
Seeking Win-win Situation, Meet the Challenges and Opportunities of Globalization

PHD

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PREL

Seeking Win-win Situation, Meet the Challenges and Opportunities of Globalization

1. Introduction

The authors take a case study on the 40-year history of a Hong Kong professional consultancy company to discuss the feasibility of a sustainable business model for an asset valuation company. An asset valuation company needs to balance the dedication to professionalism but also maintain cost control and pursuit of profit, how to find the “blue ocean” within a competitive market which is seemingly saturated and the professional can be hardly improved by competitions?

2. Background

The asset valuation belongs to tertiary industry and also the professional service industry. As a part of professional industry, when providing services to clients, companies are committed to give opinion based on technical aspects with professionalism and independence, at the same time have a thorough understanding of the current market trend and should be unaffected by the commercial issues.

For example, the professionals in asset valuation need not only to know the relevant theory and regulation, equip themselves with practice and continuous education, but also need to review the current theories and standards to make sure that they are up-to-date. To earn the respect from the clients or public, the professionals should keep in providing the comprehensive and pertinent services. It is known that the business comes from demand of market. Hence, it is the commitment of professionals who convince the market that their valuation results can help on business decision by eliminating the discrepancies and determining the potential risks.

The focus of the above is not only the discussions on the significance of the profession and the jobs, but also the business model for the professional companies, especially to the asset valuation companies. Due to the nature of the professional industry, the professionals need to make great efforts to practice and improve the “profession”. It is required to provide not only considerate but also people-oriented services. To earn the respects from client, it is determined by the personal talents not the company. However, market is changing. External factors like globalization trend become a big challenge to the small and medium-scale local companies. They have to face the threats of the increasing difficulties of business development and the operational risks.

The articles will review the characteristics of asset valuation industry first to know about the resources needed, and to discuss the potential risks and the solutions. In the end it will discuss the win-win solution and “Blue ocean” idea and strategy under globalization.

3. The Characteristics of Asset Valuation Industry

3.1 The asset valuation can be applied widely

Asset valuation service is adopted widely in various areas. It can be used for business decisions or reference (such as investment, acquisition, sale, etc.), corporate accounting purposes (such as annual audit, IPO etc.), for government or administrative purposes (such as tax assessment, land compensation, the demolition compensation), legal cases (property allocation, divorce, wills, etc.) or some personal use (such as immigration). The appraisers must determine the valuation methodologies and reporting formats based on the knowledge and understanding on the purposes of the valuation services and the relevant laws or guidelines.

3.2 Varieties of the feature and characteristic of asset

Although the valuation standard had been regulated by the international institutions or organization, the professionals know that it is always a challenge to value variable type of asset. Different types of assets own its specific nature and market. None of the professional companies in the world is qualified for every type of assets. Like property, it can be categorized by commercial, residential, industrial and building with specific usages. Every category has its own feature and market, it is already a big job to become an expert specific for certain type of asset within a specific market.

Some assets have the obvious localizing feature; the appraiser should have the comprehensive understanding on the local market, convention and regulation. Other assets may have a changing shape and combination, like mining, the appraiser should obtain certain specific qualification to make the valuation. Or some assets, the valuation of which should comply with the law, international market information, financial modeling or special theoretical adjustment, like the financial derivatives.

3.3 Valuation scope and timing depends on other rules and regulations

Take valuation for accounting purpose as an example, regardless of what assets you are holding and where the asset is located, a Company has to measure the assets and recognize in company's book according to the local accounting standards. However, accounting standards and listing rules vary across the globe. An asset under different intention, usage will affect the valuation timing and scope.

Here we just focus on the need of valuation. If a Hong Kong Company owns a commercial property, whether or not the Company needs valuation on the property mainly depends on the usage and intention of use of the property. If it is for rental then it falls under HKAS 40 Investment property, if it is for self-use, it will fall under HKAS 16 Property, plant and equipment. The timing for fair valuation is totally different. Furthermore, if there is a change of asset usage or intention, it could change the valuation timing too.

