

3: Hong Kong should be Thankful for its World-class Non-finance services but there is Room to Improve

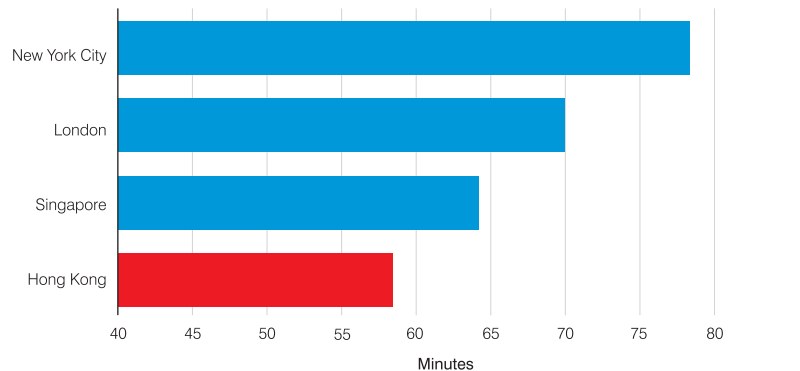
Hong Kong is a city of critics until they leave home, when they quickly realise in comparison, how much better service standards are back in the city. It is precisely because Hong Kong people are so critical that the service standard is so high compared to other cities. In this section, we elaborate on the world-class IFC BEST attributes of Hong Kong that gives the city a uniquely competitive edge.

The most remarkable thing about Hong Kong is how efficient and convenient the city is – taxis are cheap, shops open late, 24-hour convenience store every 5 minutes away. The Octopus Card, which use far exceeds the Oyster card in London, allows inhabitants to live a cash-free life to pay for transport, food, groceries, medicine and even movie tickets.

The statistics of public transport systems demonstrate that Hong Kong people on average spend 58 minutes every day for commuting, which is considerably less than London, New York City or Singapore. Also, the time it takes to go from the Chek Lap Kok airport to the city is faster and cheaper. The Airport Express stops at three stations in the city, including Central, whereas the Heathrow Express only goes to Paddington Station, which is still a very expensive taxi trip away from the City of London.

Hong Kong – the most convenient city in the world

Average Two-way Commuting Time

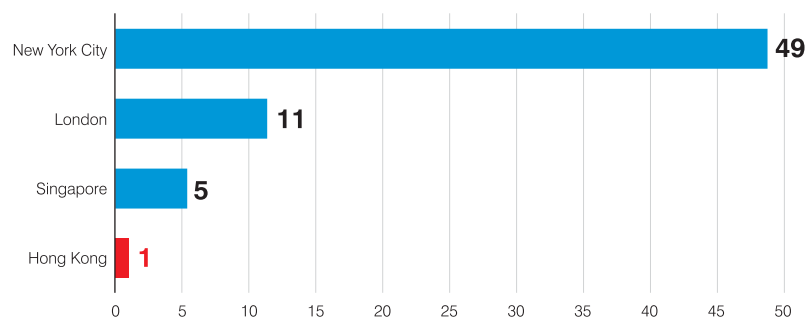


Source: Regus, US Census Bureau

Hong Kong's MTR is in obvious lead in punctuality against other metro public transport systems. The occurrence of train delays of the Hong Kong MTR is only 0.3%, which is one-fifth of that of the Singapore MRT and one-tenth of the London Underground. The MTR has also consistently been rated as one of the best public transport systems in the world. This kind of excellent service infrastructure gives rise to predictability, a sense that one would not suffer unexpected delays or hassles due to something malfunctioning, and it is crucial to industries with a high level of demand for punctuality (as being late for a pitching session may cost a company a multi-million dollar deal). It certainly lays a solid foundation for becoming a World City.

Hong Kong MTR is always on time with only 0.3% of trains being late

Occurrence of Metro System Delays - As Multiples of Hong Kong



Source: NYC MTA, Transport for London, SMRT, MTR

Transportation Figures Comparison – Hong Kong vs. London

2010 (unless specified)	Hong Kong	London
Number of Airport Passengers	50,945,000	127,353,000*
Amount of Airport Cargo Traffic (tonnes)	4,130,000	1,808,000*
Number of Flight Destinations, 2011	160	176 ^
Number of MTR/Underground Stations, 2011	86	270
Number of Private Cars	415,000	2,916,000 (2008)
Lengths of Public Roads (km)	2,100	14,800

*All 6 airports within vicinity of London included, ^ Heathrow Airport
Source: HKIA, HK CSD, UK Civil Aviation Authority, MTR, Transport for London

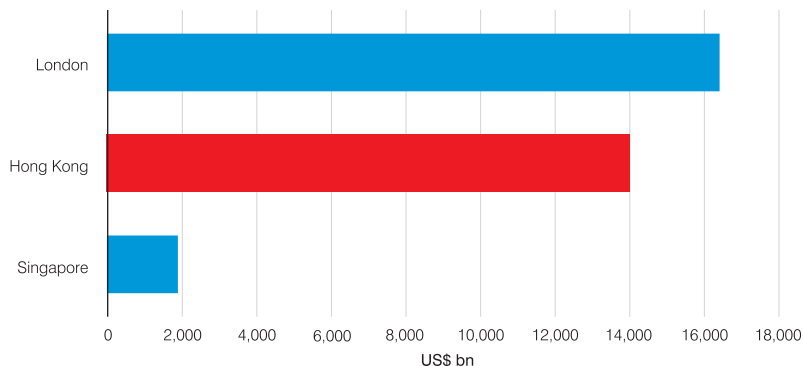
Hong Kong has a high degree of connectivity whether it is the physical connectivity in the form of transportation or informational connectivity in the form of technological infrastructure. Personnel and information flow freely into and out of Hong Kong, making it an ideal place for a regional hub as it is extremely well-connected to the surrounding regions which a regional headquarters needs to manage.

The Hong Kong International Airport, a well-established regional air transportation hub, is regularly selected as the best airport in the world, receiving nearly 40 world's best airport awards over the years. Hong Kong's home carrier, Cathay Pacific Airways, is also one of the world's leading airlines with strong performance records in service quality and profitability. A journey on the Airport Express to Central takes only 24 minutes while it takes 27 minutes to travel from Singapore Changi Airport to city centre despite covering only around half the distance.

The natural proximities of Hong Kong to the other Asian economic centers are shorter than those from Singapore, as evident in the sum of GDP from cities within four hours of flight distance. Hong Kong's sum of GDP within four hours distance is comparable to London's, which is over seven times that of Singapore's. The long-due transport infrastructure projects like the Guangzhou-Shenzhen-Hong Kong High Speed Rail and the Hong Kong-Zhuhai-Macau Bridge can foster an even closer physical link between Hong Kong and China, and would move one step closer to "One Country, One Market".

*Hong Kong's Top-notch
Connectivity among Regional
Centres*

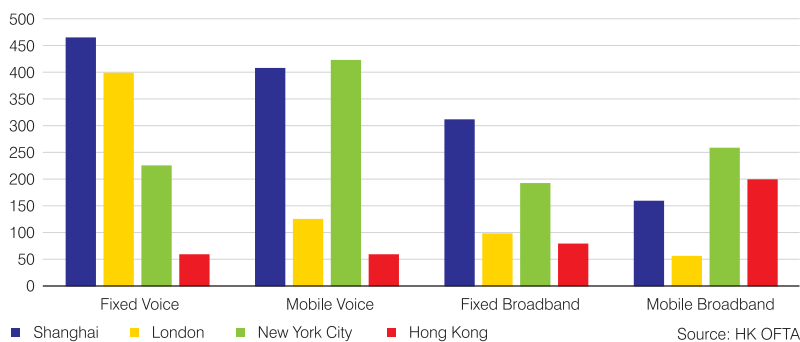
Nominal GDP Within 4 Hours Flight Distance



*Countries/regions with "economic capital" within 4 hours flight Source: CIA World Factbook, HKGolden50

In terms of technological infrastructures, Hong Kong has one of the most developed among all major metropolises, being one of the first ten countries or regions that have rolled out 4G mobile networks. Hong Kong has among the world's lowest phone and Internet fees, and its broadband network penetration rate is also way ahead of many other Western cities, allowing for a hassle-free and cheap access to the world.

