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Seminar

Opportunity Hong Kong : Asia's World City

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Chairman, K K Yeung Management Consultants Limited :

Speech by Mr. K K Yeung

“Success in China via Hong Kong – a Management Consultant’s Perspective”

Ladies and Gentlemen, Good afternoon!

It gives me great pleasure to be here in the beautiful city of London and I am delighted to be addressing such a distinguished audience. United Kingdom's economic growth and development have been keenly watched in Hong Kong over the past few years and it is encouraging to see that Hong Kong is now the second largest importer of British goods in the Asia-Pacific region, preceded only by Japan. To a management consultant by profession like myself, United Kingdom has always been the world leader in management consultancy.

For the consecutive two years, i.e. 2001 and 2002, Britain reported the highest management consultancy billing in Europe. In a market size of Euro 46.5 billion in Europe, Britain reported a total billing of Euro 13.6 billion in the year just past, (FEACO 2002 Survey) ahead of Germany and France in two consecutive years. This is a very motivating example for Hong Kong which is probably the second largest management consultancy billing centre in Asia after Japan.

Management Consulting and its Development in Hong Kong

As management consultants, we are involved in *“the creation of value for organisations through the application of knowledge, techniques and assets to improve performance”* just as management consulting is defined in the MCA of UK.

Presently, management consulting is still in a stage of far-reaching development nowadays especially when electronic information technology creates enormous possibilities in helping clients to solve complex business issues.

Hong Kong Today

Today, Hong Kong is the eleventh biggest trading entity in the world. More goods are

exported from Hong Kong than from India, Australia and Thailand combined. What is more peculiar about Hong Kong is that 90% of our exports are not locally manufactured; our economy is predominantly services-based. Our service industries now contributes to over 86% of Hong Kong's GDP, rising from 67% twenty years ago. Our manufacturing industry, at the same time, has scaled up their operations in China, thus reducing their low-value economic activities in Hong Kong. Twenty years ago, manufacturing accounted for 23% of the economy, now it is only 5%. 84% of the working population are now engaged in the services sectors, of which over 30% are in managerial and professional occupations.

This last figure is significant, in that it reflects the knowledge-intensive nature of our service sectors. By definition, a "Knowledge Economy" is described as a highly advanced economic region where a large majority of businesses are associated with high value-added commercial activities and leading-edge intellectual assets. This is a best description of Hong Kong.

If we look more closely at the composition of our service industries, you will see that a large part of them are what academic economists call "producer services", in other words, the client of the service is not the ultimate consumer, but a business entity, a producer. There is a huge difference between a producer client and a consumer client. For consumer-service economies, like some resort cities, the full value of the service dissipates at the point of consumption. For producer services, however, the producer buys the service to enable it to produce further, to generate further value. In fact, three of the four "pillar industries" named by Hong Kong government are dominated by producer services – banking, logistics, and professional services. The fourth pillar industry, tourism, is arguably a consumer service industry, but even here, unlike other Asian cities, Hong Kong's tourism sector has a disproportionately large segment serving business visitors, therefore making it also a producer service.

Now, I think it is important to understand Hong Kong's current economic situation. Not only are we the world's freest economy but we rank 2nd as the largest source of outward foreign direct investment (FDI) in Asia. In addition, we again place 2nd as the largest FDI recipient in Asia. Since the year 2000 Hong Kong's real Gross Domestic Product (GDP) growth has continued to increase. However, in the second quarter of last year, real GDP dropped by 0.5%, down from 4.5% in the first quarter due to the fact that earlier last year Asia was blighted by Severe Acute Respiratory Syndrome, more commonly known as SARS. Thanks to the combined efforts of our government and local business people, the post-SARS economy quickly shows signs of rapidly returning to pre-SARS levels. Figures has just come out that despite of the SARS set-back, the actual GDP registered a growth of 0.8% for 2003. The current predictions are that GDP growth for 2004 will be 2.5%, signifying the start of a steadfast recovery of Hong Kong's economy. It is also interesting to note that although the mainland suffered the most casualties as a result of the virus in 2003, it has been economically the least affected. During the first half of last year, when the

epidemic was at its zenith, Chinese exports jumped by one third year on year while imports surged by an impressive 45%. Industrial production was also up 16% in the same period, a remarkable figure given that China's main industrial region, the coastal southeast, was hardest hit by the SARS outbreak.