Take another example, if you plan to acquire an asset from another company. If you acquire only a property and acquire a business including properties, the accounting standard governs also differs. If the acquisition is initiated by a listed companies and the scale is large enough to meet the disclosure requirement from listing rules, the valuation requirement will be subject to that specific in the listing rules.

Therefore professional valuation service provider need to understand well the local practice, knowledge, rules and regulations to meet the client needs.

3.4 Asset valuation service is market-oriented

The demand of valuation can be said to be linked with market maturity, market size and asset prices. The demands on the professional services come from the need of professional and authorized opinion. So different regions, different times and different market situation will

affect the business volume. For example, in the developing market, the prices of the assets which have not form an effective market or seem oversupply are low. Even worse, without the sense to value the assets or reluctant to pay for valuation, the assets have been disposal cheaply. Take another case, in a well-developed market, where the market information is well-disclosure, it may good to the economic development, but the appraiser may lose his job because the market value can be easily accessed by everyone. Such case can be applied to the residential market of Hong Kong, highly transparent of price information and mass-volumn of active transaction, the valuation can be done on an electronic platform. It is no need to pay for a senior experience appraiser because even a junior technician who knows how to handle the computer could be qualified. Currently there are two hot topics on the global market, one is financial crises in the European and U.S market and the other is the rising of the “BRICS”, which lead to the effects on the demand of valuation services.

4. Business Model of Professional Company

To discuss the development model of asset valuation company, we can learn from other professional in well-developed countries, like lawyers, doctors, surveyors, engineers or architects etc.

4.1 Professionals with specific focus

Some professions choose to stick to some specific area in order to provide more detailed、individualized services. Usually the scale of such type is limited even like some “one man company”. The reason to choose such style probably because the professionals need to be flexible and free in their business with less impact by the commercial operations. They are the specialist of the specialists, the international or regional Authoritative, like the medical authoritative on some rare disease or an architect with strong personal style or the surveyor major in legal case. As they focus on specific professional which may not affected by the local market and can provide services across the border.

4.2 Companies focus on regional practice

Such business model may familiar with the local market trend, local regulation etc. But it would be subject to the scale of local market and the demand on services, thus its quality of services would be affected by the increasing competitors. For such kind of companies with

medium to big scale, it is required to enhance the staff training on professional techniques and ethics to meet the challenge of small company or international companies like most CPA firms, surveyors firms or lawyers firms in Hong Kong.

4.3 International Companies

Well-capitalized (listed Company or group holding company), having worldwide branches, ability to share the industry news or market trend, operated as a modern entrepreneur... yes, all these are talking about the business model so called "International Company".

In professional service industry, some international companies are formed by international M&A (Merge & Acquisition). Like recently, many cases happen in the construction consultancy industry. That is because the consultancy companies in European and U.A merge to enlarge their capital and human resources in order to get the opportunities of mega-size oversea projects.

Another model is professional company for incidental or subsidiary in a large company, like some international property service company with services including agency, maintenance and valuation. To built up and operate the international network, resources on capital and professionals are needed. The SMEs trying to develop into international companies may bear the huge risk, but it may be possible with the necessary involvement of out-sourcing professionals and significant change of corporate shares、 operation and management.

Except for set up the companies by equity capital then expand by branches or subsidiaries. To be internationalized, there are also other ways like join in a union or chain. The advantages for this are the company can share the market information and the support on the commercial operation after joining. However, you may have to pay a high initial fee and you cannot have your owned brand.

5. How should the valuation company be positioned?

We are talking about the situation that you are facing the market saturation or contraction or rapid expansion and your company should start thinking about the way forward. Here let's discuss on the development strategy especially for the local companies.

The authors work in a Hong Kong professional service group (“Group”) with 40-year history which has experienced different operational models at different stages. Such experience can be used as the basis for the coming business proposal in later section.

5.1 Start

According to the description of the founder of the company, the 70’s of Hong Kong experienced a huge rise of the real estate market, most real estate companies had listed. And there were very little people with a professional qualification in valuation. Until 80’s, the university and colleges began to offer professional programme for valuation.