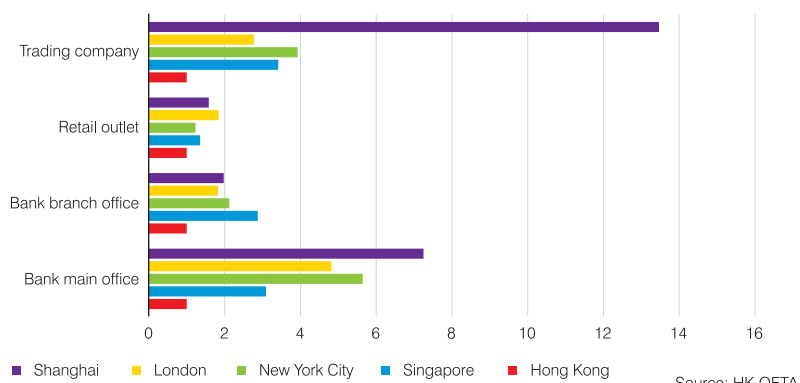
Average Monthly Charges for Residents



Source: HK OFTA

Hong Kong is the cheapest among Nylonkong cities and Shanghai in every type of phone tariffs except mobile broadband for residents

**Monthly Telecoms Expenditures for Business Users,
As Multiples of Hong Kong**

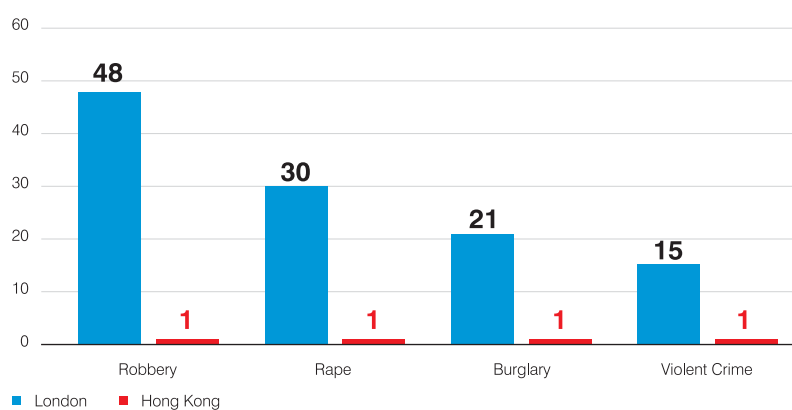


Hong Kong's telecoms expenditure is the cheapest among Nylonkong cities, Singapore and Shanghai for most types of businesses

Hong Kong is one of the safest cities in the world when it comes to crimes. Take the incidents of violent crime per capita, for instance, London is 15 times that of Hong Kong in 2010. The multiples are even bigger when it comes to robberies, rapes and burglary.

Hong Kong is one of the safest cities in the world eg London's violent crimes are 15 times that of Hong Kong

Number of Crimes Per Capita - London As Multiples of Hong Kong



Source: London Metropolitan Police, HK Police Force

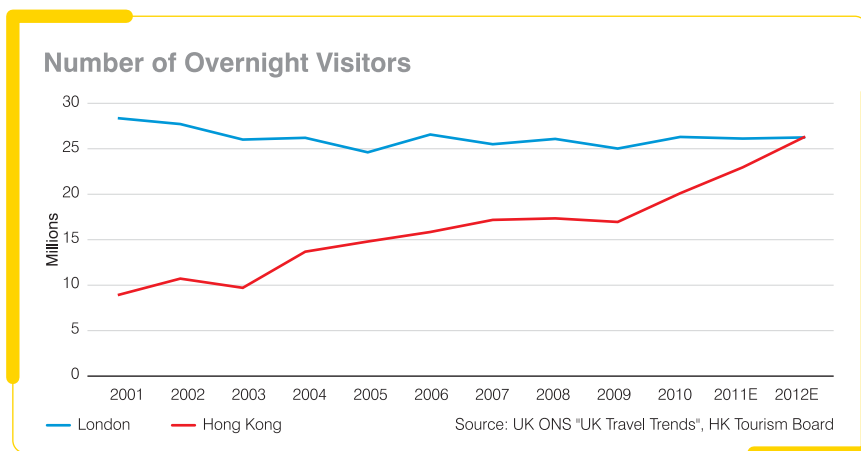
Being such a safe haven, culinary capital and shopping paradise, Hong Kong is extremely popular with tourists, especially those from mainland China ever since the introduction of Individual Travel Scheme in late 2003. We forecast Hong Kong's overnight visitor number to overtake that of London by 2012.

Hong Kong's overnight visitor number should overtake London by 2012

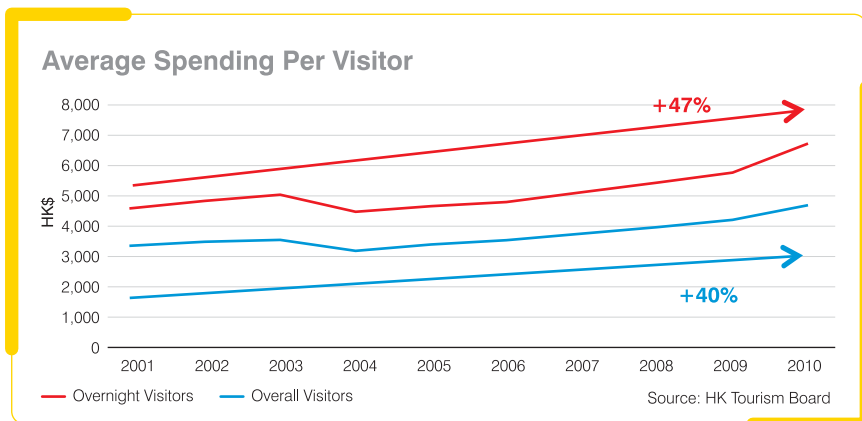
Tourism Figures Comparison - Hong Kong vs. London

2010	Hong Kong	London
Number of Hotel Rooms	60,400	109,700
Number of Overnight Visitors	20,085,000	26,286,000
Number of Total Visitors	36,030,000	N/A*
Number of International Visitors	13,346,000	14,600,000
Number of Business Visitors	3,410,000	2,775,000
Total Visitor Spending (HK\$ bn)	169	106 ^
Number of Restaurants	14,100	8,000 ^
Number of Museums, 2011#	54	250

*No Data, ^ Only includes international visitor spending, #2011 Dec figure
Source: HK Tourism Board, UK ONS, London MLA

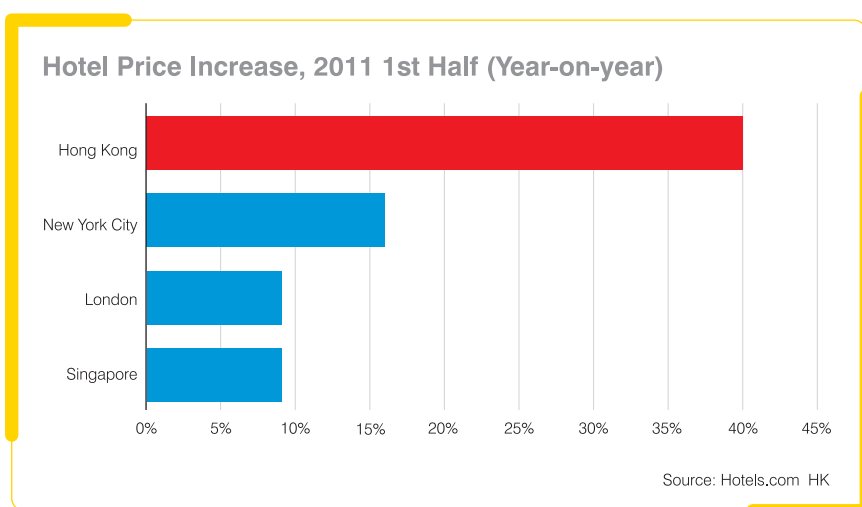


Visitors have been spending more per capita during their trips to Hong Kong too. Compared to last year, the average spending per visitor has increased by 40% while spending per overnight visitors increased by 47%, reflecting the rapidly growing spending power of mainland Chinese visitors. The growth of visitor spending has nearly quadrupled over the past ten years and has brought immense business opportunities for the retail sector, so much so that the overall service capacity of Hong Kong is stretched to the limit driving up street shop and shopping mall rents by over 20% since the start of 2010.



Shops with business catering for mainland tourists are displacing local stores as only high profit businesses can afford the exorbitant rents, which has led to the service industry suffering from reduced varieties and difficult operating environments.

The hotel price level, compared to one year ago, increased by 40% in the first half of 2011, the highest among all cities surveyed in the Hotel Price Index report published by Hotels.com. The shortage of hotel rooms hinders the growth of the tourist industry as high room rates turn away potential visitors. This situation is only going to worsen unless land supply for shops, malls and hotels is increased quickly.