The current prediction of China's GDP growth for 2004 will be 8-9%, an enviable repeated rate of growth which has been maintained all along in the last two years (8% in 2002 and 8.2% in 2003), this resulted in a powerful economy accessible within 1 hour by bus/ferry and a half to 3 hours by airtime travel from Hong Kong.

The establishment of CEPA known as the Closer Economic Partnership Arrangement between China and Hong Kong since the last New Year Day just past has bonded the two economies in an unprecedented relationship, started with a zero-tax arrangement of Hong Kong goods and relaxation of Hong Kong service providers with more trade liberalization to come in the year 2006. The goodies will continue to come, spurred by a cross boarder opening policy in Hong Kong's favour.

The current China's policy permits individual Chinese travellers to visit Hong Kong freely, scoring over 300,000 shoppers/visitors to Hong Kong per month in the last three months. This situation is expected to continue, if not expanding more and more so.

The abovementioned development not only assured Hong Kong of economic stability and continuous growth but also speeding up Hong Kong to become the key entrance to China's economic, financial and service wonderland.

CEPA

I would now like to draw your attention to one of the most unique and groundbreaking arrangements of recent times, the Closer Economic Partnership Agreement between Hong Kong and China called CEPA. CEPA significantly strengthens Hong Kong's position as your platform for doing business in China. Under the provisions of CEPA, one could be forgiven for thinking that only Hong Kong companies will benefit from such an agreement but this is not the case.

Overseas companies focusing on advertising, accountancy, banking, legal and management consulting, interested in developing their China business strategy can also make use of the Articles of Association of CEPA as well, provided that they fulfill the Hong Kong company requirements by either registering as soon as possible or partnering with Hong Kong based companies. Foreign manufacturers or traders of goods can either partner with or outsource to any company, Hong Kong based or otherwise, as long as the products qualify as 'made in Hong Kong' under the Rules of Origin as set out in the provisions of the agreement.

CEPA For Management Consultancies

It is fair to say that the management consulting industry has faced fewer limitations in the past than other professional services as it is considered more a business service than a professional service. For many years now, Hong Kong consultancy firms have been actively and enthusiastically involved with mainland businesses. Consequently we are now developing increased recognition by both Chinese enterprises and the Chinese government. In addition, the pioneering work carried out by Hong Kong consultants in China has led to an in-depth knowledge of Chinese commercial law and practices. This, I believe, further highlights the benefits of working in China through Hong Kong. With the constantly improving relations between Hong Kong and China, thanks in part to the Closer Economic Partnership Agreement (CEPA), the already very few limitations imposed on consultancy firms look set to decrease even further.

Management consultants can provide a wide range of services including general management consulting services, financial management, marketing management, human resources management, production management consulting services, public relations as well as other management consulting service related to specific trade and industry and institution in Mainland China. These services are outlined in the United Nations Classification of Management Consulting services (UN code 8685), which China has both accepted and adopted. In general, China is seen to be relatively more receptive to the service provided by management consultants. There are many examples of smooth-sailing of major foreign operations landed in the mainland through the efforts of Hong Kong's management consultants whom China regarded as offering a constructive role. I shall give you, a little later, some case studies of how Hong Kong management consultants have assisted in helping the setting up of FDI in Hong Kong and China.

Management Consulting : Helping Foreign Business to Spring Board to China

First, I would like to share with you an example of the sorts of things that we are capable of doing. Acting as the principle management consultant, in conjunction with a Hong Kong government agency and the client's legal advisors, we provided services for a leading emerald cutting and marketing enterprise based out of New Jersey, U.S.A. The services provided began with a feasibility study, the application of business permits and licenses, the recruitment of trainers and workers from Brazil and Columbia and the setting up of an accounting, audit and tax records system as well as financing. The result was the establishment of a pioneering local Hong Kong cutting operation for the supply of cut, polished emeralds worth somewhere in the region of ~~40~~ million. These were then distributed around the Far East over a five-year period, all the work being carried out in Hong Kong. Since then, the Hong Kong management staff, the localized technology base and the China merchandising experience gained over the years has enabled this Company to build up its high

added-value process in Hong Kong now used as the crucial support of its production stations now re-located to China.