At that time, foreign enterprises entered the Hong Kong market at a slower pace, and most of which ran the most profitable business: agency and consultancy. Such situation was very similar with the early stage of development of property valuation industry in China’s Shenzhen Special Economic Zone.

The valuation companies can enjoy the great opportunities of the start-up market, but hard to find the qualified professional on the market. Some local professional who qualified early could successfully run the small scale business. At that time, real estate is the only significant and important asset on the Hong Kong market; hence the valuation companies just need to focus their business on one single asset category. Such situation is characterized by scarce professionals in the market hence they charged high for their services.

5.2 Challenge from foreign counterparts

The Hong Kong real estate market has experienced ups and downs in 80’s which affect the development of the local asset valuation industry. At that time globalization had not been the trend and the mainland market was not active, real estate was still the major asset. Hence the concept of asset valuation has not been developed. At the same time foreign real estate consultancy companies have gradually entered the market with foreign client base. This has caused local customers to demand more diversified services and larger scale valuation companies. In this environment, except for the valuation services, the Group then developed other business and made them into a diversified profile. As there were no restrictions on the licenses and service scope for asset valuation industry, the customers selected the companies usually based on their reputation or relevant qualification (like the qualification by the Hong Kong Institute of Surveyor “HKIS”). Comparing to the certain administrative restrictions on the

asset valuation industry in mainland China or other country, the free-entry mechanism in Hong Kong encouraged the companies to develop a diversified business, which could support the revenue by other services when the valuation business alone would not generate sufficient revenue, and was a good chance to develop personal professionalism. However, on other side, it was due to the competitive market situation as lack of protectionism and entry of foreign companies which pushed the local companies to take on an active attitude in learning and business development.

5.3 Cooperation with oversea companies

In late 80's, the Group has joined an international network by entering into a cooperation agreement with a real estate services group in Australia also a combined company name was adopted. A Hong Kong company can benefit from such international cooperation with its knowledge and understanding in international cultural, language and professional practice. However, the challenges came from the combination of business and different opinions on the operation between two parties. The cooperation ended peacefully after other's valuation firm's acquisition of the former business partner. To summary this experience, a reasonable agreement and regular gathering and communication would be helpful in building up mutual trust. But the understanding on the mission and vision of each other should be the most significant factors in the cooperation.

5.4 Self market penetration

As Hong Kong is geographically close to mainland and the founder of the Group has obtained the business experiences in mainland in late 70's, the Group have set up several branches in mainland China by join-venture, sole-venture or representative office in early of 90's. Through the establishment of business in mainland, the Group has met the opportunities and challenges with the rapid change of market environment as well as the asset valuation industry. However, it was totally a new experience for the Group from training to operation in mainland which was utterly different from Hong Kong. All the branches in mainland were operated until 2008 before the start of financial crises. The management board moved the mainland business back to the Hong Kong head quarter and waited for other opportunities.

5.5 Following market pace, from single asset to diversified asset valuation

The development of asset valuation service is due to the change of industry and the market. The Group has gradually diversified its asset valuation services since the mid-1990s. The

development of economic in the mainland China has led to the increasing number of companies listed in Hong Kong with assets which are not just focus on the real estate category but diversified. Such trend has pushed the development of Hong Kong's asset valuation services. At 90's many China state-owned enterprises (known as red chip) list in Hong Kong which provide a great demand on valuation on property like highways, bridges, tunnels, power plants and others. At 2000's, the trend of tech-net stock has driven the demand on the valuation of emerging industry like high-technology and website. At the mean time the adoption of "fair value" in accounting standards lead to the increase of asset valuation especially in financial derivatives, financial instruments assessment. In addition the industries like mining, agriculture, forestry, fisheries, farming as well as renewable energy sources became popular and hence led to the needs in asset valuation.

For the asset valuation companies in Hong Kong, these are all the opportunities to develop a diversified service platform. The advantage for the Hong Kong's professional industry are freely accessible and adequate information, multilingual skills, good communication skills and full of good educated talents. However, to maintain such advantage, Hong Kong's professionals must enhance the knowledge on the local market and the characteristics of various types of assets. And market changes especially which for the important assets and client source. The Group has made plans for such changes to meet the coming opportunities and challenges.