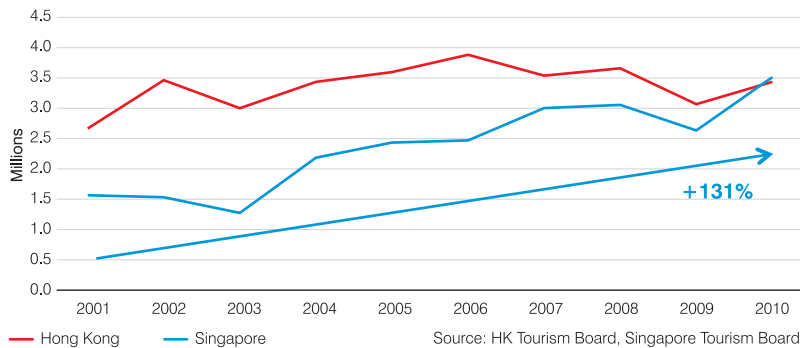
With an overall positive outlook of the tourist industry, Hong Kong should develop the business travel industry, which has been relatively static since 2002. There has not been any new major exhibition and events venue being completed since the opening of AsiaWorld-Expo. There are only a handful of extra large venues: HKCEC, HITEC, Asia Expo, Queen Elizabeth Stadium, and Hong Kong Coliseum, which are dominated by pop shows. The lack of Meetings/Incentives/Conventions/Exhibitions(MICE) facilities in Hong Kong are pushing firms to look elsewhere to hold meetings and conferences; the most popular alternative being Macau. MICE industry is crucial to a city's success as a business hub as conventions and exhibitions bring in flows and ideas, and enable the city to act as a magnet for further business.

Since the opening of Venetian Macau and the City of Dreams on the Cotai strip, Hong Kong lost many business conferences and events to Macau due to cost. For example, Templeton is holding their annual conference in Macau this year although most of the attendees are from Hong Kong. The Macau Government is actively facilitating the industry by holding "Meet in Macau" functions for the promotion of their MICE facilities across South East Asia. Macau is continuing to expand its number of extra-large venues and variety of world-class entertainment, including Cirque du Soleil for Zaia as well as the House of Dancing Waters. Due to costs and entertainment offerings, events that should be held in Hong Kong are now held in Macau.

Singapore is also very proactive in expanding the capabilities of its MICE industry and positioning itself as an Asian hub for business conventions and exhibitions. Three new exhibition centres, two of which are part of integrated resorts with large shopping and entertainment facilities, have been constructed within just five years. This has contributed to the rapid growth of business visitor arrivals in Singapore, which has increased 131% from 2001 and overtook Hong Kong in 2010.

Opportunity for Hong Kong to develop MICE Industry; events that should be held in Hong Kong are held in Macau or Singapore due to costs and entertainment offerings

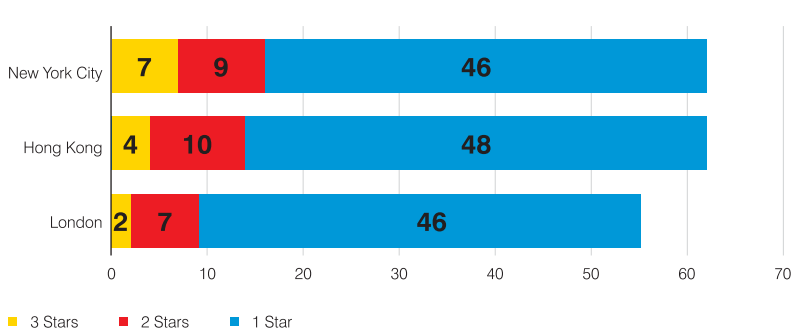
Number of Business Visitors (MICE included)



Hong Kong has the kind of excitement, diversity and emotional anchoring that can only be created by a true World City. Visitors are spoilt for culinary choices as Hong Kong has nearly 14,000 restaurants (as opposed to less than 8,000 in London), of which 62 are Michelin-starred. Hong Kong also boasts the world's cheapest Michelin star restaurant as well as the only Michelin three-starred Italian restaurant outside Italy. Michelin has commented that the quality of Hong Kong restaurants is comparable to New York City.

A true culinary capital, Hong Kong rivals New York City in variety and quality of restaurants

Number of Michelin Star Restaurants



Hong Kong has the only Italian restaurant outside of Italy with three Michelin stars

There is perhaps no better way to appraise Hong Kong's art scene than through the eyes of a journalist from a World City. Hence we refer to a report by a London journalist on the subject:

Hong Kong is firmly at the heart of China's new cultural revolution, article from The Guardian, The Observer, on 31 July 2011

When traffic lights turn red in central Hong Kong, they emit a noise like the frenetic beating of a clockwork toy on a tin drum. Hordes of shoppers, workers, skinny expat wives pushing babies in prams and chic executives scurry across the thoroughfares, threading across some of the most expensive real estate in the world.

In the sought-after Pedder Building, with its unusually high ceilings, Abercrombie & Fitch has taken a prime retail spot previously occupied by Shanghai Tang, a Chinese luxury brand, and is paying, according to Sir David Tang, a Hong Kong businessman and socialite, "about £5m a year in rent". State-of-the art shopping malls heave with customers all day long. Brands such as Louis Vuitton employ staff to stagger the queues that stretch around the block.

Hong Kong's affluence began after the British handover in 1997 when borders were relaxed, visas became more easily available and Chinese mainlanders were able to come to spend. The richer China has become, the more they visit Hong Kong to shop.

"Luxury brands are forecasting year-on-year growth of 35%," says Helen Willerton, former managing director of Chloé Asia Pacific. "Mainlanders fly in for a few days, save money on accommodation by staying in three-star hotels, and spend on high-end retail – watches, jewellery and fashion."

But 14 years after the handover, Hong Kong is no longer just about shopping. Forget designer labels; this city state is experiencing a cultural boom that is proceeding at breakneck speed. The Chinese art market is now the second largest in the world after the US, with a global share of 23%. Hong Kong's unique position, poised between China and the west, is turning it into a cultural landmark.

Gagosian Gallery, which owns spaces in New York City, Los Angeles, London, Paris and Rome, opened in the Pedder Building in January. Earlier this month, White Cube announced the launch of its first non-UK space at 50 Connaught Road, close to the Mandarin Oriental hotel favoured by well-heeled westerners and the seriously rich Chinese, and to Tang's private members' bar and restaurant, the China Club, which contains his unrivalled collection of Chinese contemporary art. Others are bound to follow. Hong Kong's four-year-old art fair, Art HK, has just sold a 60% stake to MCH Group, parent company of the world's pre-eminent contemporary art fair, Art Basel.

"Basel will change the quality of the art fair," says Xin Li, Asia business development director at Christie's. "Also, it's at the same time as the Christie's contemporary sale. The Chinese market is young but I'm always surprised – and I am Chinese – at how quickly the Chinese learn. They'll know nothing about [Damien] Hirst and then six months later they'll know everything."

Whether ordinary Hong Kong citizens benefit directly from the economic boom is a moot point. Exorbitant property prices mean tiny apartments and a phenomenal work ethic, and the galleries and art fair are seen to belong to an elite middle class rather than the masses. But "**wealth is followed by culture**", says Tang, and western culture is what Hong Kong has been missing and now, it seems, can't get enough of.

Last February, Lars Nittve, former director of Stockholm's Moderna Museet and one-time head of Tate Modern, was appointed chief director of the M+ museum of contemporary art, which will form part of the West Kowloon Cultural District (WKCD) development. People at all levels of Hong Kong society, it seems, are hungry for culture and galleries. This month's Hong Kong book fair attracted one million visitors (only 1% of whom were from the mainland), each spending approximately £35 a head on books, with crowds of people attending more than 300 readings and seminars.

“They took £35m in six days,” says Tang, who moderated two public forums called “How and What” and “Why do Writers Write?”. Tang’s speakers were David Starkey, Nicholas Coleridge, Tom Parker Bowles and AA Gill, and his events were packed out. “Where else do you find that thirst for knowledge, fervour for learning?” he pointed out. “That’s why I do my forums, to give them access to thought.” Starkey agreed, telling the 700 people politely firing questions at him: **“When I came into this fair, I couldn’t believe the amount of people. It is inconceivable that this could happen in Britain.”**

West Kowloon Cultural District is a semi-independent organisation with HK\$21.6bn (£1.7bn) in the bank and a chunk of land on which to build, with a master plan to be presented by Norman Foster Associates in September. New venues for existing performance arts groups will be created, but M+ will be a museum built from scratch that will include a permanent collection.

“The first phase of building is 43,000 square metres, which should open by 2015,” says Nittve. “The second phase takes us up to 61,000 square metres, but we will have nomadic exhibitions running from early next year.” As well as being a venue where local people “can see the best and most important art of the moment”, Nittve is adamant that M+ is embedded in Hong Kong. “Museums take their character from their environment; look at the Guggenheim in Las Vegas, closed after two years.”

