

Position paper on the development of the exhibition industry in Hong Kong

April 2010

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Legislative Council, Hong Kong SAR**

Submitted by: Global Sources

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1. Background

Global Sources (NASDAQ: GSOL) is a leading business-to-business (B2B) media company, and a facilitator of trade between Greater China and the rest of the world. We have been headquartered in Hong Kong since 1970, and have about 270 team members in the SAR working with over 2,000 team members in 40 offices in mainland China. Revenue last year was HK\$1.36 billion.

This year, 48 trade shows under our “*China Sourcing Fair*” brand will be held in Hong Kong, Shanghai, Dubai, Mumbai, Singapore and Johannesburg. The Hong Kong shows are held at AsiaWorld-Expo every April and October, and attracted 357,500 volume importers and staff of exhibiting companies to the SAR in 2008/2009. According to the formula defined by the Hong Kong Exhibition & Convention Industry Association, our shows contributed HK\$3.58 billion to the local economy over the last two years.

2. Why we chose Hong Kong for our “China Sourcing Fairs”

In 2003/2004, our main “*China Sourcing Fair*” location was in Shanghai, where we operated very successfully. At that time, we were invited by Invest Hong Kong to move our shows to Hong Kong. We were told that the Hong Kong Government had decided to build AsiaWorld-Expo (AWE), strategically located at the Hong Kong International Airport, in order to break the monopoly of the Hong Kong Trade Development Council (TDC) in this sector; and to encourage private trade show organizers such as ourselves to come to Hong Kong, where we had effectively been blocked out by the TDC dominance and ownership of the Convention & Exhibition Centre (CEC); and that future exhibition space demand would be filled by the then-proposed AsiaWorld-Expo.

We expressed concern to both Invest Hong Kong and AsiaWorld-Expo management that (1) the TDC would object to this strategy and would continue with their monopolistic practices; and (2) that the TDC and CEC would try to expand the exhibition space at CEC in order to continue to grow their shows and make it difficult for shows at AWE to survive.

We received the strongest assurances from both Invest Hong Kong and the management of AWE, that the Hong Kong Government was determined to make a change. Why else would they invest over HK\$2 billion to build AWE? Was it likely that they would build AWE and then allow it to fail? Would the TDC's interests be allowed to usurp the interests of the SAR government? We were shown a letter of guarantee from the Hong Kong Government to AWE stating that no further exhibition space would be built in Hong Kong until Phase 2 of AWE was completed.

We were convinced, and thought we would be the first of many international exhibition organizers to bring new shows and new business to Hong Kong.

3. Reality hits home

With an initial investment of more than HK\$312 million, we signed a three-year contract with AWE (since extended for a further four years), and held successful "full house" events in 2006 and 2007.

But events which have since transpired leave us no choice but to assume that the Hong Kong Government has changed its mind and is no longer committed to breaking the TDC monopoly; encouraging international trade show organizers to come to the SAR; and to making AWE successful.

What has happened:

- The announcement of the expansion of the CEC with the "Atrium Link" adding capacity for some 1,000 booths was the first nail in the AWE coffin. An increase of 1,000 booths at CEC equates to a decrease of 1,000 booths at AWE. A good example is the fact that two halls with capacity for 1,400 booths are sitting empty at AWE this week during our "*China Sourcing Fair: Electronics & Components*", while TDC has filled their new space. This is the peak time for trade shows in Hong Kong (the days

immediately prior to Canton Fair) and hence the peak period for AWE. By allowing CEC to expand and counter to their specific, written promise, the Hong Kong Government has created a “white elephant” at AWE.

- Efforts to promote the further expansion of the CEC with proposals for “Phase 3” have further damaged and destabilized AWE, and the likelihood of attracting new organizers and new events to Hong Kong. It is clear that if CEC 3 proceeds, AWE will fail totally. We will certainly be forced to take our events elsewhere, likely to China where the Government is extremely supportive of our activities. Even the talk of CEC 3 is causing terrible damage to the trade show industry, as the uncertainty means that potential new organizers choose to either “wait and see” or to choose CEC at the expense of AWE.
- TDC has done everything they can to see AWE and our events fail, presumably for their own benefit. They have continually positioned AWE as being “too far away” and not attractive for exhibitors or visitors. They have refused to promote our shows in any way, in clear violation of their statutory obligation to promote Hong Kong’s trade and service sector of which we are a part.
- The TDC aggressively approaches our exhibitors, offering them priority locations and lower rates if they “jump ship” to TDC events. They threaten to withdraw TDC space from government and trade association partners in China, Taiwan and other locations if they join our shows. They copy shows which we have spent years developing, a good example being our “*China Sourcing Fair: Baby & Children’s Products.*” This activity is closely watched by other international and local organizers – the fact that AWE is hugely under-utilized is the clear result.