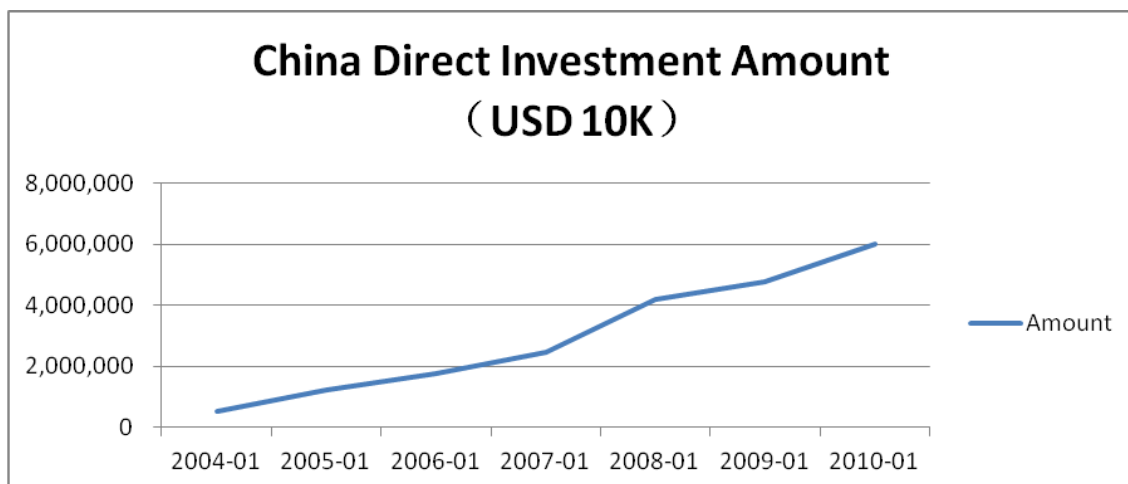
6. The strength and threats for the local asset valuation companies under globalization

As a professional services company, we are customer-oriented. However, under economic globalization, the scale of different market is changing and also the investment trend, which lead to the opportunities and challenges for the professional services companies.

6.1 How to follow our client when his business goes oversea

Under the gloomy global economic environment, China, as one of countries with the wealthiest foreign reserve, is moving with a faster pace to the oversea market. China's total amount of oversea direct investment recorded a significant growth in recent years (as shown below). After rapid economic development for the last decade, and also the limited investment channels in the domestic market, some Chinese entrepreneurs or investors with plenty of capital begin to move their investment to oversea market. And the location of investment

districted over the world like Asia, Europe, Australia, and Africa etc.. What should a local professional company in China do to grab the coming opportunities?



(Source: China Statistic Bureau)

When you find your client want to invest oversea, certain valuation service is required, but you realized the difficulties to find suitable and sufficient professional to follow up. Should you give up this chance? Or should you try some way to catch this opportunities?

6.2 Possess comparative advantage in local market, but lack of clients

For the oversea counterparts who located at the market with popular assets (like the European、American、South America、the Middle East and African markets which attract the China investors most), they have obtained the qualification and knowledge on local market but have no customer resources. And when they meet the potential clients coming from other countries, how to solve the problem of the different culture、language and standard? That is the big question in the globalization.

You may say that, why not find an international big company? However, due to the wide range of asset and location, the international company does not have an absolute advantage in cost and network. Hence the inadequacy of professionals worldwide is a problem but it could be solved.

7. “Co-opetition”

After reviewing the characteristics of the asset valuation industry as well as the competitions and challenges faced by peers in different countries, it is not hard to see a development direction that can lead to a bright future is “Co-opetition”.