The key, he says, is to develop the local art scene rather than concentrating solely on West Kowloon. Non-profit art collective Para/Site has managed to pull off top-quality shows in the kind of space we in the west would describe as a cupboard. But self-confidence has been lacking in the Hong Kong artistic community: they have felt overshadowed by the super-successful Chinese scene, their studio space is limited and expensive (many have their work made on the mainland), and they don't have anything like the high status of artists in China. Hong Kong artists often have parallel careers as designers and architects and this is not trusted in the west. But the concept of art is shifting, says Nittve – “video art/cinema is definitely crossover art, on the outskirts of fine art practice, and has been the most creative area in recent years”. Stanley Wong, a successful designer and ad man, is also a practising artist, having shown at the Venice Biennale. “What these artists have lacked is an arena in Hong Kong, a platform that gives them kudos. Most western cities have these places,” Nittve says.

Influential players from the art world, including businessman and design enthusiast Victor Lo, gallerist and academic Johnson Chang, and Claire Hsu, founder of Asia Art Archive, which documents Chinese contemporary art practice, were asked to join the M+ advisory board. “They put together a paper that sets the agenda for M+,” says Nittve. “It's seldom you see a new museum project anywhere in the world that is so well-considered and thought-out.” With the recent appointment of Michael Lynch, chief executive of the South Bank Centre from 2002 to 2009, as chief executive, the West Kowloon Cultural District authority seems likely to achieve its aim of giving Hong Kong the cultural legs it lacks.

Lynch says he can see the 40-hectare site from his bath. “I've always thought it was a visionary project, but the scale! It's like building the South Bank from scratch instead of letting it grow over 70 years. I can see how important the cultural centre will be, it'll change the way this place works. On the contemporary art side, we're looking straight up the Pearl river delta and that is where the whole world will be looking too.”

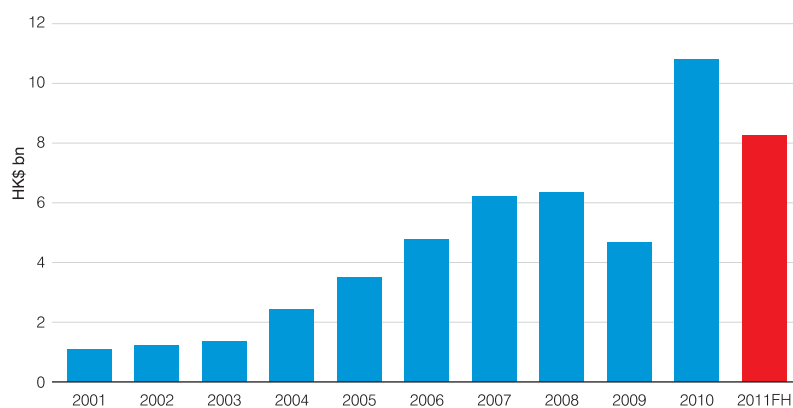
From Nittve's window, one can see the construction of the new high-speed railway connecting Hong Kong to the mainland. It will stop 200 metres from M + and drop off 60 million passengers a year. “At certain points in time, there's a need for a museum that can reflect the present,” says Nittve. “WKCD will be a manifestation of a shift in the world cultural order.”

Hong Kong has picked up a not-so-welcome nickname of “cultural desert” over the years as it is perceived to be lacking in cultural and artistic activities. However, recent trends show rapid developments and signal hope that it is catching up to New York City and London in terms of patronage. The art auction figures are particularly encouraging, with total auction sales in 2010 exceeding London for the first time. The increased patronage in Hong Kong is set to attract more artists and artistic development in the city.

Astronomical Sales Growth in Art Auction in Hong Kong

Hong Kong is the third largest art-auction market in the world, following New York City and London. Earlier this year, the British Art Market Federation announced that the Chinese art market, which nearly doubled in value since 2009, had outpaced the UK to become the second-largest in the world, with a global share of 23%. With its unique position between China and the West, Hong Kong is playing an increasingly important role in driving the growth of the international art market.

Christie's & Sotheby's Combined Auction Sales



Source: Christie's, Sotheby's

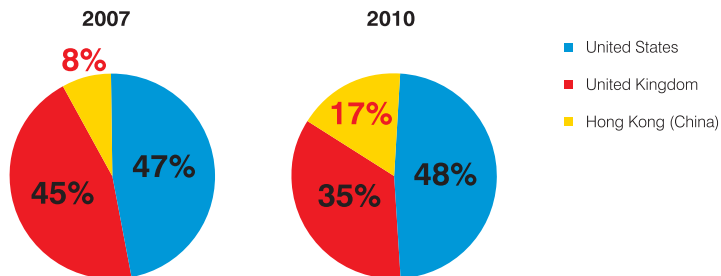
The two largest international auction houses, Christie's and Sotheby's, have both achieved phenomenal growth in their auction sales in Hong Kong over the past 3 years. In 2010, the two houses' auction sales totalled HK\$10.9bn, a 230% increase from 2009. The Chinese contemporary arts accounted for more than 60% of the auction lots with a substantial rise in average auction price too, reflecting strong international interest on this relative newcomer in the global art scene and proving Hong Kong's importance as a gateway between Chinese arts and international art enthusiasts.



Undergoing the biggest auction sale in Hong Kong's history this year, Christie's spring season brought in HK\$4bn in total, which is a 60% increase over the same period a year ago, much stronger than the 32% increase in London and the 6% decline in the US. Christie's record result affirms Hong Kong as a significant global art hub and Asia as the fastest growing art market in the world. As for Sotheby's, its revenue share in Hong Kong has risen substantially from 8% in 2007 to 17% in 2010. Average growth rate of revenue in Hong Kong throughout the four years is more than three times that of the UK and six times that of the US.

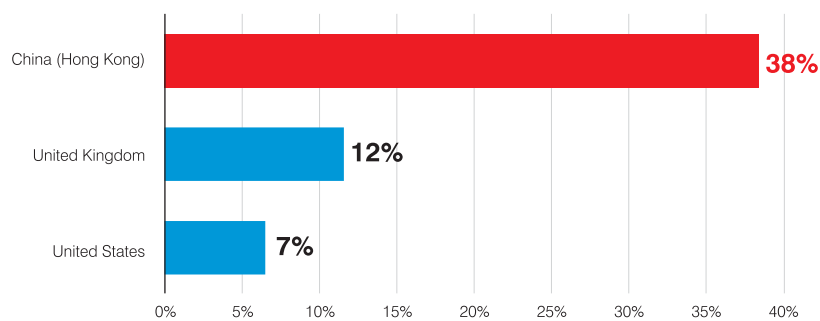
Hong Kong has the fastest growing art market in the world

Sotheby's Revenue Breakdown



Source: Sotheby's

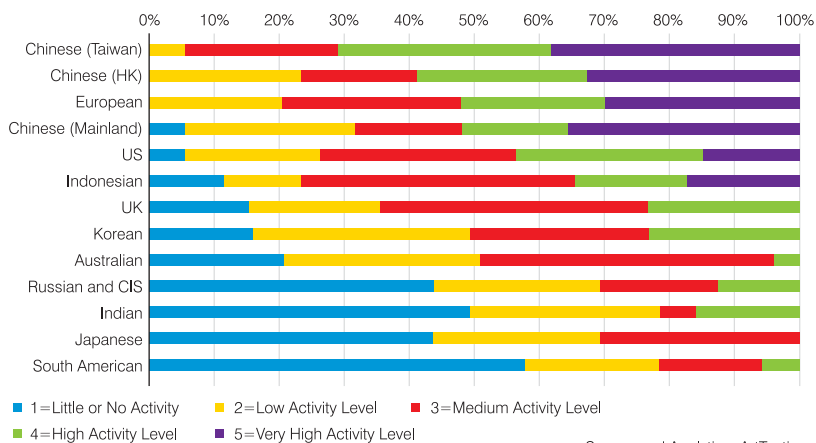
Sotheby's Revenue Growth Rate, 2007-2010



Source: Sotheby's

Behind the strong demand in the auctions, Asian buyers led the sales activity and continue to demonstrate a growing passion and appetite for artworks. “The Chinese market is young, but I’m always surprised at how quickly the Chinese learn,” said Christie’s Asia Business Development Director in a Guardian news report. In 2010, more than 2,200 individuals from 55 countries participated in Sotheby’s Hong Kong auctions. Among new collectors competing at the highest levels of global sales, those from greater China dramatically outnumbered those from North America or the UK by 50%. Christie’s Hong Kong sales in November 2010 experienced strong demand for works of contemporary and modern Chinese artists, with Asian buyers placing the winning bids for nine out of the top ten works. ArtTatic’s recent survey shows that the mainland Chinese collectors are featured in the top five, ahead of US collectors and Indonesian collectors.

