

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

Promotion of Inward Investment

INTRODUCTION

At the meeting on 17 May 2005, Members were briefed vide Paper CB(1)1496/04-05(05) on the work of Invest Hong Kong (InvestHK) in promoting inward investment. The purpose of this paper is to update Members on the work of the department in 2005 and outline developments planned for 2006.

BACKGROUND

2. Established in July 2000, InvestHK's mission is to attract to and retain in Hong Kong economically and strategically important investment. On 3 June 2003, the Finance Committee approved the creation of a new commitment of \$200 million to enable InvestHK to strengthen its investment promotion efforts over a period of five years starting in 2003-04¹.

Financial Resources

3. Taking into account the additional resources, the annual financial provision allocated to InvestHK for investment promotion from 2003-04 onwards is as follows:-

Items	2003-04 (\$ million)	2004-05 (\$ million)	2005-06 (\$ million)	2006-07 (\$ million)
Operational expenses	46.4	45.2	63.7 ²	63.6
Investment promotion (block vote)	21.0	21.0	---	---
General non-recurrent expenses for	30.0	44.5 ³	42.5	42.5

¹ According to the cash flow forecast, \$30 million was allocated for the first year in 2003-04 and thereafter \$42.5 million per year up to 2007-08.

² With effect from 2005-06, the provision for investment promotion under Investment Promotion Block Vote (i.e. \$21 million) is transferred to the Operational Expenses subhead.

Items	2003-04	2004-05	2005-06	2006-07
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
enhancing investment promotion work*				
Total	97.4	110.7	106.2	106.1

* Funded by the additional resources of \$200 million (see paragraph 2 above)

Human Resources & Organisation

4. As at 1 April 2006, InvestHK employed 90 staff in its Head Office. They work closely with other out-stationed staff operating Investment Promotion Units (IPUs) in eight designated Hong Kong Economic and Trade Offices (ETOs). Of the 90 staff, 56 were non-civil service appointments and 34 were civil servants. To strengthen its presence in existing markets and to cover new markets, InvestHK also engages 13 external consultant companies in different strategic locations not covered by the existing IPUs. An organisation chart of the department's Head Office and details of its external representation are at **Enclosures 1 and 2** respectively.

5. With the benefit of the additional resources (see paragraph 2 above), InvestHK has since 2004 engaged an in-house consulting team full-time and exclusively to strengthen its corporate marketing and communications capacity, especially on marketing, research, public relations, information technology and knowledge management.

MAJOR ACTIVITIES IN 2005

(a) Investment promotion activities in key overseas markets

6. InvestHK carries out a number of investment promotion activities worldwide in accordance with the business plans of its nine Sector Teams⁴ and in collaboration with its overseas representatives. With the support of its overseas

³ The annual financial provision of this item (i.e. \$44.5 million) in 2004-05 included the unspent balance in 2003-04 and hence is more than the original cash flow forecast of \$42.5 million.

⁴ The nine Sector Teams specialise in the following sectors: business & professional services; consumer, retail & sourcing; financial services; information technology; telecommunications, media & multimedia; technology; tourism & entertainment; transportation; and other special projects.

representatives, InvestHK arranges visits to call on potential investors in their home countries and/or targeted cities, to meet with the local multiplying organisations, media and government bodies, to participate in significant publicity events, promotional programmes, and to speak at appropriate business forums as and when opportunities arise, etc.

7. InvestHK has been promoting Hong Kong's unique position at the heart of Asia for foreign companies to manage their operations in the region, and an ideal base to expand into the Pearl River Delta (PRD) region. As part of its continuous efforts to promote the strengths of Hong Kong in the Greater PRD economy, the department has published the third edition of a book entitled "The Greater Pearl River Delta", written by Professor Michael Enright of the University of Hong Kong and author Edith Scott. Since the first edition in 2003, this book has provided potential foreign investors with a credible source of facts and figures about the Greater PRD, including Hong Kong and Macao.