This topic is not new, because a number of peer companies should have contacted other companies due to the specific needs of individual project, for example, when assets are outside the location the valuation report needs to be submitted to foreign regulatory bodies; when assets are very special there is need to invite specialists in the specific industry to provide support in valuation. The authors’ Group knows a number of mainland and overseas peers and professional companies experienced in special asset operations, continuously broadens the network and provides assistance in professional valuation reports. However this co-opetition development mode was not popular, due to the following reasons:

1. If the project fee is not high enough to invite other professions and peers, the project is unattractive to be taken; or alternatively increase their own risk adverse limit and try to handle themselves;
2. Clients may invest in foreign countries and the valuation companies cannot offer assistance and follow-up in a long-run, the act of introducing unfamiliar foreign peers for one-time service is like handing over the client to others;
3. Due to the assets’ location and diversity, searching for foreign specialists/peers needs spend time and bear the risk of the possible unqualified service and profession, local companies would rather introduce their clients to internationally recognized companies and maintain a low fee for local valuation business for their clients.

8. Facilitator

8.1 Analysis of Co-opetition Mode

Valuation fee depends on risk and cost, multi-national corporations with international network have a higher operating cost hence the fee charged is higher. Due to their services are more stable, effective and fast, clients have no other choices but to accept their high fee. Local companies generally do not put much resources in building up foreign contacts, so when meet

cases that need special and foreign professional services support, the cost due to inability to spread over other similar cases appears to be rather expensive, and the potential risk increases due to first time cooperation. Whenever it is the first time, the learning curve cannot be shortened and cost is hard to be lowered, in theory it makes more sense for the fee to be charged higher than international companies.

It is well-known that if the potential competitors are strong, clients can find out themselves or get noticed by references from other parties. In other words, the best way in maintaining clients is to provide clients with diversified quality services in all possible aspects, for example contacting different professional consultancies, forming project teams, making potential competitors into cooperation relationship. Potential competitors' co-operations can be bound by contracts or through long-term cooperation to develop mutual trust.

To lower the cooperation risk, resources must be input to investigate or through cooperation to reconcile. The risk nature could not be eliminated but can be effectively controlled. Through systematic qualification assessment, the potential cooperative company people-in-charge's educational background, professional qualifications, track record, company's local reputation, foundation concepts and past valuation tasks are critically analyzed and commented. Secondly, the use of cooperation agreement can make valuation tasks and timing to be described more briefly and specifically. These are the most basic risk prevention actions but not enough to lower the competition risk and cost significantly.

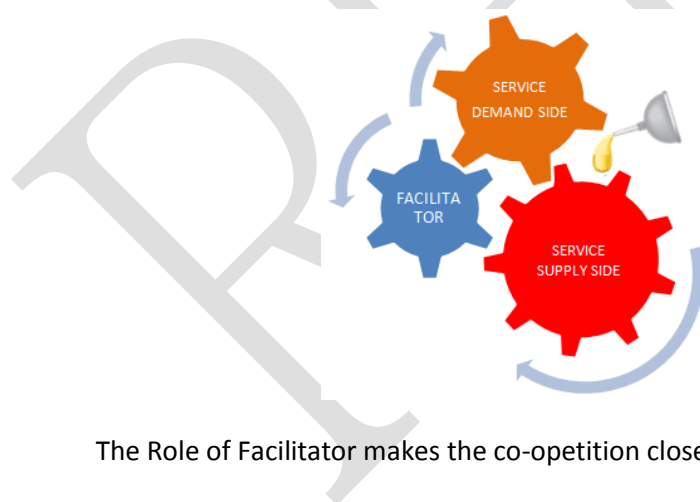
8.2 The Appearance of Facilitator

For "co-opetition" can be carried out smoothly, local companies can have one more option, other than merger, change in share composition and change in management board, to maintain or even extend business operations. The authors believe that if the co-opetition is an inevitable trend, the appearance of "facilitator" can hasten the work progress.

The concept behind is that in order to lower cooperation cost and risk there must be an economy of scale to accumulate sufficient in cooperation quantities and cooperation experience. Peers in different countries can work with some facilitators, then the facilitators eventually cumulates sufficient work experience and quantities, thus effectively lower the cost and risk of all parties. The capabilities of facilitators can be as follows:

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1. Provide a complete list of choices: facilitators have the motives to pre-search peers in different countries and relevant special qualifications to perform evaluation and selection, to offer different choices in business matching.
 2. Offer appropriate selection advice. Through frequent interactions of facilitators and other peers and professional, and practical cooperation experience, facilitators can further provide opinions on business matching.
 3. Have the capabilities to assess the understanding and requirements of service content and level for peers/specialists in different countries, coordinate the discrepancies, raise out possible areas of concern and may even need provide bridging services, for example, differences in valuation requirement across countries and differences in languages, hence may become one of the critical parties in the project.