Management Consulting: The Rest

I have already outlined *how* and *why* an organisation can and should use Hong Kong management consultancy companies to their advantage in China. Now I would like to draw your attention to *where* and *what* management consultants can do for organisations wanting to succeed in China. As you should be aware by now, the scope of management consulting stretches out into every aspect of the corporate world. As China is one of the largest and fastest growing economies on the planet at present, mainland willingness and anxiety to conform to international business needs and practices following entry into the WTO is, I anticipate, going to lead to a higher demand for Hong Kong consultancy services. We in Hong Kong already have extensive knowledge of market sectors such as Industrial, Commercial, Public, Development, Government and Banking, and, furthermore, have extensive management know-how. Needless to say, demand for internal services such as due diligence reporting, information systems, financial management, business automation, mergers and acquisitions, corporate recovery, recruitment processes, market research and economic modeling will grow steadily.

The Hong Kong Scenario

It may occur to some major western enterprises that it would seem assuring or more comfortable for them to recruit and use in-house China expertise instead of using outside expertise like Hong Kong's management consultants. However, this comfort may cost them a lot of time and investment, not to mention the opportunity costs incurred.

To some of these major western enterprises, their company programs in China may have under-performed due to a few common management or staff issues.

To avoid the above pitfalls, the way forward for assured China success has nowadays caused many major western enterprises to critically review their China program by the use of Hong Kong management consultants who invariably will help to remove or shorten the learning curve. We have been using this review exercise, sometimes called China Operation Review Report (CORR) or China Operation Internal Review Report (COIRR) to help European clients to appraise strategies or improve operation effectiveness.

There are of course many factors that one needs to take into account when attempting to do business in China via Hong Kong. The most critical factor is how to motivate your management that when they do not know enough of China, they will voluntarily ask for help from a Hong Kong management consultant. Secondly, once

the support of Hong Kong management consultants is enlisted, how you will continue to motivate your management to willingly work harmoniously, trustfully and in a well coordinated way with the consultants appointed.

Now, we offer to address the question of *why* Hong Kong is the obvious choice as a stepping-stone for entry into China.

In a survey published by the *Index of Economic Freedom* (IEF), Hong Kong has, for the ninth year in a row, been named the freest economy in the world. This is because our economic policy is one of free trade and free enterprise with a market open to all. There are no barriers to trade, no restrictions on investments and no foreign exchange controls. There is freedom and ease for setting up Hong Kong companies, owning land and properties, employing workers with staff access to China, and all you can do for a legitimate business. Hong Kong has a strong record of rule of law of which benefits for the protection of investments will continue to accrue under the respected one-country, two systems arrangement.

It is precisely for the reasons listed above that I would encourage people to use Hong Kong to its full advantage. The most obvious reason for choosing Hong Kong, however, has yet to be discussed, namely geography. Our location at the southeastern tip of the mainland gives us a huge advantage over our closest competitors.

Hong Kong and the Pearl River Delta

It seems that nowadays Hong Kong and the Pearl River Delta (PRD) are intrinsically linked, and with good reason. Topographically Hong Kong is situated at the mouth of the Pearl River and the area within China has developed remarkably rapidly in the past twenty years. With no less than 11 million workers in the PRD employed by Hong Kong factory owners, and a few millions more working for various companies from Taiwan, Japan, Korea, India and Europe, the PRD is the hub of light industrial manufacturing. This provides enormous opportunities for the supporting service sectors, utilities and energy providers. The combined cities of the PRD have all developed over the past two decades and have created a consumer market, which, according to the 2000 consensus, is in excess of 40.77 million people around Hong Kong.

It is also the most prosperous region in China with the highest GDP per capita, and, just two years ago in 2001, the combined trade export of two cities, Shenzhen and Dongguan, doubled the trade export of Shanghai, an impressive statistic considering just 20 years ago Shenzhen was a simple fishing village with a population of 30,000 people.

