

## Creating Value with Chinese Partners

Trade between Japan and China totaled \$300 billion in 2010, with exports as well as imports breaking previous records. China is indeed an important partner, supporting economic growth in Japan. Even before diplomatic ties between Japan and China resumed in 1972, KHI had a business relationship with China, mainly involving shipbuilding and rolling stock. But with the welcome mat out to establish wider presence in China, the Company opened a local office in 1979, becoming the first member of the Japanese heavy industry sector to do so. Since then, this business presence has evolved to include sales and after-sales service for customers in a wide range of industries in China as well as parts procurement from leading local manufacturers. Today, KHI has numerous bases in China for a range of operations, including manufacturing, sales and engineering.

These two pages highlight several joint ventures KHI operates to create value, in good partnership with Chinese companies.



**Q** ACK, CKM and CKE are involved in waste heat power generation systems for cement plants and other energy-saving, environment-oriented facilities. What issues characterize the market for these products and technologies in China?

**A:** Annual cement production in China hovers around 1.8 billion tons, or about half the world's aggregate production volume. An enormous amount of energy is needed to make cement and in China this requirement is met by coal. But the consumption of coal and the environmental burden that accompanies its use are social issues that China must address. Another problem is how to deal with the ever-increasing amount of garbage disposed of by city residents. Garbage is almost always still buried in China, but the number of potential landfill sites is shrinking—a situation that demands an urgent response, as does the problem of pollution, especially land and water contamination caused by hazardous substances.

**Q** How would the technologies and products of ACK, CKM and CKE remedy these problems?

**A:** First, we have energy-saving solutions for cement plants. We can provide more efficient versions of the equipment used to produce cement, typified by vertical mills and new suspension preheater kilns. Also, huge amounts of heat are released during the calcination process, and we are achieving great results with equipment that captures this heat to generate power.

The Conch Kawasaki Kiln (CKK) System, which integrates waste processing and cement manufacturing, is used to gasify waste, separate gas from incombustible materials, then apply the gas as fuel for manufacturing cement. Incombustible materials are sorted into metals and other residues. Metals are sold to metal scrap dealers and residues are used as raw materials for cement. This system obviously makes effective use of waste but it also cuts greenhouse gas emissions 50% to 60%, compared with landfill processing. Naturally, we are proud to have a product that helps China deal with its critical need to reduce waste in an environmentally friendly way, but the technology has wider relevance as an energy-saving, resource-recycling solution of global merit as well.

**Q** What is your opinion of KHI, working with you as a partner to create this kind of value?

**A:** For the CONCH Group, focused on cement manufacturing, this joint venture with KHI, an equipment maker, has facilitated cost reductions through internal manufacturing of facilities otherwise procured from outside the organization at higher costs. It has also put equipment and facilities on the product menu. Also, KHI brought to the joint venture a pool of technologies in the areas of energy conservation and environmental protection, experience in overseas operations and the management techniques of an engineering company, while the CONCH Group lent its credibility in the Chinese cement market and local procurement and operating know-how. I believe the synergistic effects derived from both corporate groups make it possible to offer excellent solutions to our clients.

**Q** Major joint ventures between Japanese and Chinese companies have promoted growth in many areas, including your corporate home of Anhui Province. Talk about these regional contributions.

**A:** Of the central provinces where the Chinese government has concentrated its support, Anhui Province is one of the most economically vibrant. As a result, a lot of effort is put into the development of human resources. Since fiscal 2009, ACK and CKM have made yearly contributions of one million yuan for scholarships to be distributed to students in Wuhu. The intention is to cultivate excellent human resources who will, as tomorrow's workforce, be active in fields that support the country, namely cement, energy and the environment.

