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Mr. Chairman, I am pleased to submit my response to the questions asked by the committee. I appreciate the opportunity to comment on this important topic. It is an honor to appear before you as a panelist.

1. What role is foreign investment, particularly venture capital, playing in the expansion of advanced technology research and development in China? What technology sectors are garnering the most private capital?

Last year venture-capital investors outside China kicked in nearly \$1.3 billion into 253 Chinese companies according to a report by Zero2IPO a Beijing based data service focused upon venture capital in China. The funds invested rose 28% from 2003, while the number of deals surged 43%. Semiconductor investments attracted one third of the dollars and the leading city by a wide margin was Shanghai.

To date China has contributed very little in terms of advanced R&D break throughs. There simply are not many if any new technologies that can claim their genesis as China. In semiconductors, networking and computing technology China has been expert in “cost down” and mass volume production of existing products enabling lower price points and market expansion. An example of a new product from an advanced research project would be IBM’s announcement of the CELL processor, a multicore microprocessor aimed at the consumer

space. The home of the IBM project is Austin TX. China has yet to produce such an event however there is no doubt China will play a key role in delivering mass volume of CELL based computers to the world market.

Private venture capital and corporate investment in design and development activities in China lend important support to directing the vast resources available toward creating new and larger markets for knowledge intensive products. The intellectual resources available in the world to work on information processing products are in over supply status. A short 20 years ago Silicon Valley leaders regularly opined there was a permanent shortage of Electrical Engineers to do the work necessary to advance the computing industry. It should be no surprise that someone listened and responded to the call. The new generation of Chinese engineering talent will use the crucible of “cost down” and high volume manufacturing as their training ground to hone skills that will enable China to contribute break through product advances in the future. We have to have the confidence that the over capacity can be soaked up by larger world markets. We have only history to reference in support of the markets materializing; however I can assure you anyone in our industry during 1985 who would have dared to forecast a PC market approaching 200 Million units in 2005 or a Semiconductor Market valued at \$200 Billion this year would have been dispatched to run a factory in Milpitas. The next big bet is China will step up to become a US caliber marketplace for knowledge intensive consumer and business products.

2. To what degree is the Chinese government directly involved in technology ventures?

Rather than just look for a dollar amount invested by the Chinese government, my opinion is the direct aid to technology ventures by China is amplified by enabling investments in kind to help bootstrap a new venture. Examples of investments in kind are:

Free office and factory space in the regional science and technology parks located in the provinces.

Priority access to university professors and the ability to recruit top notch students into a project.

Preferential access to the state controlled telecom marketplace providers.

Interest free loans with no term and unsecured are being granted to support strategic projects.

These attributes go hand in hand with low cost for employees to make a very competitive company. In many ways investments in kind deserve more credit to the success of a company than just the absolute dollars plowed into the treasury. The soft dollar resource infusion help insure a return on the hard dollars invested.

3. What role does venture capital play in the growing trend of multinational start-ups in China?

The venture industry adds its own value to the China effort. In addition to bringing capital each firms brings its own particular value add to a project. This is important in the multinational marketplace our companies compete in. Since raw capital is not the resource in short supply today it comes down to the people contacts and the building of the investor entrepreneur trust relationship during the development of a company that makes a difference in value creation. Because of this reality China will also make the venture industry more competitive over time. The good venture capitalist must also make investments in kind, not just capital.

4. What are the trends with regard to return on investment for venture capital investments in Chinese technology sectors? What is the degree of risk of such ventures?

I expect returns will be good where investments are leveraging Chinas capabilities. Early results are already visible at SMIC for example, SMIC quickly became the number 3 wafer foundry company in the world with advanced technology and wafer cost projected lower than what we see from the traditional leaders in Taiwan. SMIC created the largest share value at IPO for a 2004 offering by a factor of 6X and therefore presented the opportunity for venture returns.

In addition to all the traditional risk of a new venture China presents many additional risks and operating challenges of its own. The first risk is the first rule. The government can change the rules suddenly and without recourse. China is a communist country; even Sarbanes Oxley does not wield such a return changing force as being on the wrong side of a public policy shift in China. Respect for this reality is a front of mind issue when investing in any particular sector. What will the government position be? What will their position be during the life of the investment? It is very important to achieve transparency on the structure and the financial hygiene of the venture. Setting in place excellent operating people and controls from the start is key to achieving a return on the investment. Finally until intellectual property respect becomes a value important to the China technology community and the Chinese Government the current environment is an extreme risk to building knowledge intensive products that are unique and defensible.