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Barron Partners and The Art of War



During his most recent visit to China, Barron Partners Chairman, Andrew Worden was interviewed by Talent Magazine. What follows is a reprint of the Interview, entitled “Barron Partners and the Art of War” - Issue date: April, 2011.

“I remember that as teenagers, my brother and I developed a wind power generation system with 1-meter high metal barrel sections. We even wanted to put a big version of this on top of the town’s water tower. And we made money by collecting beverage cans and selling this ‘recycled scrap metal’ to the supermarkets.”

Andrew Worden, who was interested in cleantech from a young age, started investing in the stock market when he was 14. He ran his first investment fund when he was a student at Harvard University. After gaining much business and investing experience, he established Barron Partners in 2002. The main investment industry focus happens to coincide with his hobby during his youth: cleantech and new energy.

The prospect of deceleration and slower growth in the U.S. economic and business environment and fewer good U.S. investment opportunities prompted Barron to shift its investment focus to China starting in 2004. Barron Partners accelerated its entry into the emerging Chinese market in that period, and now China has become a significant investment focus for Barron Partners.

Mr. Worden and Barron Partners have been in the China market for 6 years and invested over RMB 1.3 billion in Chinese companies. Mr. Worden is fascinated with Chinese culture and philosophy and studied Chinese history while at Harvard. This background helps Mr. Worden better understand the Chinese entrepreneurial perspective and the sociological backdrop of China’s still developing free-market economy.

After a careful study of China’s 12th Five-Year Plan, Mr. Worden identified the following three points as particularly important. First, in the future, China will improve the welfare of society as a whole. Secondly, China will focus on developing new clean energy and energy-saving industries. Finally, China will focus on developing several environmental protection initiatives such as water treatment, energy conservation and water conservation.

“From an economic perspective, the price of making energy by burning stuff will keep increasing. Hydropower will continue to develop, but is limited by the river resources. People cannot build hydropower stations everywhere. So far, wind power is the most cost effective new energy which can be scaled. Its price has been reduced so that it is economically effective and this cost-effectiveness keeps improving gradually, while fossil fuel prices continue to rise. The price of solar is still very high now, but it will plunge in the future. The development of solar might progress faster than wind power if it can drop greatly in price. It’s a good trend.” said Mr. Worden.

In fact, about two-thirds of Barron Partners' investments are in new energy industries, such as wind power, solar, steel recycling and other energy saving industries. However, investing in China is not always simple. Since there are marked differences between Chinese and American entrepreneurs and the style of doing business, Mr. Worden sometimes has to "take a chance".



"We invested in a company which is located in Wuxi in 2007. The entrepreneur of this company wanted to shift from the traditional textile dyeing machine industry to the new energy industry, for example the wind power industry. Then he found Barron. The critical problem was shortage of funds. We assessed the assets and the operations of the company, and determined that it was a small scale company with a decent income. The biggest issue was whether the entrepreneur wanted to expand his business." Mr. Liang (Simon) Shi, the China Region President of Barron Partners recalled. In Mr. Worden's view, this Chinese entrepreneurial CEO was not usually a man of many words, however he was eloquent when talking about his factory and machines. The entrepreneur always walked around the factory with modest clothes and was generally modest in his lifestyle. He even sometimes slept in the office because of long work hours. This is rare in the U.S. In a traditional U.S. business meeting, the CEO is supposed to be the most gorgeously dressed, in most situations.

After Barron's initial investment, RMB 35 million, this company grew rapidly. The CEO added forging and electro-slag refining capabilities which required much more advanced and complex manufacturing processes. Barron Partners has increased its investment to over RMB 100 million in this company. The company has stepped onto the international stage and is listed on the NASDAQ, as [CWS] China Wind Systems, Inc.

Mr. Worden gained a deeper understanding of Chinese entrepreneurs from this experience. He believes the real key to good judgment when investing in China is whether the Company has big dreams and won't be short-sighted and reach only for immediate gains, and whether they are steady rather than blind and reckless. Mr. Worden says the wise entrepreneur will be mindful of the passage in "The Art of War" by Sun Tzu where the soldiers marched rapidly into the enemy's country, but in their haste, left their wagons full of provisions far behind and thus were quickly destroyed.

Mr. Worden is satisfied with Barron's returns on investment in China. In his opinion, when making investments in companies one should never choose companies just with low-cost advantage or mass production capabilities. "Value added" technology and manufacturing innovation, and superior quality, must be focused on.

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