In terms of transportation as well, there is already a very efficient system of cross-border connectivity between Hong Kong and the PRD. In addition, it is planned for implementation soon a 45-minute train journey from the heart of Hong Kong to Guangzhou (Canton) and a 24-hour immigration hall at the crossing. But

this is just the beginning. There are talks going ahead in Hong Kong at present concerning the construction of a US\$160 billion road bridge linking Hong Kong with Macau and Zhuhai currently due for completion between 2007 and 2010. Further to this it has also been suggested that by 2005, the subway systems of Hong Kong and Shenzhen will be connected by one super network thereby making traveling between the two cities easier than it has ever been in modern history.

Pearl River Delta and Hong Kong in the Longer Term

Last year the Hong Kong General Chamber of Commerce conducted a study to formulate a “blueprint” for Hong Kong and to identify Hong Kong’s long term role in the Pearl River Delta. The study concluded that any vision for Hong Kong’s future must be a vision of Hong Kong with the PRD, not a vision of Hong Kong on its own.

The most important message to share with you from the Chamber study is the overall vision that Hong Kong and the PRD should develop together as the services megalopolis of China and the world.

If you are interested in the study, please refer to the Chamber’s homepage.

Mega Road Map for Management Consultants

The prospects that China offers to Hong Kong management consultants do not confine to the PRD. There are calls for their services from major cities like Beijing, Shanghai, Yangtze River Delta, China’s costal areas and the Central-Western region where enormous state projects are at hand. At these places, there are available also a major influx of foreign investment. Mainly due to the niche of China knowledge, language proficiency, cultural ties and the long developed network with outside world, Hong Kong management consultants should be the first priority of call where the most appropriate consulting service for China would be the choice. As management consultants are experts in communication and usually have great mobility, they can reach the farthest place in the Mainland where their services would be needed. Also, by the nature of their business which operates on good international and China linkages or in affiliation with strategic profession networks, Hong Kong management consultants have little geographical or technical limitation to help international operations landed in China.

Case Studies

As I mentioned earlier, I would now like to present to you three case studies outlining how, as a Hong Kong headquartered management consultancy firm, we can be successfully utilised to implement business ventures in China.

The first is the Chinese division of a Dutch electrical product manufacturing company. Our mission, beginning in 1996 and still ongoing, was to provide the client with business consultancy services in order to guide and assist them in the expansion of their business and in their desire to become a leading supplier of electrical appliances

in China. The work carried out involved advising the executive management on issues surrounding strategies and tactics to protect assets and investments in the PRC and Hong Kong. We attended to requests for advice and undertook assignments set by the executive management of the group relating to corporate secretarial and regulatory matters. As well as fulfilling our role as consultants we also provided the company with counseling and on-site board secretarial services to the joint ventures between the different product divisions and business groups. The outcome of our endeavours was such that fourteen JV companies, with a total investment value of over US\$1 billion, were established in the PRC.

Over 100 products have been manufactured and distributed within the local market. The Company has been named one of the most successful foreign investors in China and further to this, the total turnover for Hong Kong and China has increased six-fold with China becoming the company's third largest profit-contributing nation.

Secondly, I would like to talk to you about China's largest optical fibre and cable company in Wuhan. This is a JV company manufacturing and selling optical fibres and cables with a turnover in excess of RMB1.5 billion per year. This was a tri-party joint venture scheme involving the Ministry of Post and Telecommunications (now known as China Telecom), the Hebei Provincial Telecom Authority and a Dutch listed company. We, as management consultants of the Dutch investors, were appointed to provide corporate secretarial services to the tri-parties' board of directors, and to attend to all China fiscal, legal and secretarial matters including expert advice to the board and the general manager for the management of assets and the return from the investment in China. We provided strategy advice on all Chinese issues to the directors representing the foreign investors so that they could protect the investment they represented. Furthering the argument that cultural and linguistic skills play an important role when wanting to do business in China, we acted as the mediator in the negotiations between the Chinese chairman and the foreign vice-chairman. Our professional support has been provided over seven optic fibre and cable expansion phases which offered sizeable turnovers and net profits over the years since 1996. Negotiations began on this JV project in 1993 and to date "Yangtze Optical Fibre and Cable Co. Ltd." is now the largest of its kind in China, controlling as it does, over 25% share of the local market.