ArtTactic Expert Poll: Level of Collector Activity in the Chinese Contemporary Art Market



Asian collectors are attracted to Hong Kong because the import and export of artworks is duty-free and there is no sales tax. By comparison, Singapore has a consumption tax of 7%, while China levies a 34% import tax on artworks. Survey findings from ArtTactic also reveal that experts view the mainland contemporary art market as being 49% more risky than the Hong Kong market. This reflects the reliability and credibility of Hong Kong, and confirms Hong Kong's irreplaceable role in China's booming contemporary arts market. With low tax, proximity to mainland collectors, established legal system among other factors, Hong Kong is firmly set to attract more Asian and international buyers and capitalize on the booming arts scene in Asia.

Low tax beneficial to developing Hong Kong's art market

London used to be the second-largest art market globally, and it is still the second-largest auction market in the world. However, facing the increasing competition from Hong Kong, London's ability to deal with the threats could be further damaged by UK's burdensome tax regime. An EU levy on the sale of works by living artists was introduced in the UK in 2006, and, according to the British Art Market Federation, was a "significant factor" behind the country's declining share of the contemporary art market. Under European Commission plans, in 2012 the levy is due to extend to sales of works by artists who have died within the last 70 years. This may further diminish London's leading position in the arts market.

There is an increasing number of highly respected, international galleries opening in Hong Kong. Gagosian Gallery, one of the largest international art dealerships with eleven galleries around the world, opened at the Pedder Building in January. Earlier July, White Cube, one of Europe's most successful art dealerships, announced the launch of its first non-UK space at 50 Connaught Road. Other significant international gallery openings include Ben Brown Fine Arts in 2010 and de Sarthe Gallery in 2011. More are bound to follow. The influx of western galleries is expected to add to the diversity of the arts market and meet the increasing appetite for a wider selection of arts in this international city.

*International Art Galleries
Migrating to Hong Kong*

ART HK, the international art fair held at the Wanchai Convention and Exhibition Centre for the fourth time this year, is the largest of its kind in Asia and is generally accepted as the “Art Basel of Asia”. This year, ART HK has surpassed the attendance figures for the two largest art fairs in London, London Art Fair and Frieze Art Fair, with 260 leading galleries (up from 155 in 2010) from 38 countries participating and a whopping 63,000 visitors, which is up 38% from 2010 and more visitors than Art Basel. The prominence of ART HK has led to MCH Group, the organizer of Art Basel and Art Basel Miami Beach, to take a majority ownership stake in ART HK from July 2011 onwards. We can only expect ART HK to develop further with such a strong international partnership. Hong Kong could also replicate the uniquely successful Affordable Art Fair in London which showcases works of emerging artists in an “unstuffy environment” in order to encourage the wider community to enjoy and buy contemporary art.

ART HK draws in a larger audience than Art Basel

ART HK Among the Most Attended Art Fairs in the World

	ART HK 2011	Art Basel 2011	London Art Fair 2011	Frieze Art Fair 2010
Attendance	63,000	50,000	24,400	60,000
Number of Exhibiting Galleries	260	260	124	173
Number of Participating Countries	38	35	Mainly British	33

Source: ART HK, Art Basel, London Art Fair, Frieze Art Fair

Hong Kong has one of the largest and most dynamic film entertainment industries in the world, and is crowned the “Hollywood of the East” by New Yorker staff writer Frederic Dannen. Based on statistics compiled by Screen Digest, Hong Kong ranked first in Asia and third in the world’s per capita film production in 2008, and is one of the world’s largest film exporters with about US\$37m worth of film exports in 2010. This tiny city has bred hundreds of successful filmmakers, directors, producers and actors who have won over 300 international awards, including those at the Cannes, Berlin and Venice Film Festivals. The number of films co-produced with mainland China has also surged from 10 per year in 2004 to 30 per year in 2010. Last year, seven out of the top ten domestic box office films in the Mainland were co-productions.

Hong Kong International Film Festival Much Bigger in Scale than the BFI London Film Festival

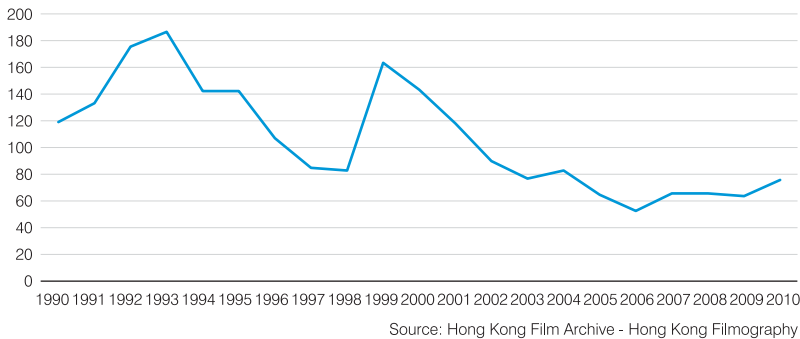
	HKIFF 2011	BFI London Film Festival 2010
Number of Titles Screened	330	204 feature films and 110 shorts
Attendance	600,000	132,000

Source: HKIFF, UK Dept. of Culture, Media & Sport

Screening over 330 titles from more than 50 countries in 12 major cultural venues across the territory, the Hong Kong International Film Festival (HKIFF) is Hong Kong’s largest cultural event that reaches an audience of over 600,000 including 5,000 business executives who attend Hong Kong Film and Television Market (FILMART), a concurrent event of the HKIFF. Along with International Film festivals in Busan, Tokyo and Shanghai, the HKIFF is one of the “big four” cinematic events in Asia.

Hong Kong’s biggest film festival draws an audience of over 600,000; five times the attendance at BFI London Film Festival

Number of Films Produced in Hong Kong



Back in the 1980s, Hong Kong's movie industry was the third largest globally, just behind India and the US. Hong Kong produced a record 200 films in 1993 and the industry totalled US\$155m gross earnings. Since the 2000s, however, film production decreased to only around 50 per year due to lack of funding and support. Hong Kong has the resources and talents but requires a proper infrastructure, such as an institute like the British Film Institute (BFI) where local film statistics are measured and compiled periodically with analysis published yearly.

Hong Kong has 50 cinemas and 208 movie screens with gross box office equal to HK\$1.54bn (US\$198m) in 2010 up from HK\$1.18bn (US\$152m) in 2009, a rise of a healthy 31%, according to the Motion Picture Industry Association (MPIA). The number of first-run releases totalled 286 features (up from 246 in 2009), of which 54 were locally-produced and 232 were from overseas. These statistics show that there is patronage for local and foreign movies in Hong Kong. As cinemas are usually fully packed without prior booking, it should be profitable to double the number of cinemas to match London's 566 movie screens (108 cinemas), except the exorbitant rents in Hong Kong deter potential entrants and expansion by existing competitors. The cost of renovation and fitting a cinema requires a huge lump-sum investment which is not justifiable without the security of stable rent for many years.

Hong Kong movie production is in decline; the movie industry needs better government support

Hong Kong has the capacity to open more cinemas but rent is too high for potential entrants

As for literature, the Hong Kong Book Fair is showing robust demand, attracting 1m visitors (only 1% of whom were from the mainland), each spending approximately HK\$522 and crowds of people attending more than 300 readings and seminars. Just as Sophie Hastings put it in the Guardian, people at all levels of Hong Kong society are hungry for culture. Mr. David Starkey, a guest speaker at the book fair also commented, “When I came to this fair, I couldn’t believe the amount of people. It is inconceivable that this could happen in Britain.” Hong Kong should foster this hunger for literature with world-class faculty comparable to NYU Tisch School of Arts (which chose to set up their Asian campus in Singapore).

Overflowing demand for literature in Hong Kong

Performing Arts is another area that requires more government support. Music Matters, the only regional music business conference in Asia, had been held in Hong Kong every year since its inauguration in 2006, except this year. From this year onwards, the 1,200 participant event is moved to Singapore. If the government does not invest more into the arts and culture industry, more events would be lost to Singapore and other competitors.

Music Matters, the only regional music business conference in Asia, moved to Singapore

Theatre Performances in the Three IFCs

	Hong Kong	London	New York City
Number of Theatre Performances at Major Theatre Per Year	2,480	17,300	12,000
Number of Music Performances Per Year	1,100	32,300	22,200

Source: HK Leisure and Cultural Services Dept., UK Dept. for Culture, Media & Sport, US Bureau of Educational and Cultural Affairs

There are a total of eight orchestras in Hong Kong, inclusive of chamber and Chinese orchestras, (compared to 44 in London). The Hong Kong Philharmonic Orchestra is on its road to attaining world-class status; David Atherton's Sibelius series and Edo de Waart's Mahler series have gradually earned critical recognition. Hong Kong also started Opera Hong Kong in 2003 but has yet to open any opera house (Cantonese opera is fast becoming an endangered art with only two qualified playwrights and 20 major actors today). As for theatres, there are currently 14 in Hong Kong (as opposed to 39 in the West End and 55 beyond in London), and two well-established theatre companies, Hong Kong Repertory Theatre and Chung Ying Theatre Company, as well as two well-established dance companies, the classical Hong Kong Ballet and the contemporary City Contemporary Dance Company. All of these institutions are struggling to become world-class without sufficient funding.