(b) Joint overseas investment promotion with Mainland authorities

8. To promote the combined advantages offered by Hong Kong and the Mainland, in particular the Greater PRD and the Pan-PRD, InvestHK has since September 2002 conducted a series of joint seminars with Mainland provinces and cities in key overseas markets. In 2005, InvestHK organised 10 such seminars. Details are at **Enclosure 3**. This strategy has proved to be successful and all the joint seminars received an encouraging response from foreign investors. For example, the Hong Kong-Guangdong business seminars jointly organised with the Guangdong Provincial Government in San Francisco and Vancouver in October 2005 each attracted over 1,000 participants who showed strong interest in the business opportunities in the Greater RPD.

9. InvestHK has identified a number of potential foreign investors from these joint promotional activities, and has been following up with them proactively. As at end December 2005, a total of 23 investment projects had been successfully completed, and another 81 projects were being pursued.

(c) Promotion activities in the Mainland

10. The investment facilitation policy launched by the Ministry of Commerce (MOC) in late August 2004 has opened up new opportunities for more Mainland

enterprises to invest in Hong Kong. InvestHK has been actively promoting Hong Kong's unique advantages as a springboard for Mainland enterprises to expand overseas. In response to the increasing demand for information on investing in Hong Kong from Mainland enterprises, InvestHK has strengthened its marketing efforts targeting at Mainland investors. In 2005, it organised a total of 21 investment promotion seminars in 17 Mainland cities, including sector-specific ones, e.g. a seminar specifically for restaurants in Sichuan and a seminar for pharmaceutical and biotechnology industries in Yunnan. It also organised thematic seminars on such subjects as fund raising and getting listed in Hong Kong. Details of these activities are at **Enclosure 4**.

11. To further promote its "One Stop Service (投資香港一站通服務)" initiative⁵ in response to the MOC's investment facilitation policy, InvestHK has organised a number of briefing sessions for relevant Mainland provincial authorities. Besides, it also receives from time to time incoming delegations which comprise senior executives of enterprises and government officials from the Mainland. For example in June 2005, InvestHK organised for the first time, in collaboration with the MOC and the Commercial Office of the Economic Affairs Department of the Liaison Office of the Central People's Government in the HKSAR, a training programme for senior executives of Mainland enterprises, namely the Forum on Global Business Strategies for Chinese CEOs.

12. In addition, with the support of the State Administration of Foreign Exchange, InvestHK has produced a new edition of the "Step-by-Step Guide" for Mainland enterprises, which includes information on the approval procedure for foreign exchange. The department has also revamped its website which includes, among other things, the launching of a new simplified Chinese version specifically targeting the Mainland market.

(d) Investment Promotion Ambassador (IPA) Scheme

13. InvestHK has continued to leverage on the networking potential of the IPAs (a total of 61 appointed so far) to strengthen its investment promotion work. In 2005, InvestHK successfully lined up 14 activities with the support of the IPAs, both in Hong Kong and overseas. In the light of the experience since the scheme

⁵ "One Stop Service (投資香港一站通服務)" is a series of tailored services for Mainland investors, including a toll free 800 hotline in the Mainland, a service centre at InvestHK Head Office, a tailor-made information kit and the Step-by-step Guide.

was launched in April 2003, InvestHK conducted a progress review during the second half of 2005, the results of which reaffirm the effectiveness of the scheme in providing third-parties' endorsement of Hong Kong's competitive advantages and efforts in attracting inward investment. The IPAs have played a significant role in disseminating strong messages to potential investors in favour of Hong Kong being a preferred investment destination in the region.

(e) *Monitoring development of companies assisted by InvestHK*

14. Providing aftercare services to companies which InvestHK has assisted to set up and/or expand operations in Hong Kong has remained one of the key activities of the department. To further strengthen its aftercare services, InvestHK has since December 2004 introduced an aftercare monitoring system to keep track of the development of these companies and provide appropriate assistance to better suit their needs. In 2005, it initiated contacts with 251 such companies which set up/ expanded their operations between July 2000 (when the department was set up) and December 2002 and successfully contacted 165 of them. The others were either closed down already, acquired by/ merged with other companies, or untraceable for various reasons.