### ACK·CKM·CKE

**Names:** Anhui Conch Kawasaki Engineering Co., Ltd. (ACK)  
Engineers energy-saving, environmentally responsive facilities  
Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd. (CKM)  
Develops and manufactures energy-saving, environmentally responsive facilities  
Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd. (CKE)  
Designs, manufactures and sells equipment used at cement plants

**Location:** All three companies are located in Wuhu, Anhui Province

**Ratios of Capital Contribution:**  
ACK and CKM (Kawasaki Heavy Industries [50%] and Anhui Conch Venture Investment Company [50%])  
CKE (Kawasaki Heavy Industries [50%] and Anhui Conch Cement Company [50%])



ACK Center

Inside of CKM

KCPM

### KCPM

Yang YanRong

President concurrently, chairman of Chunhui Group

**Q** KCPM began operations last year and currently makes hydraulic pumps for construction machinery. How are market conditions in China for construction machinery and hydraulic components?

**A:** China has a population of about 1.3 billion people and a land area of 9.6 million square kilometers. It may be a newly emerging market with outstanding economic growth, but many regions lag behind, and the central government must move forward in a big way on infrastructure, particularly urban-rural development, roads, railways and ports. Naturally, such extensive infrastructure projects will require an enormous amount of construction machinery.

The construction machinery industry is a sector of paramount importance to the central government and great progress was achieved during the 11th Five-Year Plan, which ran from 2006 to 2010, to strengthen this industry for China's future. Nevertheless, the manufacturing platform for key components—hydraulic pumps, motors and valves—is totally insufficient. The industry relies heavily on imported components, but supply is not always getting to the places where it is needed, creating instability in the market.

**Q** What role is KCPM expected to fulfill in this environment?

**A:** KCPM was established under Premier Wen Jiabao's directive to promote "great development of the parts manufacturing sector" with a mandate to embrace technology and management techniques from outside China and solve prevailing supply problems by facilitating domestic production of the necessary machinery components through joint ventures. Interestingly, I heard that KCPM is the first joint venture with a foreign company in the hydraulic parts sector. The company was only just established last year, but it already has the support of many construction machinery makers and actual production is rapidly expanding.

As an aside, the company currently provides 26 types of hydraulic pumps to nine construction machinery makers in China but is aiming for higher numbers, in terms of customers as well as product selection. In the eight months from May to December 2010, KCPM sold 2,659 units. The goal for 2011 is around 20,000 units.

I believe the company's role is to keep enhancing its supply capabilities and contribute to the realization of domestic production of components for construction machinery.

**Q** It was apparently an introduction from the China Construction Machinery Society that sparked cooperation between the Zhejiang Chunhui Group and KHI. What is your impression of KHI as a partner so far?

**A:** Several key conditions were necessary for KCPM to achieve success in such a short period of time. One was the synthesis of an operating platform and human resources. The Chunhui Group—KCPM's China-side parent and the company where I am chairman—brought the foundation of an experienced machinery maker in its own right with a 40-year history, and KHI provided solid technological and managerial personnel support. Another was the different approach to management. Generally, joint ventures with Japanese companies are, for better or for worse, rigidly controlled. But at KCPM, general administration has been left to the China-side, which makes employees feel more comfortable, and this has undoubtedly enabled the company to sustain product quality.

Anticipating continued demand for construction machinery in China over the long term, I hope that KHI will provide additional support, such as more product varieties to manufacture here, as leverage to capitalize on growing demand in the local market.

**Q** How do you evaluate employee health and welfare programs and employees' desire to work?

**A:** Salaries are guided by a motto of fairness, equality and openness and are adjusted annually in line with China's sharply rising consumer price index. In addition, we try to offer health and welfare benefits, such as meals and recreation, that make work life enjoyable and create an at-home kind of atmosphere for employees. We offer jobs that enable employees to demonstrate inherent skills but also present opportunities to master new techniques, and this helps to boost motivation. But I think, more than anything else, working for a rapidly growing high-tech company is in itself the biggest source of joy and pride to employees.

### KCPM

**Names:** Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd. (KCPM)  
**Location:** Shangyu, Zhejiang Province  
**Ratios of Capital Contribution:** Kawasaki Heavy Industries: 54%; Zhejiang Chunhui Group: 46%  
**Business:** Manufacture and sale of hydraulic machinery components