Currently, the art and culture industry is missing substantial investment in talent development as well as space to practice and perform. Hong Kong has about 450 graduates per year from local fine arts and design programs but only a small fraction become artists. Taking CUHK Fine Arts graduates as an example, only 5% become full-time artist and 20% become part-time artist. Luckily, new art and design programs from foreign institutions are emerging, such as the Savannah College of Art and Design (SCAD) which opened a campus in Lan Kwai Fong. The world-renowned Central St. Martins of the University of the Arts in London has also been hosting courses through HKU SPACE. Hong Kong can benefit from more partnerships with world renowned schools such as Parsons of New York and Bunka Fashion College of Tokyo.

Hong Kong's art and culture industry needs talents and space

The music scene is also in lack of talents with approximately 1,100 performing arts students in Hong Kong in 2008, which is 92% less than the 12,800 performing arts students in London. Only about 0.6% in the Creative Arts sector is employed in performing arts because salary is relatively low and opportunities are few. There are about nine professional full-time performing arts group that receive funding directly from the government and about 40 groups that are receiving grants from the Arts Development Council. We look forward to the day when the Academy of Performing Arts becomes comparable to New York City's Julliard School of Music.

Hong Kong has 92% less performing arts students than London

As for space, Hong Kong is benefitting from initiatives such as the Jockey Club Creative Arts Centre (JCCAC), a multi-disciplinary artist village converted from an old factory estate in Shep Kip Mei, opened in September 2008 with the mission to foster art in the community by providing cheap gallery, theatre and studio space (the rent for an art student or graduate tenancies commencing in 2011 is HK\$5.2psf/month). With the development of the HK\$21.6bn West Kowloon Cultural District and its contemporary museum component, M+ (first phase scheduled to open in 2016), the renovation of the Central Police Station heritage site to a mid-size exhibition venue (scheduled to open in 2014) and the opening of the Asia Society's new premises in early 2012, the city will shortly be home to world-class cultural and exhibition venues. This, added to the significant work already conducted by organizations such as Para/Site Art Space, Asia Art Archive and Fotan Open Studios, provides breadth to the non-commercial aspect of the cultural scene in Hong Kong, which Hong Kong is definitely in need of in order to catch up with London as a global arts center.

The HK\$22bn West Kowloon Cultural District – Build it and the audience will come

It is an exciting time for art and cultural development in Hong Kong as there is a huge potential for growth. Currently, most tourists do not visit art and cultural facilities but statistics show latent demand. With increased patronage in Hong Kong, we are bound to see a jump in the supply of quality artists to satisfy the growing demand of local production. The government should provide a better infrastructure to facilitate the development of the creative industry. With the right promotion and government support, Hong Kong has a real chance of becoming an arts and cultural hub that can rival New York City and London.

World Cities boast brilliance across the board; the wealth from the city creates demand, transfers wealth and encourages excellence to all industries; from fashion to music to food to medicine to architecture.

The economic strength of an IFC is not limited to its population but benefits from the international consumer who travels to these hubs for the best of what the world has to offer. Competition is particularly steep in an IFC, which encourages excellence in every sector of the society and allows the best to thrive.

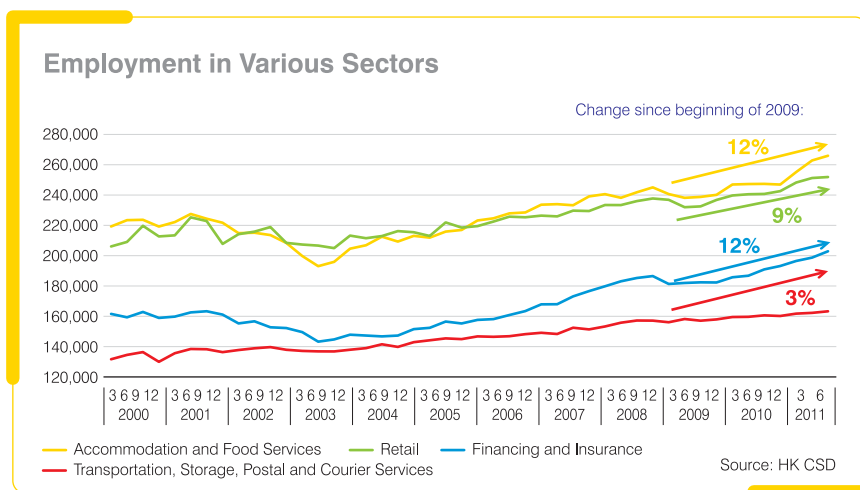
For example, New York City and London were not historically fashionable cities like Milan and Paris but the best suppliers and the highest-paying consumers of fashion congregate there. These cities are not particular musical either, yet they boast the best music schools in the world and attract the best orchestras and pop music acts to tour there. A booming economy led by finance not only benefits people in the financial sector but has a huge knock-on effect to other industries creating universal prosperity.

*This is not just a story
of finance, but a story of
excellence*

This phenomenon is demonstrated in the increasing employment rate. Since the beginning of the economic recovery from 2003, the numbers of people employed in various major sectors of Hong Kong have recorded steady growth, and the trend is not limited to only the financial sector even if it is one of the major hotspots of economic growth due to the IPO boom. Both retail and accommodation and Food and Beverage (F&B) are expanding alongside finance with similar margins. Cleaning and F&B, two industries that comprise of a large portion of lower-income employees, have registered growths of 11.3% and 7.7% in employment numbers respectively in 1H 2011 alone.

Job growth is not restricted to finance but prosperity is across the board

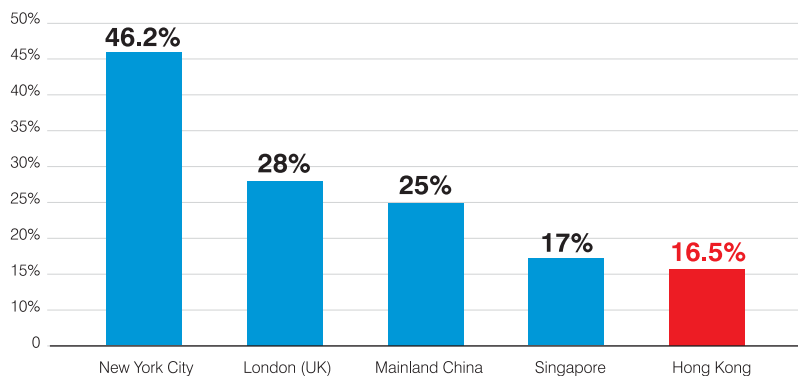
Over the same period, an 8% increase in wages of the low-income group has a positive effect on the livelihood of the poorer people in Hong Kong. These encouraging numbers are good proofs that an expansion of the financial sector or other high-output industries can lead to universal prosperity.



Hong Kong is a Great Place for SME Development and Entrepreneurship

Hong Kong is one of the best places for start-ups and small and medium sized enterprises (SMEs), which are classified as non-manufacturing firms with less than 50 employees or manufacturing firms with less than 100 employees.

Corporate Tax Rates



Source: Forbes "Tax Misery & Reform Index", PwC

Hong Kong people are world-renowned for their entrepreneurial spirits and this is reflected in the number of SMEs in the city – Hong Kong has over 300,000 SMEs, around 25% more than that of London, and its corporate profit to GDP ratio of 35% is among the highest in the world and 60% higher than that of the UK, reflecting the vibrant business environment that rewards innovation with high profitability.

Hong Kong SMEs As % of Total Business Units and Employment

2011Q2	SMEs % Business Units	SMEs % Employment
Manufacturing	92%	60%
Mining, Gas and Power	78%	17%
Import/Export, Trade and Wholesale	97%	80%
Retail	72%	58%
Transport and Storage	86%	28%
Accommodation and Food Services	70%	46%
Information and Communications	96%	44%
Financing and Insurance	89%	30%
Real Estate	85%	30%
Professional and Business Services	95%	41%
Social and Personal Services	82%	32%

Source: HK CSD, Trade and Industry Dept.

Hong Kong is also a very convenient and hassle-free place for one to set up business, and fares better across a number of indicators than London in the ease of doing business. On average, it only takes six days and three procedures to set up a new business in Hong Kong while it take 13 days and six procedures to do the same in the UK. Also, according to the Global Competitiveness Report, Hong Kong ranks considerably higher than the UK in the absence of corruption, efficiency of the legal system when settling disputes and flexibility of labour employment along with many other factors that directly or indirectly impacts the welfare of business owners, particularly those owning SMEs.