15. Among the 165 companies contacted, 78 have volunteered to provide further information regarding their latest operations in terms of investment and/or employment. To the extent data are provided, 28% of the companies have increased their investment amounts and 54% have created additional job opportunities since they were first set up in Hong Kong. The total investment has slightly doubled from a start-up position of \$2,062 million to \$4,178 million and the total employment has increased by 40% from a start-up position of 2,002 jobs to 2,798 jobs⁶. The majority of these companies (57 companies which amount to 73% of the respondents) take a positive view on the future business outlook in Hong Kong. The rest are primarily neutral (except for one company which indicated a negative perception). In 2006, InvestHK's aftercare monitoring programme will be extended to cover those companies (142 of them) it assisted to set up/ expand operations in 2003.

(f) *Major international business events*

⁶ The figures are related to the 78 companies only which provided further information in response to InvestHK's aftercare contacts.

16. InvestHK has continued to support and participate in major international business events with a view to raising Hong Kong's profile in the international business community. Major events sponsored in 2005 included the 38th International General Meeting of Pacific Basin Economic Council (PBEC) in June, in which China's Vice Premier, Wu Yi and Prime Minister of Malaysia, Dato' Seri Abdullah Haji Ahmad Badawi delivered keynote speeches; and the Cable and Satellite Broadcasting Association of Asia (CASBAA) Conference 2005 in October which attracted over 800 senior executives from the broadcasting and telecommunications industries. Other major events supported by InvestHK in 2005 include the 3G World Congress and Exhibition; the 8th Annual Global Conference of The Competitiveness Institute and the 88th Lions Convention, etc.

RESULTS AND ACHIEVEMENTS

(a) Foreign companies setting up/ expanding operations in Hong Kong

17. Since its establishment in July 2000, InvestHK has assisted over 800 overseas, Mainland and Taiwan companies to set up or expand their business in Hong Kong. In 2005, InvestHK successfully completed 232 investment projects, representing an increase of 13 per cent over 2004. Apart from the creation of over 7,900 jobs (which include 2,517 jobs initially, and an additional 5,407 jobs in the next two years when the companies expand), these companies invested more than \$8.9 billion, representing a 91% increase over last year's record total. A summary of the department's results over the years is provided below:-

	<u>2000</u> (Jul – Dec)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
No. of projects completed*	35	99	117	142	205	232
Jobs created initially**	347	1,504	2,075	2,456	3,008	2,517
Jobs to be created in the first 2 years of operation**#	-	-	-	5,178	4,688	5,407
Total job creation	347	1,504	2,075	7,634	7,696	7,924
Investment amount (\$ million) **	506	3,500	1,360	2,493	4,658	8,895

* *These represent companies assisted by InvestHK, and do not include companies set up in Hong Kong without such assistance.*

** *As reported by the companies assisted by InvestHK themselves. Not all are willing to disclose the data.*

For 2000 to 2002, companies were not asked to provide the forecast figure.

18. In terms of the country of origin of the 232 companies, the USA remains the largest source of investment, followed by the Mainland, Japan, UK and Australia, which account for over 60% of all the projects completed in 2005. Inward investment from the Mainland has registered a significant growth in recent years, from 5 completed projects in 2002 (virtually none prior to that) to 38 in 2005. The detailed breakdown and analysis of the projects completed in 2005 are at **Enclosure 5**.

