China is still very much a developing market, people's expectations are high.

People expect businesses like Tesco to make a real commitment to the local communities in which they operate and to contribute to China's efforts to modernise.

That's why we've launched our Community Plan in China as part of our attempts to broaden the benefits we bring beyond providing a world class shopping experience.

For example, Tesco China has set itself the ambitious target of reducing emissions from its stores by 50% by 2020.

Progress to date has been encouraging thanks to a combination of new technology and simple changes to the way we work. Over the past year alone our stores in China have reduced their emissions by 8.3%.

It is also why we're committed to helping our Chinese customers lead a healthy lifestyle and it is why we have extended simple, front-of-pack nutritional labelling to our own brand products in our Chinese stores.

Wherever we open new stores in China we link up with local schools and colleges, for example providing sponsorship to help schools invest in new textbooks and supporting more than 7,000 disadvantaged students.

And as further evidence of our commitment we have appointed a Chinese Director to our Group Corporate Responsibility Committee which governs the way we work with communities and stakeholders across the entire Tesco Group.

Finally, I think that it is only now that the scale and diversity of China is really dawning on us.

In many respects China combines the benefits of operating in a single country with the challenges of a continent.

The sheer scale of the opportunity for Tesco in China can appear daunting.

With over a billion Chinese citizens the opportunities for those able to bring fresh, safe, affordable food are immense. But China is such a big place and customer needs vary significantly between regions.

As a result we've decided that we are not going to be able to run Tesco China from a single office and that to really unlock the opportunity, we need to move beyond our original base in Shanghai to the regions setting up operations in Shenzhen and Guangzhou in the South and Beijing and Shenyang in the north.

Seeing China as a single immense monolithic whole is a common misconception by Western people.

I have learned from experience to see China as a country of diversity and a country of opportunity.

So why should you care about China?

We are living through the biggest shift in two hundred years of political and economic power from Europe to Asia, and in particular China.

James Kyngé, the ex bureau chief of the Financial Times in Beijing in his book called "China Shakes The World" wrote: China is absorbed in laying the infrastructural underpinnings of a future superpower.

No longer can we afford to view China in isolation.  
We all have a stake in China's future.

China is taking up a lot of the slack in a slowing world economy.

It is the indispensable partner for a serious climate change strategy.

It will reshape the political dynamic in the UN, in Africa, and in Asia.

As China continues to grow, so will our mutual interests.

The mistake would be to imagine that we don't have a stake in China's future.

We all have the biggest stake imaginable.

That is why I believe young people have a huge amount to gain by understanding China, fostering links and friendships with China and in seeing China for the opportunity it presents to us all.

To my mind China represents one of the biggest opportunities in the Twenty-first Century.

Maximising the opportunity will take some effort, imagination and enterprise.

But the rewards will be there for those willing to make the effort.

That is why I believe you should care about China.

Thank you.

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