4. What is the future of Hong Kong’s trade show industry?

The Hong Kong Government needs to decide what it wants for the SAR:

- Does Hong Kong want a vibrant, expanding trade show industry with a successful AWE?

- Does Hong Kong want new international and local organizers to launch new trade shows here?
- Is Hong Kong serious about the decision to invest HK\$2 billion in AWE, to break TDC's monopoly, and to invite new players here as we were promised by Invest Hong Kong?

It is time to make a clear decision on these issues. If the decision is that TDC should be allowed to continue and grow its monopoly, then please make a clear and transparent announcement to private trade show organizers. We can then plan accordingly; stop further investment in Hong Kong; and relocate our shows to other locations.

If the decision is that AWE was a mistake and should be allowed to fail, then equally, the show organizers and service providers to our industry need to know now so that we can organize our businesses accordingly.

If, as we hope, the Government is committed to growth of the industry and the success of AWE, we suggest these steps:

- Make a clear and unambiguous announcement that CEC 3 will not go ahead.
- Announce a schedule for building Phase 2 of AWE, and position it as complementary to and not competitive with CEC.
- Announce that TDC will not launch any further new trade shows, in order to make room for the private sector and to give us confidence to invest. Then enforce this. Note that during a meeting of the Panel on Trade and Industry of the Legislative Council in June 2000, the (then) Executive Director of the TDC Michael Sze said: "TDC would only organize trade shows for competitive industries in Hong Kong. In view of limited resources, if successful fairs had been organized by private exhibition services companies for a particular industry, TDC would not organize similar trade fairs to avoid unhealthy competition." (LC Paper No. CB(1)2114/99-00)

This promise was not kept, and TDC's shows have in fact grown from 17 in 2002/2003 to 33 in 2008/2009. TDC's exhibition revenue has

increased from HK\$600 million in 2001/2002 to HK\$1.2 billion in 2008/2009.

- Announce a clear plan and timeline to gradually reduce the TDC's involvement in the trade show and other media business. They have done an excellent job of building successful shows which have been of great benefit to Hong Kong over many years, but the need for this has now declined. Hong Kong has not been a manufacturing base for many years, and most of their exhibitors are not in fact Hong Kong companies but those from the mainland and other areas. Plus the private sector has grown and matured over the years, and is able and ready to take over existing shows in an orderly manner.
- In the meantime, TDC should be encouraged (or forced if necessary) to fulfil its statutory responsibility to promote the activities of the service sector, including trade shows arranged by other organizers.
- In order that the Hong Kong business community has clarity into TDC's activities and the appropriate use of their publicly funded subvention (HK\$374.5 million for 2010/2011), we also call for:
 - a) an annual audit by the Audit Commission;
 - b) full transparency on the selection process for the TDC Board and its Chairman, and an explanation of how conflicts of interest are avoided;
 - c) the release of the Minutes of the Board;
 - d) an explanation as to why the Executive Director of the TDC is paid more than the Chief Executive of the SAR; and
 - e) a Public Inquiry into the relationship between the TDC, CEC and New World.

Such public disclosure will give private trade show organizers a clear understanding of their main competitor in Hong Kong, and we can then all make appropriate decisions on our level of investment in the SAR.

- The Hong Kong Government should confirm that the TDC will not be exempted from the proposed Competition Law.

5. Conclusion

The current uncertainty about the role and future of private trade show organizers in Hong Kong; the role and future of the TDC as the largest trade show organizer; and the role and future of AWE and CEC are paralysing the development of the industry.

We call on the government to promptly review and address these issues.

If the decision is that the TDC monopoly should continue and that AWE was a mistake, then tell us now and compensate all involved appropriately.

There are many countries which will welcome our contribution, and we can arrange an orderly exit from Hong Kong.

If the decision is to fully implement the Government's decision in 2002 to stimulate the growth of the trade show industry in the SAR by reducing the TDC's monopoly, paving the way for new organizers and making AWE a success, then also please tell us now so we and others can plan new investments and expansion in Hong Kong.

Global Sources is committed to the sustainable development of Hong Kong's economy and prosperity, and looks forward to the Government's immediate response.

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