(b) Foreign Direct Investment Inflow

19. Hong Kong has maintained its leading position as a preferred destination for foreign direct investment (FDI). According to the "World Investment Report 2005" released by the United Nations Conference on Trade and Development (UNCTAD), Hong Kong has remained the second largest FDI recipient in Asia, after the Mainland. FDI flows to Hong Kong in 2004 reached US\$34.0 billion, up 150% from an adjusted US\$13.6 billion in 2003. On a global scale, Hong Kong ranked 7th in FDI inflows in 2004. Preliminary figures of the Census and Statistics Department (C&SD) show a 5.5% increase in 2005 over 2004. FDI figures over the past few years are summarised below:-

<u>Year</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Amount (US\$ billion)*	61.9 ⁷	23.8	9.7 ⁸	13.6	34.0	35.9

* The FDI survey conducted by C&SD does not collect information on the amount of capital that subsequently remained in Hong Kong or transferred to other destinations through Hong Kong.

(c) Regional operations in Hong Kong

20. Both the number of regional headquarters (RHQ) and regional offices (ROs) in Hong Kong reached all-time highs in 2005. This demonstrates Hong Kong has remained the preferred base in Asia for foreign companies to oversee

⁷ The 2000 figure of US\$61.9 billion was boosted by a single transaction relating to China Mobile. The local subsidiary, China Mobile (Hong Kong) Limited, acquired seven mobile networks in the Mainland from its parent company at a total price of US\$32.8 billion. It paid for these networks partly in cash (US\$9.6 billion) and partly by the issue of new shares to the parent company (US\$23.3 billion). The result was that our Balance of Payments statistics recorded a direct investment outflow of US\$32.8 billion and an inflow of US\$23.3 billion for the transaction.

⁸ According to C&SD, the significant drop from 2001 was mainly attributable to negative direct investment flow related to inter-company debt transactions in the year.

their regional operations. As at 1 June, 2005, there were 1,167 companies that were RHQs and 2,631 companies that were ROs in Hong Kong set up by their parent companies outside Hong Kong, according to findings of the 2005 Annual Survey of Regional Offices Representing Overseas Companies in Hong Kong conducted by C&SD. More details are set out at **Enclosure 6**.

WORK IN 2006

21. In 2006, InvestHK envisages a continuous double-digit growth in terms of the percentage of completed projects, aiming to successfully assist 240 companies to set up and/or expand operations in Hong Kong.

22. InvestHK will devote more resources to strengthen its representation in the Mainland market. The Chief Executive announced in his Policy Address on 12 October 2005, among other things, the setting up of two new ETOs in the Mainland (Chengdu and Shanghai), the expanded responsibilities of the Guangzhou ETO and the increase in scope of the Beijing Office (BJO) to include investment promotion. The two new ETOs will each set up an IPU, and InvestHK will also expand its presence in the Guangzhou ETO and establish a presence in the BJO. We expect that the new IPUs in the Chengdu and Shanghai ETOs will commence operation in the latter half of 2006.

23. To ride on these new developments, InvestHK has reshuffled the responsibilities of its four teams in the Head Office with investment promotion responsibilities relating to the Mainland market. A dedicated team on China business now focuses entirely on bringing Mainland companies to Hong Kong and liaison with the Central People's Government. A joint promotion team is devoted to bringing companies from around the world to Hong Kong through joint overseas promotional activities with Mainland provinces and cities. The North China team, strengthened by the extra support from BJO, has had its geographical remit extended by 11 provinces. The scope of the East China team will be subject to review, as most of its present duties will be shifted to the new IPU to be created in the new Shanghai ETO. At the same time, InvestHK is planning to expand its coverage in the Taiwan market by engaging a local consultant, expected to be in place by May 2006.

24. On the international front, InvestHK's strategy is to carry out investment promotion in a proactive and targeted manner in collaboration with its external

representatives. Its overseas presence covering major international markets has enabled the department to identify and call on target potential investors and meet with local associations and government bodies directly, so as to encourage and assist expanding foreign companies to use Hong Kong as a gateway to the Mainland, underlining where appropriate the many business opportunities offered by CEPA, and as a superior hub for regional operations in Asia.

25. The Government has also announced the plan for a new ETO in Berlin, which will also include an IPU. InvestHK will keep in view the development and the impact on its investment promotion work.