Singapore also ranks very highly in various indices in ease of business indicators and prides itself to possess the same “hassle-free” factor for entrepreneurs as Hong Kong does. Hong Kong has to uphold its strengths and continue to refine its systems in this aspect as the city would risk lagging behind Singapore in this traditional strength of Hong Kong’s if the government remains complacent.

How Hong Kong and the UK rank in Factors Affecting Ease of Doing Business

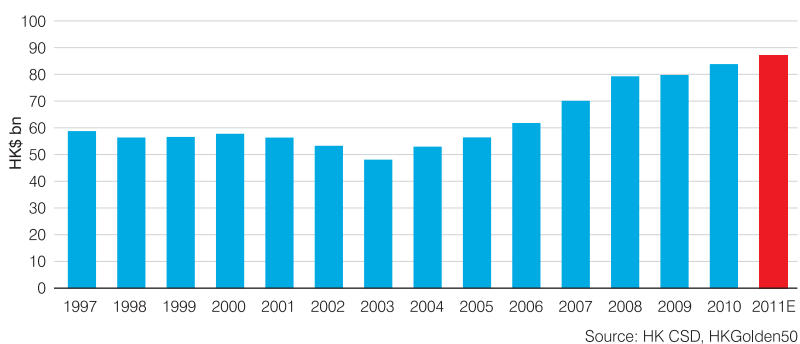
Factors for Ranking	Hong Kong	Singapore	United Kingdom
Rigidity of Employment	1st	1st	18th
Flexibility of Wage Determination	1st	3rd	20th
Trade Tariffs	1st	2nd	4th
Efficiency of Legal Framework in Settling Disputes	3rd	1st	8th
Number of Procedures Required to Start A Business	6th	6th	34th
Irregular Payments and Bribes	8th	3rd	21st
Time Required to Start A Business	13th	3rd	45th

Source: “Doing Business 2011” Report, Global Competitiveness Report 2011

Many of Hong Kong's service providers are SMEs. As in other industries, most establishments in the retail and food services sectors are SMEs, and account for a large proportion of their respective sector total employment. During the Golden 5 Years, Hong Kong demand for services will increase rapidly as people from all around the globe flock into the city. The natural consequence is that retail sales and restaurant receipts will continue to grow at a sound rate.

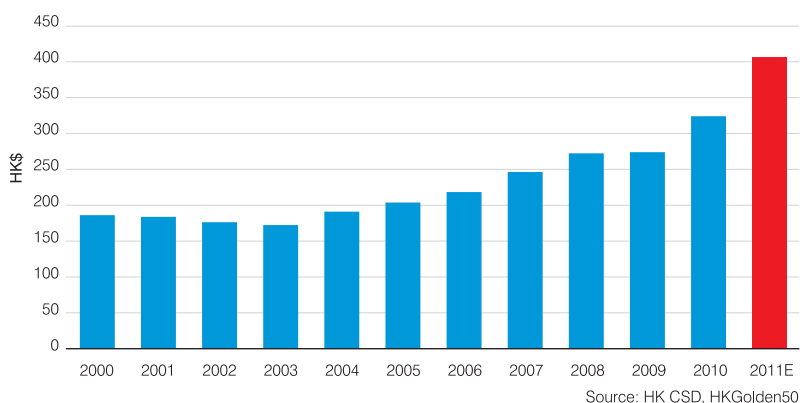
SME – entrepreneurship is alive and thriving in Hong Kong – ensuring maximum competition and best quality for its services

Total Restaurant Receipts in Hong Kong



Booming Retail and Restaurant Receipts, benefiting SMEs and MNCs

Retail Sales in Hong Kong

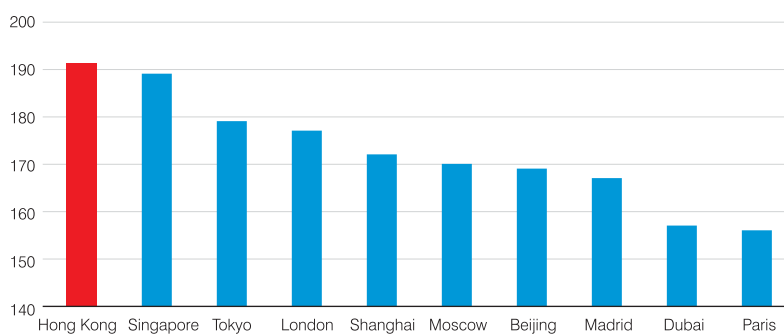


A Hub of Headquarters for Multinational Corporations: Opportunities abound, but we can no longer rest on past laurels

On 20th October, 2011, InvestHK, HKSAR's department that supports foreign companies to set up businesses in Hong Kong, announced that there are a total of 6,948 foreign and mainland Chinese companies (5.9% up from 2010) running business operations in Hong Kong by 1H 2011. Simon Galpin, the Director-General of Investment Promotion at InvestHK, was bullish enough to say that "Hong Kong is the perfect base from which to access Mainland China. At the same time, mainland companies are also using Hong Kong as a springboard from which to go global."

There is some truth in what Mr Galpin said. Hong Kong captured a surprising first place in terms of office presence among 280 major international companies according to the "Business Footprints" report issued by CB Richard Ellis in 2011, higher than Singapore and London.

Presence of Offices Among 280 Major MNCs



Source: CBRE "Business Footprints 2011"

These numbers also seem to resonate with some facts that the Hong Kong government has repeatedly cited: Fortune #1, Wal-Mart Inc., chose Hong Kong as the location for its Asia headquarters in 2008. The world's biggest conglomerate, General Electric (GE), has recently set up its Global Growth & Operations Headquarters in Hong Kong. Earlier this year, the chemical giant BASF also decided to retain its Asia-Pacific headquarters in Central, Hong Kong despite increasing rental costs.

The reason for setting up Asia headquarters is very simple; multinational corporations have been reallocating management and financial resources from the slow-growing, mature economies of the West to the ever-burgeoning Asia-Pacific region. Moreover, the increasingly scalable and sophisticated Asian businesses require dedicated business strategies to be developed and tailored from within region, rather than relying on decisions made by people who live far away and are not familiar with the local business landscape.

With the all countries added together, Asia has become too big and complex for MNCs such that it justifies a layer of management to share the corporate headquarters' responsibilities in managing individual countries' business units.

Take BASF as an example, it employs more than 16,000 employees in Asia-Pacific and in 2011, for the first time in 146 years of its corporate history, generates more revenue from the region than the entire North America. Wal-Mart Asia now oversees over 600 stores in its three business geographies – China, Japan and India, and is still undergoing aggressive expansions in these countries. It is difficult for one to expect the BASF team based in Ludwigshafen, Germany or the Wal-Mart team based in Bentonville, Arkansas in the middle of US to be able to manage this growth from afar.

Being in the centre of Asia, Hong Kong benefits from MNCs' increasing focus on the region

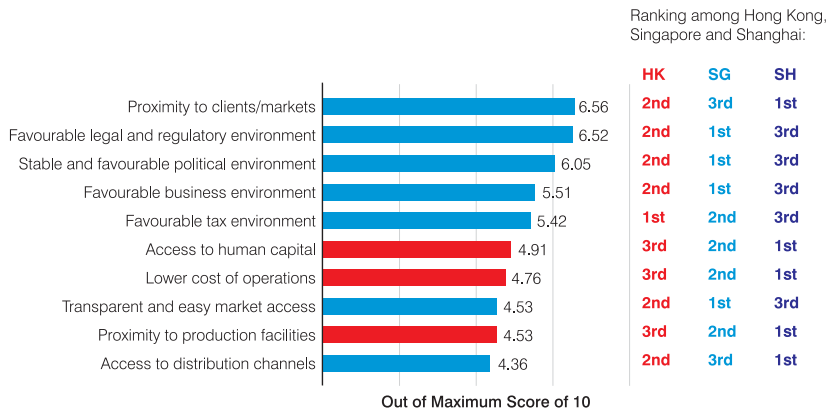
As far as the cliché goes, Hong Kong is really blessed with an excellent geographical location for MNCs to manage these emerging Asian countries. As indicated in previous pages, countries within Hong Kong's four hour flight time have seven times the GDP of those reached by Singapore with the same flight duration. If we take a closer look, the six countries with the highest GDP in the Asia-Pacific region are China, Japan, India, Australia, South Korea and Indonesia respectively. With the exception of Indonesia, Hong Kong is almost on par, if not much closer to these economic giants in terms of flight distance when compared to Singapore. This is arguably one of the most important considerations in placing an Asian headquarters as corporate professionals need to frequently travel around the region to visit individual countries' operations. One can easily expect most Asia managing directors would rather do day-trips to Shanghai and spend the weekends back in town with his or her family instead of taking arduous five hour red-eye flights from Shanghai back to Singapore and spending the weekend to recover.