Finally we come to the case of a 300-year old European textile group. This was a long-term project beginning in 1996 when we were approached to explore the demand for geo-textile products. This required us to engage in market research to investigate any potential regulations, competitors and to interview government officials. By 1998 "Interlining Fabrics", a subsidiary of the group, had decided to aggressively engage in the establishment of a WOFE near Shanghai. As a result of our endeavours by 2003 and based on our record of success with "Interlining Fabrics", the group had sent 15 senior managers to us for a close-door 1 day workshop in Hong Kong on 'developing China strategy'. The group has now moved their Asia headquarters from Kuala Lumpur to Hong Kong due to the fact that their main trading source in the region comes from China.

These are clear examples of how working with Hong Kong management consultants can result in profitable and successful business on the Chinese Mainland.

Conclusion

The facts that I have presented to you this afternoon speak for themselves. In this time of global economic expansion and the lowering of trade barriers I firmly believe that China is the next country where economic growth can only continue to develop, and foreign investment can be beneficial to all parties involved. This is, of course, provided you go down the right path, and that road unquestionably is Hong Kong. With the provisions laid out by CEPA, our proximity to China, the long history that Hong Kong businesses have had with our motherland and the fact that both places, Hong Kong and China are so fantastically dynamic, vibrant and conducive to business there really is no other option. Foreign investment in China via Hong Kong is achievable, but only with the help of experienced and knowledgeable management consultants, able to guide the wary investor along the sometimes complicated but always rewarding path to success.

Thank you all for your kind attention.

List of Management Consulting Services

UN Classification

8685 8650 Management Consulting Services

86501 General Management Consulting Services

Advisory, guidance and operational assistance services concerning business policy and strategy and the overall planning, structuring and control of an organization. More specifically, general management consulting assignments may deal with one or a combination of the following: policy formulation, determination of the organizational structure (decision-making system) that will most effectively meet the objectives of the organization, legal organization, strategic business plans, defining a management information system, development of management reports and controls, business turnaround plans, management audits, development of profit improvement programs and other matters which are of particular interest to the higher management of an organization.

86502 Financial Management Consulting Services
(except business tax)

Advisory, guidance and operational assistance services concerning decision areas which are financial in nature, such as working capital and liquidity management determination of an appropriate capital structure, analysis of capital investment proposals, development of accounting of capital investment proposals, development of accounting systems and budgetary controls, business valuations prior to mergers and/or acquisitions, etc., but excluding advisory services on short term portfolio management which are normally offered by financial intermediaries.

86503 Marketing Management Consulting Services

Advisory, guidance and operational assistance services concerning the marketing strategy and marketing operation of an organization. Marketing consulting assignments may deal with one or a combination of the following: analysis and formulation of a marketing strategy, formulation of customer service and pricing policies, sales management and staff training, organization of distribution channels (sell to wholesalers or directly to retailers,

direct mail, franchise, etc.), organization of the distribution process, package design and other matters related to the marketing strategy and operations of an organization.

86504 Human Resources Management Consulting Services

Advisory, guidance and operational assistance services concerning the human resources management of an organization. Human resources consulting assignments may deal with one or a combination of the following: audit of the personnel function, development of a human resource policy, human resource planning, recruitment procedures, motivation and remuneration strategies, human resource development, labour-management relations, absenteeism control, performance appraisal and other matters related to the personnel management function of an organization.

86505 Production Management Consulting Services

Advisory, guidance and operational assistance services concerning methods for improving productivity, reducing production costs and improving the quality of production. Production consulting assignments may deal with one or a combination of the following: effective utilization of materials in the production process, inventory management and control, quality control standards, time and motion studies, job and work methods, performance standards, safety standards, office management, planning and design and other matters related to production management, but excluding advisory services and design for plant layout and industrial processes which are normally offered by consulting engineering establishments.

86506 Public Relations Services

Advisory, guidance and operational assistance services concerning methods to improve the image and relations of an organization or individual with the general public, government, voters, shareholders and others.

86509 Other Management Consulting Services

Advisory, guidance and operational assistance services concerning other matters. These services include industrial development consulting services, tourism development consulting services, etc.