26. To strengthen the collaborative efforts in promoting Hong Kong, InvestHK will further develop its relationship with the many strategic partners, both local and overseas, including consulates-general, chambers of commerce and the Hong Kong Trade Development Council (HKTDC). For example, InvestHK and HKTDC have set up a special task force under its regular liaison meeting to identify and recommend opportunities for more collaborative initiatives. InvestHK will also continue to provide aftercare services and work with its strategic partners to organise business community programmes, with a view to retaining existing investors and encouraging their expansion in Hong Kong.

27. Notwithstanding the fact that InvestHK has been able to achieve a significant increase in its output over the years, especially with the deployment of additional resources (see paragraph 2 above), the department is mindful of the need for a sustainable development in years ahead. In this connection, the Efficiency Unit (EU) has commissioned a consultancy study to review the cost-effectiveness of the work of the department. The study, which is expected to be completed in May 2006, is examining among other things the extent to which the additional funding provided since 2003-04 has contributed to the overall performance of the department. The results would be taken into account when considering funding allocation to the department in future.

28. On a related front, InvestHK is planning to commission a separate review of the nine priority sectors being pursued. After some five years of operation in a fast-changing world, we believe it is high time we examined whether the existing nine priority sectors should remain the focus of the department when proactively seeking new foreign investors, having regard to the rapid economic development over the years, both locally and globally. It is hoped that the review

will begin later this year.