Hong Kong – sitting in the middle of US\$14trn GDP, similar size to US's total income

However, drawing conclusions based on one or two isolated data-points can be extremely dangerous; if Hong Kong still fares better than the nearby competitors, why did multinationals like CNBC, Disney, Kraft, McDonald's and UPS all left Hong Kong for Singapore or Shanghai in the past few years? In fact, if we look at a report recently released by the European Union Chamber of Commerce in China and Roland Berger Strategy Consultants that compares Hong Kong's attractiveness as a location for Asia-Pacific headquarters against Singapore and Shanghai, we might see a much less optimistic picture.

But corporates are still leaving Hong Kong...

Top 10 Criteria for Selecting Regional Headquarter Locations



Source: European Union Chamber of Commerce in China

For years, businesses have been primarily attracted to Hong Kong by the excellent legal, regulatory and tax environment. Although we may still fare well beyond Shanghai, it seems that Hong Kong is perceived to have no significant advantage over Singapore on most of these criteria, which is a clear testimony to Singapore's efforts throughout the past 14 years during which Hong Kong became utterly lost and headed nowhere.

Despite an earlier start, the hare has moved too little and now the turtles have surpassed

Take the tax environment as an example. Singapore lowered its income tax from 26% in 1997 to just 17% in 2010 to be on par with Hong Kong. On the corporate side, the Singapore Economic Development Board offers a Research Incentive Scheme for Companies (RISC) to help technology-based consumer product and pharmaceutical MNCs such as P&G, Unilever, Abbott and Johnson & Johnson to support their development of full-scale research and development centres. Up to 30% of set-up equipment costs and 50% manpower costs can be co-funded by the Singapore government. As a result, each of the above mentioned companies now employ more than 500 employees in the city-state, instead of just maintaining a small finance and legal function office like they do in Hong Kong. Moreover, one of the many favourable terms offered under Singapore's Headquarters Award is a concessionary tax rate of 15% for companies that decide to place their regional headquarters in the city for up to 5 years. Compared to Hong Kong's normal 16.5% profits tax, If tax is one area where Singapore has caught up with Hong Kong, human capital, cost of operations and environmental quality have even become Hong Kong's shortcomings when compared to competitor cities in the survey:

Singapore is now on the upper hand in offering a favourable tax environment for businesses

(1) Human capital – better knowledge and language proficiency required:

As a part of Greater China, Hong Kong was supposed to be in a better position than Singapore in helping MNCs manage their businesses in the world's second largest economy. However, many companies view the level of Mandarin in Hong Kong as a challenge, yet at the same time visa restrictions on importing mainland talents remain extremely strict (except for special talents like Yundi Li the pianist). As a result, despite the shorter commute, Hong Kong is viewed no better than Singapore in understanding and serving China, and is even significantly lacking behind Shanghai from that angle.

In fact, Hong Kong may have already been losing a lot of opportunities for being under the current gridlock - as part of Greater China but not really understanding it. Take the hospitality industry as an example, the French hotel chain Accor recently relocated its Asia Pacific headquarters from Sydney to Singapore. When asked why Singapore was chosen over Hong Kong or Shanghai, Accor's APAC MD indicated that "[they] didn't want to be too China-centric even though [they] have planned major growth in China". On the other hand, the UK-based Intercontinental Hotels Group (IHG) separated out Greater China from its Singapore-based Asian operations in 2010 to report directly to its corporate headquarters. While many Hong Kong people will have no idea where Tier 3 Chinese cities like Maanshan, Anhui and Suifenhe, Jilin are located, the hotel group is already having operations there. Clearly the Greater China headquarters for IHG should be located in Shanghai as the city enjoys much better access to these Chinese heartlands.

How urgent is the situation? Let's remind ourselves that in the 1980s, before Hong Kong, Singapore and Shanghai developed to the level that they could rival for the Asia-Pacific headquarters position, the world had placed hopes on one city to become the heart of Asia – Tokyo. Yet despite the better infrastructure and quality of life, the cultural inwardness and lack of language proficiency hampered Tokyo from developing into Asia's centre and such an opportunity came to Hong Kong. If Hong Kong does not want to repeat the same mistakes as Tokyo did, Hong Kong needs to move quickly to improve the talent base and better serve its target markets.

*Hong Kong needs to quickly
improve its talent base to avoid
Tokyo's mistakes*

(2) Cost of operations – assistance is needed to tackle ever-rising rents

In the “2011 Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong” recently published by the Census and Statistics Department (C&SD) of the Hong Kong Government, 6,948 foreign companies based in Hong Kong were asked to rate Hong Kong’s favourableness against certain factors affecting the choice of setting up their offices in Hong Kong. Although ranked way down the list in terms of importance at 19th among 22 factors, a total of 37% respondents indicate that Hong Kong is ‘unfavourable’ in terms of ‘availability and cost of business accommodation’, while only 20% thinking that it is ‘favourable’. The results are even more stunning when we look at the ‘availability and cost of residential accommodation’, which is ranked 21st among 22 factors; 40% think that Hong Kong is ‘unfavourable’ compared to 15% who think the city is favourable. The level of ‘unfavourableness’ of these two factors are the highest among all 22 surveyed factors.

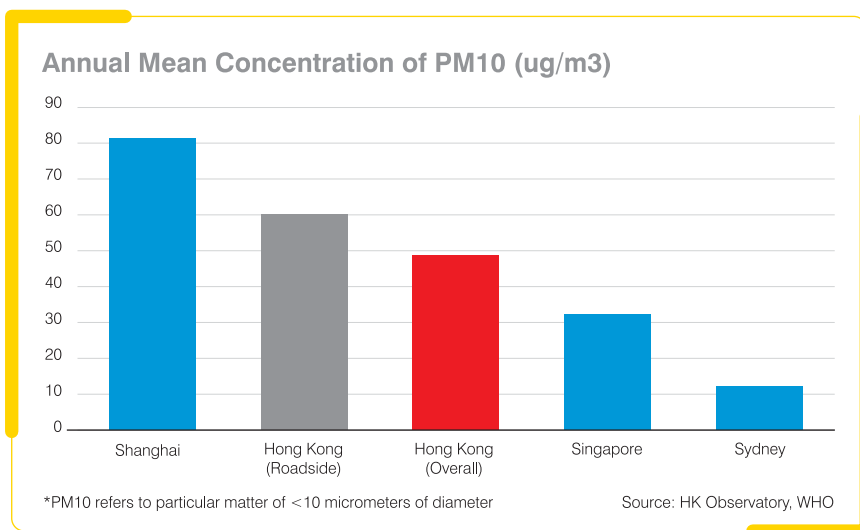
If we understand the nature of regional headquarters, it is not difficult to understand their negative views. According to the C&SD survey, 85% of Hong Kong’s 1,340 regional headquarters employ 100 people or less. Most Asia headquarter offices often house the region’s most senior personnel in strategy / business development, legal, tax, finance and recruitment / people development – these senior corporate officials are often hired from around the world and their packages vary little regardless of being in Hong Kong or Singapore. For the rest of the support staff, the average salary in Hong Kong is far higher than that in Singapore or Shanghai. Among the remaining costs, rental is the largest and often account for up to 40-50% of operational costs. With an acute shortage of prime offices, Hong Kong rents are twice that of Singapore’s and three times that of Shanghai’s as of first half of 2011, according to Savills Research. If Hong Kong wants to keep these regional headquarters in the city, there is an urgent need to assist them in various ways to cushion against the ever-rising rent.

Hong Kong’s high rents are driving away MNCs

(3) Environmental quality – air quality needs to be urgently improved

Citing better environmental quality is rumoured to be one of the most important factors that Singapore use to attract businesses away from Hong Kong. Combined data from the Hong Kong Observatory and WHO's Urban Outdoor Air Pollution Database suggests that although Hong Kong fares better than Shanghai, its air quality is about 50% worse than Singapore's overall.

Hong Kong's air quality is 50% worse than Singapore's



While it is true that reliability of these official statistics varies, the widespread media coverage of Hong Kong's bad air quality is already generating a lot of traction. For instance, the New York Times cited WHO's data in November 2010 and claimed that "air in Hong Kong is healthy only 41 days of the year". Foreign professionals who are accustomed to fresh air in their home countries will find it difficult to settle in a place where they choke every day. The government's meagre efforts in improving the air quality have yielded little results, and must be scaled up if Hong Kong wants to maintain competitive in the region.