Successful facilitators should be able to, in a short time, understand the inquirer's request, provide them with promising client service support scheme, that is the co-opetition scheme. This scheme has competitive advantage on price. The authors believe the facilitators can offer new choices for the industry and consumers.



The Role of Facilitator makes the co-opetition closer and more efficient

9. The Role of Hong Kong Peers

Authors come from Hong Kong, the concepts raised so far is actually the result of observations from the current situations of overseas, mainland and Hong Kong peers and the global economical changes as well as the deductions on the perspective of Hong Kong peers on how

to find a blue ocean with peers worldwide. Authors believe Hong Kong peers can undertake the role of facilitator for the following reasons:

1. Hong Kong is a harbor of goods trade as well as service trade. Hong Kong has the following merits :
 - (a) Hong Kong has a free flow of information which facilitates better communications and easier information search;
 - (b) The Hong Kong legal system is mature and the essence of business contracts is well respected;
 - (c) Hong Kong is free for entry and exit which makes the meeting with mainland and foreign people easier;
 - (d) Hong Kong is an offshore settlement centre for Renminbi and has a free flow of different currencies, making transactions more easier;
 - (e) Hong Kong has a simple taxation system and has no business tax, which are good for handling payments;
 - (f) Hong Kong is located in the centre of Asia and next to mainland China, and its international airport has one of the most complete and frequent airlines in the world.
2. Hong Kong peers have the following advantages:
 - (a) The proficiencies of Chinese, English and other languages among Hong Kong peers are good;
 - (b) Hong Kong peers are professional knowledge and industry experience in other countries;
 - (c) Hong Kong peers are easier to handle different cultures, customs and market behavior among the world because Hong Kong itself is the cultural mixture of the East and the West;
 - (d) Hong Kong peers usually possess internationally accepted academic background and professional qualifications, making them easier to meet with professionals in different countries.
 - (e) Hong Kong peers often have experience in international projects.

10. Conclusions

Quite a number of asset valuation companies which take local market as core business are facing increasing competitive environment. However on today's trend under globalization, having a broad picture and flexibility in participating overseas project should generate sufficient business opportunities. It is pity that not all local companies have resources to handle the complexity and uncertainty of overseas business thus forgoing the precious opportunities. Failing to take up the chances means falling behind, and may even result in a loss of clients. As a result, if the asset valuation companies worldwide can break their self-operating mode of service, through co-operations, on one hand can maintain the clients' relationships and continue to provide professional service and on the other hand express their expertise in certain market or asset class, to achieve a win-win situation.

Co-operations modes in the past are usually in the forms of mergers and alliances, but may eventually become unsuccessful due to differences in operating philosophies. The demand of professional services and market are closely related. The idea of "co-opetition" comes in because this operating mode can take care of resources and advantages among different parties and at the same time it is flexible and does not interfere each others' operations, join hands to make the market "Pie" bigger. Under this development mode, due to the differences in locations, cultures, languages, and professional practices, mutual trust cannot be developed within a short time. Thus a role of "Facilitator" comes into place. "Facilitators" have catalyzing effects, in cooperation appears as a third party to enhance, coordinate, organize and manage the parties. The role of "Facilitators" should be best taken up by professional valuation consultancy companies, because their adequate relevant professional and industry experience, through their better understanding of the projects, can better facilitate the parties, bring out ideas on the feasibilities and planning of projects, recommend cooperation partners, analyze potential risks, reduce the cost and time in overseas business so as to protect the benefits of all parties. In other words, the role of "Facilitators" can greatly enhance the effectiveness of co-opetition, helping asset valuation companies all over the world targeting mainly local market to expand, to assist their clients to invest in high-quality assets and break through geographical limitations.

In case of any discrepancy between this English translation and the original Chinese text, however, the Chinese text shall prevail.