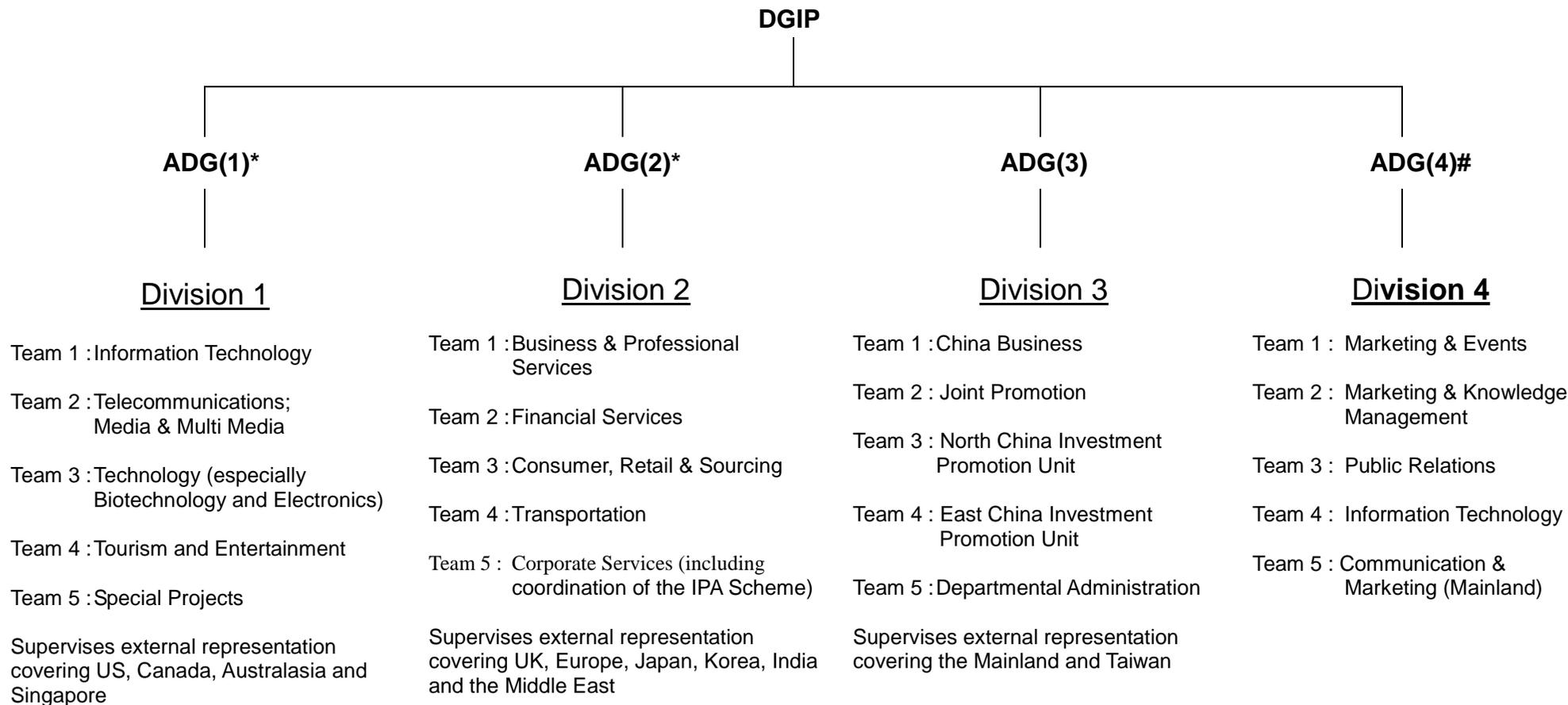
ADVICE SOUGHT

29. Members are invited to note the inward investment promotion work of InvestHK, and the progress and achievements to date.

Invest Hong Kong

April 2006

Organisational Structure of InvestHK Head Office



* *Non-civil service posts*

Leading member of the consulting team deployed from the Corporate Communications Consultant

InvestHK's External Representation

<u>Region</u>	<u>Office Location</u>	<u>Area Covered</u>	<u>Remarks</u>
North America	New York	US East	Team of three based in ETO
	San Francisco	US West	Team of three based in ETO
	Chicago	US Central	Consultant Company
	Toronto	Canada	Individual based in ETO
Europe	Brussels	Western Europe	Team of two based in ETO
	Paris	France	Consultant Company
	Hamburg	Germany	Consultant Company
	Milan	Italy	Consultant Company
	London	UK, Switzerland, Norway, Russia	Team of two based in ETO
	Gothenburg	Nordics	Consultant Company
Asia/ Australasia	Tokyo	North Japan	Team of two based in ETO
	Osaka	West Japan	Consultant Company
	Singapore	Singapore	Consultant Company
	Seoul	Korea	Consultant Company
	Mumbai	India	Consultant Company
	Dubai	Arab Middle East	Consultant Company
	Tel Aviv	Israel	Consultant Company
	Sydney	Australia, less Victoria & South Australia	Individual based in ETO
	Melbourne	Victoria & South Australia	Consultant Company
	Auckland	New Zealand	Consultant Company
Mainland ⁹ and Taiwan	Guangzhou	Guangdong and four Pan-PRD provinces namely Fujian, Jiangxi, Guangxi and Hainan	Team of five based in ETO
	Beijing	Beijing, Tianjin, Hebei, Shangdong,	Team of three based in BJO
	Hong Kong (North China IPU)	Liaoning, Heilongjiang, Jilin, Henan, Shanxi, Gansu, Qinghai, Xinjiang, Xizeng (Tibet), Ningxia, and Inner Mongolia	Team of three based in IHK Head Office
	Hong Kong (East China IPU)	Shanghai, Jiangsu, Zhejiang, Anhui, and Hubei	Team of three based in IHK Head Office

⁹ An in-house China Business team in the Head Office is covering Chongqing, Shaanxi and four Pan-PRD provinces, namely Sichuan, Yunnan, Hunan and Guizhou.

Joint Overseas Promotions with Mainland Provinces/Cities in 2005

<u>Date</u>	<u>Partner Province/City</u>	<u>Location</u>
8 March	Shanghai	Tokyo
25 May	Shenzhen	Milan
14 October	Guangdong	San Francisco
20 October	Dongguan	Toronto
24 October	Guangdong	Vancouver
2 November	Shenzhen	London
4 November	Shenzhen	Hamburg
23 November	Fujian	Dusseldorf
29 November	Jiangmen	Tokyo
30 November	Jiangmen	Osaka

Major Events organized by InvestHK in the Mainland in 2005

<u>Date</u>	<u>Events</u>	<u>Location</u>
2 February	"One Stop Service" for Mainland Investors Seminar	Guangzhou
7 - 8 March	2005 Executive Forum on Investing Abroad	Shanghai
9 March	'One Stop Service' for Mainland Investors Seminar	Guangzhou
30 March	Hong Kong Investment Environment Seminar	Sichuan
7 - 8 April	Road Show on "Investing and Raising Fund in Hong Kong for Guangdong Enterprises"	Guangzhou
18 - 22 April	China Tianjin Economic Cooperation & Investment Conference	Tianjin
22 - 28 June	Hebei-Hong Kong Week	Shijiazhuang
19 July	Hong Kong Investment Environment Seminar	Yunnan
11 August	Hong Kong Investment Environment Seminar	Ningbo
19 August	Seminar on "Going Global - Expert Consultation Campaign"	Foshan
23 August	Roundtable meeting with Hunan gov officials and enterprises	Changsha
2 September	Jilin-Hong Kong Co-operative Symposium	Jilin
8 - 11 September	Hong Kong Investment Environment Seminar	Xiamen
16 September	Hong Kong Investment Environment Seminar	Xian
22 September	Investment Promotion Seminar	Guangzhou
19 October	Roundtable meeting with Henan gov officials and enterprises	Zhengzhou
3 November	IHK Roadshow in Shandong	Shandong
1 December	Hubei-HK Week HK Investment Promotion Seminar	Hubei
9 - 10 December	Road Show on 'Investing and Raising Fund in Hong Kong for Foshan Enterprises'	Foshan
13 December	Investment Promotion Seminar	Shantou
15 December	Investment Promotion Seminar	Dongguan

Analysis of Investment Projects Completed by InvestHK in 2005

(A) Breakdown by Industry

Sector	Completed projects
Business and Professional Services	25.5
Consumer, Retail and Sourcing	34
Financial Services	25
Information Technology	22
Technology	25
Telecommunications, Media & Multimedia	24
Tourism & Entertainment	21
Transportation	24.5
Others	31
Total	232

(B) Breakdown by Geographical Location

Region	Completed Projects
Europe	57 (24.6%)
USA	45 (19.4%)
Japan and Korea	42 (18.1%)
Mainland	38 (16.4%)
Australia and New Zealand	14 (6.0%)
Taiwan	7 (3.0%)
Canada	6 (2.6%)
Rest of Asia	18 (7.7%)
Middle East	3 (1.3%)
Others	2 (0.9%)
Total	232

(C) Breakdown by Capital Investment

Capital Investment (HK\$)	Completed Projects
5 million	130 (56%)
> 5 million 50 million	65 (28%)
> 50 million	8 (3.5%)
N/A #	29 (12.5%)
Total	232

(D) Breakdown by Number of Jobs Created

No. of Jobs Created	Completed Projects
1 - 10	186 (80.2%)
11 - 100	39 (16.8%)
100 +	4 (1.7%)
N/A #	3 (1.3%)
Total	232

Some companies were not willing to reveal the information to InvestHK

(E) CEPA Effect

CEPA Effect	Completed Projects
CEPA is a factor for the current investment, with one or more of the following effects:	63
× Invested because of CEPA	32
× Investment accelerated	30
× More capital invested	21
× More staff employed	32

× *These figures add up to more than 63 because a company can indicate more than one effect.*

**Regional Headquarters (RHQs), Regional Offices (ROs) and
Local Offices (LOs) in Hong Kong**

	2002	2003	2004	2005	Change (2004-2005)	% Change (2004-2005)
RHQs	948	966	1 098	1 167	+69	+6.3%
ROs	2 171	2 241	2 511	2 631	+120	+4.8%
LOs	1 748	2 207	2 334	2 474	+140	+6.0%
RHQs + ROs	3 119	3 207	3 609	3 798	+189	+5.2%
RHQs + ROs + LOs	4 867	5 414	5 943	6 272	+329	+5.5%

Source: Census and Statistics Department